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**RETAILER BRAND DEVELOPMENT AND HANDLING PROCESSES:
A COMPARATIVE STUDY OF TESCO KOREA AND LOCAL KOREAN RETAILERS**

A thesis submitted for the Degree of Doctor of Philosophy

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DECLARATION

This work has been conducted by myself. All sources of information have been specifically acknowledged by references.

This thesis is submitted in fulfilment of the requirements of the Degree of Doctor of Philosophy at the University of Stirling.

.....
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Date.....

Abstract

This research began with the question: why is the retailer brand market share of Tesco Korea higher than that of local Korean retailers? Of the foreign grocery retailers who have expanded into Korea, Tesco has achieved the most outstanding performance, with the highest retailer brand share in the market. After the withdrawal of Wal-Mart and Carrefour from Korea in 2006, Tesco Korea has been positioned as the successful foreign retailer. Accordingly, how the retail operation of Tesco Korea differs from that of the local Korean retailers attracted the author's interest, specifically in terms of the development and handling processes of the retailer brand.

Rather than examining the customer perceptions of both Tesco Korea and the domestic Korean retailers, the researcher concentrated on identifying the differences between both parties from the point of view of their retailer brand program operations. Based on in-depth interviews with retailers and suppliers, store observations, the author's own experience in retailer brand development, and company documentation, this research explored the differences between Tesco Korea and domestic Korean retailers in how they develop and handle their own brands. Tesco Korea has taken advantage of retailing know-how, that is, retailer brand development skills created by Tesco UK. With the help of Tesco UK, the retailer brand development process of Tesco Korea is differentiated in a number of areas from that of the local Korean retailers. The flows of retailing know-how from Tesco UK to Tesco Korea has also influenced the whole retailer brand market in Korea, as well as stimulated the local Korean retailers to improve their retailer brand development skills.

The entry of retailers with advanced retailer brand development knowledge into markets where retailer brands are less well developed is a catalyst in promoting

retailer brand markets, and in intensifying retail competition. Also, the retailer brand development know-how of domestic retailers is enhanced by imitating or benchmarking foreign retailers.

This research suggests that retailer brand share is related to the degree to which retailers are proactively involved in the development and handling processes for retailer brand product ranges, as well as to how sophisticated or advanced their knowledge of the retailer brand development process is. Advanced development and handling skills make a considerable contribution to increasing retailer brand share in markets with a lower share or no presence of retailer brands.

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I dedicate this study to my father, Ju-Hyun who has been in hospital since 2006, wishing his recovery.

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CHAPTER ONE

Introduction

1. Introduction

Since the introduction and development of private label programs in modern retailing across the world, a variety of phenomena have been observed. Researchers in the academic world have identified a series of diverse relationships between retailers and manufacturers (e.g. Dawson and Shaw, 1989; Segal-Horne and McGee, 1989; Davies, 1994; Ogbonna and Wilkinson, 1998), and between retailer brands and store image or store loyalty (Steenkamp and Dekimpe, 1997; Corstjens and Lal, 2000; Ailawadi, Neslin, and Gedenk, 2001). Likewise, there is a large amount of literature on consumer shopping behaviour when buying retailer brand products, on consumers' perception of retailer brands compared to national brand products (Jacoby and Olson, 1976; Bellizzi et al., 1981; Cunningham et al., 1982; de Chernatony, 1989; Lichtenstein et al., 1993; Richardson et al., 1996a; Baltas, 1997; Grunert et al., 2006), and on the role of retailer brands in general (de Chernatony, 1989; Raju et al., 1995; Bhasin et al., 1995; Burt, 2000). In recent years, research has broadened from a domestic to an international market view, in parallel with the aggressive global expansion of retailers such as Wal-Mart, Carrefour, Tesco and others. Some of these have been offering private brands throughout most product categories, and some moreover, have enjoyed advantages from the early adoption of cutting-edge information technology. Although this required heavy investment, these technological benefits have provided them with better opportunities to control, to negotiate with, and to cooperate with suppliers, particularly in respect of retailer brands, compared to competing retailers. It should be noted that information technology has also made a

huge contribution both to reducing the likelihood of retailer brand failure and to placing retailers in a more powerful position to develop and manage retailer brands, compared to their suppliers. This will be demonstrated through a case study in later chapters.

Due to both improved management skills and a more competitive retail environment, retail operators must develop their ability to survive through their own novel weapons or strategies, such as: a low-cost operation policy; the active introduction of a marketing strategy; information technology developments to increase efficiency; the introduction of new store formats; sustainable services improvement; and the development of retailer brands in particular. All of the grocery retailers involved with retailer brands in Britain have consistently upgraded their ranges from the starting point of the traditional lower-price/lower-quality retailer brand, to the offer of a high-quality/value-for-money retailer brand – often only slightly less expensive than the leading manufacturer brands (Burt and Davis, 1999).

Taking all the above into account, there is no doubt that private brands are an important research topic for both academics and practitioners. The evaluation of retailer brands has both positive and negative dimensions. For example, whilst they provide much higher gross margins than national brands (Handy 1985; Hoch and Banerji 1993), an increasing retailer brand share has a negative impact on the profitability of manufacturers' brands (Narasimhan and Wilcox, 1998). Despite both of these perspectives, retailers have constantly allocated their resources to retailer brands, perceiving them as a future way of generating profit growth and competitiveness. Why retailers invest their resources in retailer brands will be illustrated later, as will the relationship between the reasons and the determinants of a retailer brand's success (Hoch and Banerji, 1993) or failure.

It is important to note here that the look-alike debate between retailers and manufacturers has been a big issue between retailers and manufacturers. Typically it provoked the “Cola-war” in the UK during 1994 (Davies, 1995). Look-alike issues should be considered from the perspective of customer’s rights and fair competition, in order to avoid generating negative associations for retailers. The reason for mentioning this issue here is its relationship to the characteristics of trademark or competition laws. As will be discussed later, misunderstandings over legal regulations will leave retailers with the dual burden of the financial cost of stock investment and clearance costs. The retailer-supplier relationship might also be damaged unless the retailer accepts its responsibility. Developers of retailer brands should keep an eye on the changing regulations established by both central and local governments.

One of the key factors affecting the development process of retailer brands is a precise understanding of the central role of marketing concepts. According to Burt (2000), retailers have adopted the marketing concept in their strategies to compete with their counterparts. In order to reduce the rate of retailer brand failure, consumer shopping behaviours and perceptions; manufacturing process; material procurement of suppliers; distribution flow; quality control management and the like should be systematically reflected throughout the whole development process. Because consumers have become more and more sophisticated in making purchase decisions and buying products, considerable effort should be made to succeed in retailer brand programs. The process of developing retailer brands from the starting point, which means the introduction of the retailer branding concept, through to manufacturing, to distribution, to in-store display, and to repeat purchase is likely to be seen as more complicated than the manufacturer’s own business activities in producing and distributing its own manufacturer brand.

As McGoldrick (1984) pointed out, a generic retailer brand counteracts the national brands' influence in the market, in terms of price increase. Consequently, retailer brands have contributed to the stability of the consumer price index. Cheaper retailer brand products are likely to inhibit price increases of manufacturer brands.

Retailers are generally becoming more powerful (Ailawadi et al., 1994), and so, society requires retailers to take more social responsibility than ever before, as a crucial component of a society. In light of the need for retailers to increase their social responsibility, retailer brand products, as a part of a tangible brand, are important in building a desired brand image. Retailer brand developers play an important role in establishing brand reputation, as evidenced in part by Cunningham (1959) who argued that there exists a significant and positive relationship between retailer brands and store loyalty. However, Rao (1969), in contrast, argued that retailer brands are perceived to be just another brand, regardless of store sponsorship, questioning Cunningham's argument. In most previous studies, however, researchers tend to overlook the relationship between the role of retailer brands in formulating store image or brand image, and the processes of development and handling activities. Therefore, when looking at the development activities related to retailer brands, retail operators need to drastically broaden their viewpoint, in an attempt to provide satisfactory retailer brands for their consumers.

Based on the above mentioned themes, the researcher will now describe overall framework of this study as follows.

1.1 Background

In an attempt to explain why the researcher is interested in this topic, there is a need to analyse some data. According to ACNielsen reports (2003, 2005), the global

private label market share increased from 15% in 2003 to 17% in 2005. In the overall European market, this share rose slightly to 23 % in 2005 (from 22 % in 2003), and in North America, the share was maintained at 16 %. An increase of 2 % was seen in the Emerging markets, from 4 % in 2003 to 6 % in 2005. A striking feature in the report was the growth rate in the emerging markets; which saw a rapid growth of 48 % in 2003 and 11% in 2005, compared to other markets. In terms of growth rates, therefore, the Emerging Markets emerged as the fastest-growing region, and was the only region to post double-digit growth (ACNielsen, 2005).

In addition, according to the 2003 ACNielsen report, the share of private label in South Korea accounted for less than 0.5 %, compared to 31 per cent in the UK. What is important, moreover, is that the 2003 ACNielsen report pointed out that while private label sales in Great Britain grew by less than 1 % per year, manufacturer brands grew by 6 %. For South Korea, where private label sales were negligible, private label actually declined by 1 %, compared to manufacturer growth of 3 % (ACNielsen, 2003). Similarly, other Asia pacific markets including Japan and Australia did not experience any change, maintaining a 4 % share during the same period. These data suggest that retailer brand growth varies markedly from market to market, making research in an individual market a valid topic.

Tesco Korea is, therefore, located in a country which has one of the lowest retailer brand shares. This in itself is enough to attract the researchers' attention. In addition, Tesco in both the UK and South Korea has actively been carrying retailer brands but the operation, and results are dramatically different in terms of retailer brand market share. In the UK, retailer brands account for 55 % of Tesco's total sales volume in 2004 (Coriolis Research Report, 2004), but in the Korean market the

retailer brand share of Tesco was estimated at around 12 % of total sales in 2004 by a Korean marketing newspaper.

Private brands initially appeared in the fashion sector at the department store Shinsegae in Korea in 1965 (Kim, 1993). In the grocery sector, the first private label was distributed in 1982 by Hanhwa supermarket, which was one of the top three supermarkets, followed by Haitai, the number one retailer in packaged consumer goods sector in 1984 (Cho, 2001). At that time, there were no discounters or hypermarkets. Korea's major retailers, operating discount stores, department stores, supermarkets and the like, actively introduced retailer brands across several product categories in the late 1990's (Cho, 2001). Through the literature on retailer brands in Korea, it is apparent that Korea has lagged behind the UK, in terms of both retailer brand penetration and probably development know-how.

With respect to the time when authors began to pay attention to retailer brands, the British academic world started to explore topics in the retailing area from 1980's (e.g. McGoldrick, 1984; Simmons and Meredith, 1983; Baden-Fuller, 1984; Davies et al., 1986; de Chernatony, 1985, 1989; Burt, 1992), whereas similar retail research only appeared from 2000 in Korea, because the retail industry was seen as of little interest until then. Although the retailing sector suddenly attracted academic interest from 2000 in Korea (e.g. Cho, 2001; Jin and Suh, 2005), for the retailer brand there are still many untapped research areas.

1.2 Research aim

Much of the previous literature on retailer brands has been approached from the point of view of the result or output, such as: customer behaviour; retailer reactions to competitors; and supplier reactions to retailer brands, even though retailers

themselves influence the consumer decision making process, through differentiated or well-established own brand strategies. There is, therefore, little literature on how the retailers' development activities such as a buying organization, supplier development, relationships with suppliers, item decisions, distribution, brand naming, packaging, in-store product display, and so on influence private brand market shares. According to Beldona and Wyson (2007), retailer brand research has primarily focused on the following aspects:

- (1) Reaction of national brands to store brands (Hoch, 1996; Quelch and Harding, 1996; Cotterill and Putsis, 2000)
- (2) Optimal price gap between national brands and store brands (Heath et al., 2000).
- (3) Factors being conducive for the introduction of store brands (Raju et al., 1995)
- (4) Factors determining the variation in retailer brand market share among retailers (Dhar and Hoch, 1997)
- (5) The appeal factor of retailer brands (Dunne and Narasimhan, 1999)
- (6) Retailer brands convincing consumers of their high quality (De Wulf et al., 2005)

Despite increasing internationalization in the retail sector, there is little attention paid to identifying the relationship between retail internationalization and the development and handling process of retailer brands. It is, therefore, an interesting research area to examine how international retailers have transferred the retailing know-how associated with the retailer brand development process developed in the home market, to new foreign markets and furthermore how different this retailer brand development process is from that of local retailers.

According to Mukoyama (1996), in Japan product procurement know-how relating to components or product ingredients has provided retailers with another chance to expand into overseas markets. By accumulating market information on native requirements through frequent access to foreign suppliers, retailers can gain a foothold in procurement markets, as did Ryohin Keikaku Co., Ltd, which is a successful Japanese retailer and which has adopted the concept of generic retailer brand products. The product sourcing techniques of retailers across the world have provided important information windows to grab beneficial, trustworthy information for multiple retailers.

As a consequence, the aim of this thesis is *to explore how different the retailer brand development and handling process of Tesco Korea is, to that of local Korean retailers.*

1.3 Objectives of the thesis

It is important to mention here that when marketers in the retail trade start to establish their retailer brand strategies, they take the essential things: their consumers; suppliers; and themselves; into account from the very outset. Rather than examining the results or the outcomes of the retail brand phenomenon, exploring the management processes producing these results provides a new view of the retail brand market. By adopting a different viewpoint when researching retailer brands, different from the traditional consumer and producer standpoint, the present study analyzes how retailers make decisions on a set of retailer brand related activities, from the initial introduction and continuous upgrade process of brands, to the stock and clearance of products. In order to achieve the aim of the research mentioned in the previous section, the objectives of the research are as follows:

- (1) *To identify the different characteristics of Tesco Korea and local Korean retailers, in terms of retailer brand development and practice management.*

As a representative foreign retailer, after the withdrawal of Wal-Mart and Carrefour and since full acquisition by Tesco UK, Tesco Korea has achieved an outstanding performance, in spite of the different retailing context faced in Korea. The researcher will examine the process of retailer brand decision making within the Tesco Korea organization.

- (2) *To investigate the retailing know-how transfer process from the UK into Korea.* By illuminating this knowledge shift, the researcher will be able to better distinguish the approach of Tesco Korea from that of the local retail operators, on the assumption that Tesco UK influences Tesco Korea. This will allow an ascent of the extent and nature of knowledge transfer.

The next section will discuss how the research will be approached, in order to achieve the two main objectives noted above.

1.4 Methodological approach

Given the stated purposes of this study, it is appropriate to employ qualitative research methods. The processes of development and management of retailer brands of Tesco Korea will be examined through in-depth interviews with managers and suppliers, and the examination of company documentation. This case study will be analyzed through comparison with local Korean retailers, based on the author's experience as a developer of retailer brands at one of the local major supermarket operators, Haitai Distribution Company, which was acquired by E-Land in 2006. In-depth interviews will be used to gather a wide variety of information from the retailer.

Due in part to issues of trust and bias arising from face-to-face and telephone interviews, there is also a need for observation in-stores, with the aim of confirming the interview contents and documentation.

There have been many authors who have adopted case study research within the retailing literature, such as Palmer (2005), Jackson and Sparks (2005). The single case study has been an increasingly popular methodology within the retail internationalization literature, and this method has enabled various authors to provide some very important insight into this research area (Sparks, 1995; Shackleton, 1996a, 1996b; Clarke and Rimmer, 1997; Wrigley, 2000). Furthermore, field research that involves investigating the views and opinions of those directly and indirectly involved in decision-making processes is receiving increasing support within the literature (Shackleton, 1996a, 1996b; Sparks, 1996; Palmer, 2002a, 2002b; Palmer and Quinn, 2003). Based on these methods combining in-depth interviews with observation and documentation, the research aim will be pursued. The research method, including why Tesco Korea is the case in this thesis, will be explained further in chapter four.

1.5 Structure of the thesis

As can be seen in Figure 1.1, this thesis comprised eight chapters including the introduction chapter.

While this chapter gives an overall general outline of the thesis, the next chapter discusses the emergence of retailer brands, looking to the past when the first retailer brand product appeared. Exploring the historical environment helps in understanding why retailer brands have appeared and suggests future directions in development. Starting with definitions of retailer brands, chapter two examines the role of retailer brands for retailers; the evolution of retailer brands; the theoretical

factors influencing the growth of retailer brand market share; and today's context in the world.

Chapter three is concerned with the considerations that retailers should take into account as a part of the retailer brand development and management process. By classifying existing papers into groups, according to common characteristics, this chapter identifies a series of research trends. The literature will be approached from the consumers', the retailers' and the manufacturers' viewpoint or a combined viewpoint.

Chapter four explains how this study aim was pursued, in other words, it explains the research design, methodology and techniques used to gain information and to avoid interviewee bias, and how the interview subjects were selected. Furthermore, how the results arising from the field work are to be interpreted will be discussed, in relation to methods of analysis, including advantages and disadvantages of different approaches. Here the processes associated with retailer brand development are divided into a number of stages, following the flow of decision-making, information, products, and capital, and collaborating within in-house departments or with suppliers, in order to structure interpretation.

Chapter five describes the primary information about the development process of Tesco's retailer brands, acquired through the in-depth interviews, documentation and observations in Korea. Within the structure of development phases identified in chapter four, the specific characteristics of every stage are identified.

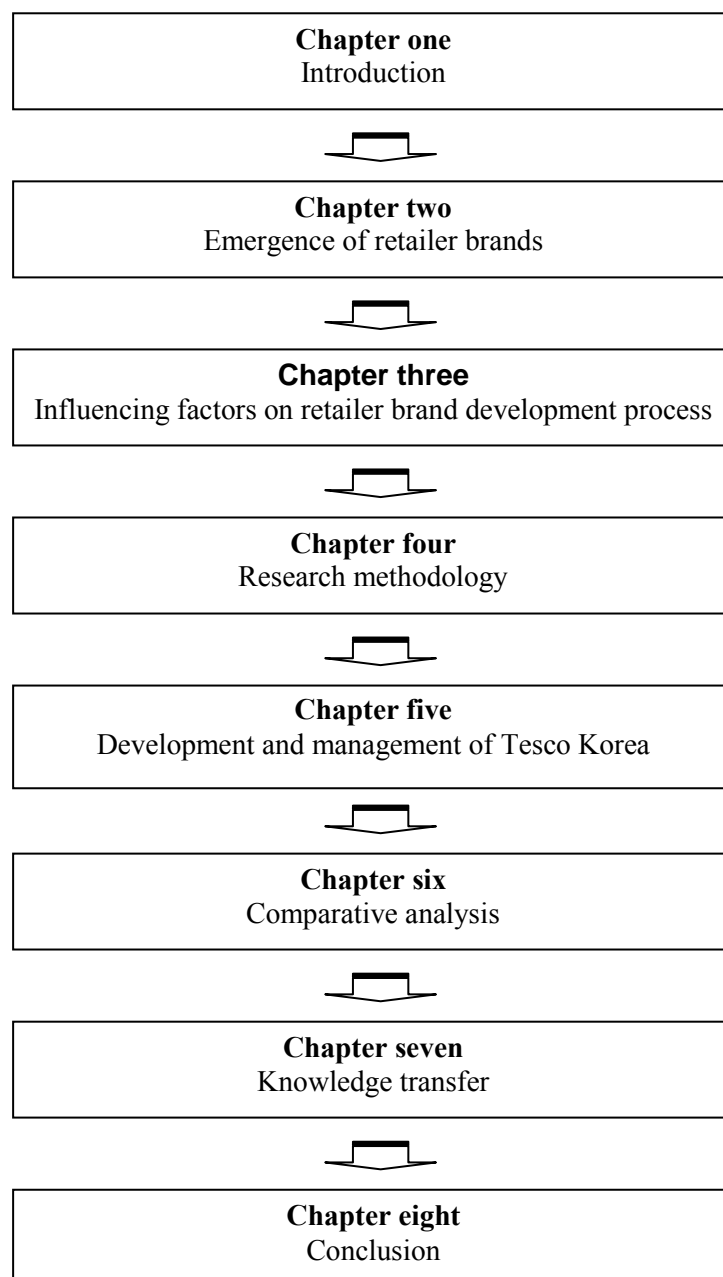
Chapter six analyses the Tesco Korean case and compares it with the common features of the local Korean retailers. By doing so, the differences and common features in each phase of the processes will be identified.

Chapter seven examines how retailing know-how is transferred into Korea

from Tesco UK. As a part of the retail internationalization activities of Tesco UK, this will illustrate the knowledge transfer processes from the UK to Korea

Finally, chapter eight discusses the conclusions derived from the field work, identifies research limitations faced during the survey, and suggests future directions in retailer brand research. Particularly, it is important to identify the managerial or theoretical implications of this thesis for researchers and practitioners.

Figure 1.1 Structure of the thesis



CHAPTER TWO

Emergence of Retailer Brands

2. Introduction

With the increasing brand power in marketing channels, the position of retailer brands has become an increasingly vital factor for retailers as a marketing tool to compete with their direct and indirect competitors. Due to the importance of retailer brands in the retail business, some questions arise such as: what is a brand?; what values does the brand bring to the various members of a marketing channel?; why is the brand so important in retailing?; and when did the first retailer brand appear?

According to one famous, respected Korean old adage, man maintains his name in the mind of those who are left behind after his death, while a tiger leaves his skin. This means that when a man dies, there is nothing physical that is left, with the exception of his name. Therefore, his reputation is maintained solely through word-of-mouth or records. Naming has been a key element to be memorized by others. As such, peoples' names have, traditionally, a very crucial meaning in Korea. Similarly, by the time of the industrial revolution, retailers began to differentiate their product ranges and the shopkeeper's name became in effect the brand name (Martell, 1986).

This chapter focuses on exploring the answers to the above questions.

2.1 Outline of the brand

The American Marketing Association describes the term brand as a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Branding, therefore, is a pivotal tool to achieve success in highly

competitive marketplaces, through attracting the consumers' interest and arousing the consumers' potential needs and wants, and even further instilling it into the consumers' minds. In marketing, there is no doubt that one of the most important tasks is branding to differentiate oneself from others, both strategically and tactically. The branding process no longer applies only to manufacturers. In terms of the importance of the adoption of marketing concepts, many retailers have recognized this (Burt, 2000). Conventional marketing wisdom highlights that one means of identifying the competing offerings in a product field is through classifying items as being either brands, own labels or even generics (Hawes, 1982).

The researcher looked at what kind of qualities a successful brand has. Although having various degrees of differences, depending on the characteristics of product categories or services, Keller (2000) argued that the world's strongest brands share ten common traits;

- (1) The brand excels at delivering the benefits customers truly desire
- (2) The brand stays relevant
- (3) The pricing strategy is based on consumers' perceptions of value
- (4) The brand is properly positioned
- (5) The brand is consistent
- (6) The brand portfolio and hierarchy make sense
- (7) The brand makes use of, and coordinates, a full repertoire of marketing activities to build equity
- (8) The brand managers understand what the brand means
- (9) The brand is given proper, sustained support
- (10) The company monitors sources of brand equity

From both the marketers' and the consumers' perspectives, Keller's viewpoint holds persuasive arguments. It should be noted here that competitor's perspectives should be distinguished from those of their counterparts, according to his findings. Indeed, Aaker (2003) pointed out that if a brand fails to develop or maintain differentiation, consumers have no basis for choosing it over others.

The reason for exploring a successful brand's characteristics is to consider retailer brands as the same as any other brands. Why do brand owners want to make a brand successful? Many researchers have focused attention on this topic. It is essential to consider brand roles in more detail, from all angles, to better understand retailer brands. A clear understanding of brands in general helps us to efficiently and effectively develop and manage retailer brands.

2.1.1 The role of brands

There is no doubt that, in an increasingly harsh business environment, brands have played a core role for businesses attempting to gain a sustainable competitive advantage over their competitors by differentiating themselves from competitors. As a result of establishing a favourable, well-known brand, what can be expected for brand owners? Before mentioning the wide variety of benefits derived from well-organized brands, it is necessary to look at what roles brands play in the marketplace. In the same vein, Aaker (2003) stated the roles of brands as follows.

- (1) The existence of a brand can add credibility to claims made on its behalf
- (2) The existence of a brand name makes it easier for consumers to remember the differentiator and to link it to the parent or master brand
- (3) The reason to brand a differentiator is to enable more efficient and effective communication

(4) The branded differentiator can also be the basis for sustainable, competitive advantage, especially if it is actively managed

Both Keller (2000) and Aaker (2003) described the brand as being one of the most fundamental competitive attributes. With these views widely recognized, many firms, including retailers have invested considerable resource in building their own brand, despite the threat that their future-oriented investments may result in failure in the marketplace. As noted by Burt and Davis (1999), during the 1970's and early 1980's, the growth rate of retailer's advertising exceeded that of manufacturers' brands, in order to build store image as part of branding process. Furthermore, Hoch (1996) argued that national brands have had to continue to invest in brand building.

Successful brands, not surprisingly, play a variety of roles for brand owners and consumers, and even shareholders. It is necessary, therefore, to consider the main roles of brands briefly from the viewpoint of different stakeholders; brand owner, consumer and shareholder.

Firstly, from a consumer's point of view, the notion that a brand saves consumer time when choosing a product at the shelf is widely accepted. In terms of consumer satisfaction, brands offer consumers additional values above and beyond simple product functions. A consumer wants, for example, prestige, trust, self-esteem, excitement, and countless values, through searching a brand, buying a brand, using a product bought, maintaining experience of searching, buying and using the bought brand, talking and listening, self experience or others' experiences. With respect to the brand benefits that consumers enjoy, these are not without risk. Although brands apparently have overwhelming advantages, attention should be given to the level of consumers' satisfaction accompanying its payment. There can be negative sides for a brand, such as uneasiness over whether a consumer pays the appropriate monetary

value for a brand or not. It should, thus, be considered that the roles of the brands for customers are concerned with both positive and negative aspects.

As one of the most vital factors comprising the company's competitive advantage from a brand-owner perspective, secondly, brands play a significant role in increasing sales volume and profits. As King (1970) explained, brands are preferred by consumers because they offer added-value over and above commodities. Thus, when consumers recognize relevant added-values, they are prepared to pay a premium price (de Chernatony et al., 1992). Incidentally, this explains why a firm invests in building a brand as a major priority. Indeed, it could be said that there is no merit to be gained if the firm does not embrace the branding process. The brand yields a great number of advantages. For example, the brand is an entry barrier against competitors. Several researchers have considered the use of advertising to inhibit the entry of other branded products (Bagwell and Ramey, 1988).

Finally, it is important to look at the benefits that a shareholder obtains from the brand. Consistent with the Clarkson's (1995) concept which classifies shareholders into both primary stakeholders who have a close, responsible relationship with the activities of the organizations beyond profitable or non-profitable traits, and secondary stakeholders who are concerned with the organization activities indirectly rather than directly, brands perform the same role for stakeholders as they do for customers and brand owners.

2.2 Emergence of retailer brands

It is important to mention the definition of "retailers' brand" used here to avoid confusion. Among the literature concerning retailing research, many similar but slightly different terms have been used; for example,

“generics” (e.g. Hawes, 1982; McGoldrick, 1984),
“store brand” (e.g. Raju et al., 1995; Richardson, 1997; Baltas 1997),
“store own brand”,
“store label” (e.g. Martell, 1986),
“ghost brand” (e.g. Martell, 1986),
“own label” (e.g. Roussell and White, 1970; Hawes, 1982; Martell, 1986, de Chernatony, 1989; Buck, 1993),
“own brand” (e.g. Caulkin, 1987),
“private brand” (e.g. Myers, 1967; Burger and Schott, 1972; Nandan and Dickinson, 1994; Bhasin et al., 1995),
“private label” (e.g. McGoldrick, 1984; Hoch and Banerji, 1993; Raju et al., 1995; Parker and Kim, 1997; Jonas and Roosen, 2005),
“distributor’s brand” (e.g. de Chernatony and McWilliam, 1988),
“wholesaler’s brand”,
“retail brand” (e.g. Burt, 2000), “retailer brand” (e.g. Gordon, 1994; Bhasin et al., 1995),
“house brand” (e.g. Martell, 1986), etc.

From manufacturer- and distributor-orientated perspectives, Schutte (1969) classified the plethora of terms used in marketing into two groups, as in Figure 2.1.

The researcher thus far has used only the term ‘retailer brands’ consistently, except when I quoted ACNielsen’s reports (2003, 2005). The reason why the researcher uses only the term ‘the retailer brand’ will be discussed in this section.

It is firstly to avoid the ambiguous confusion from using terms interchangeably within the thesis and during the interviews, because as noted by Martenson (2007),

the same terms are generally used differently by different nationalities, retailers and researchers. There is, therefore, a need to use only the one term to avoid confusion.

Secondly, because these terminologies are distinguished among interviewees, there exists the possibility of misunderstanding due to language problems, and so using only the one term makes communication easier.

Finally, despite the fact that each term has more or less the same interpretation, as Collins and Burt (2003) pointed out, terms such as “own brands” (Laaksonen, 1994) and “retailer brands” (Shaw, 1994) have started to be used frequently. The term, “retailer brands” can be interpreted in widely, subsuming some of the other terms.

Figure 2.1 Classification of terms

Manufacturer-oriented Brand	Distributor-oriented Brands
Pre-sold brand Controlled label Well-known brand Advertised brand National brand Manufacturer brand Packer’s label Regional brand Processor brand	Private label Store brand Dealer brand House brand Minor brand Ghost brand Regional brand Unadvertised brand Plated brand Independent brand Resellers’ brand Distributor brand Price brand Middleman’s brand Unknown brand Supermarket brand “Our own brand”

As a consequence, rather than using the terms mentioned above interchangeably, it is wise to use only the one term “retailer brand”, taking into consideration the purposes of this thesis.

Next, it is necessary to review the definition of retailer brand from a theoretical standpoint. From a historical perspective, an examination of the evolution of the definition developed by researchers can illuminate the growth process of retailer brands, their changed position compared to manufacturer brands, and the social perception of retailer brand held by consumers in society. As noted by Martell (1986), terminologies and definitions have become outdated over time because they tend to mirror phases of development.

2.2.1 Definition evolution

It is interesting to note that the definition varies depending on each researcher in much of retailer brand literature. Most researchers, however, tend to use terms interchangeably. In an effort to make the researcher's viewpoint clear when using the terms, it is important to choose a widely used theoretical definition based on a literature review. There are several researchers who defined terms so as to differentiate retailer brands from the existing manufacturer brands (e.g. Economist Intelligence Unit, 1968; Schutte, 1969; Roussell and White, 1970; Martell, 1986; de Chernatony and McWilliam, 1988; Davies, 1992; Pellegrini, 1993; Bhasin et al., 1995). Definitions should be considered chronologically, in an effort to maintain an historical standpoint. In 1969, there were already many circulated terms associated with retailer brands in the academic world and in retailing business.

Prior to an examination of the definitions, the criteria used to distinguish retailer brands from manufacturer brands should be given attention, in order to explain the background as to how the definition was generated.

Retail Business has defined "own labels" as 'consumer products produced by or on behalf of, distributors and sold under the distributor's own name or trade mark

through the distributor's own outlet' (Economist Intelligence Unit, 1968). It is worth noting what criteria are used to classify brands. It goes without saying that there are a variety of determinants dividing brands into several categories.

Schutte (1969) suggested that the border lines of brands are determined in the following situations:

- (1) Whether the brand was advertised or not (private brand vs advertised and national brand)
- (2) Depending on the price levels (price brand owned by distributors)
- (3) Ownership and control of the brand (store brand, retailer brand, wholesaler brand and reseller's brand owned and controlled by distributor members of the channel)
- (4) Geography and logistics (regional brand focusing on a limited area)
- (5) The degree of control, marketing service, or efforts given by the manufacturers (controlled brand and packer's brand)

Considering the above five situations, he proposed two brand terms, 'Manufacturers' brand' and 'Distributors' brand'. He defined a 'Manufacturers' brand' as being owned and controlled by an organization whose primary commitment is production, while a 'Distributor' brand' was defined as being owned and controlled by an organization whose primary economic commitment is distribution. He focused on two key points to separate these brands, who the brand owner is, who the brand controller is. To what extent an owner takes part in production and manufacturing, or in distribution, even both in combination, is large criteria. In 1967, however, Myers argued that manufacturer brands with smaller market share might be considered as retailer brands, while Weiss (1961) noted that retailer brands with a big market share should be considered as national brands. Given both researchers' arguments, they

suggested a new approach to classifying brands based on market shares, but these views have been less prevalent in the literature.

Looking at the concept of “own label”, on the other hand, Roussell and White (1970) described “own label” as “products sold under a retail organization’s House brand name, which are sold exclusively through that retail organization’s outlet”. What is important here is that this definition added the concepts of naming a brand and the places where the produce is retailed to Schutte’s (1969) definition. However, this did not mention whether or not a retailer produced them. Limiting the area of sales should be given particular attention because the border line distinguishing the trading areas of retailer brand products has become blurred in recent years. The representative example is Spar in the grocery sector in Europe. Its retailer brand products are sold in independent retailers’ stores. Furthermore, Tesco has exported its retailer brand products to non-competing retailers in Europe (McGoldrick, 2002). Likewise, the strategy of naming a brand has become a stepping-stone to diversifying retailer brands into a variety of market segments.

Since the advent of the first academic definition in 1969, Morris (1979) adopted the same definition that Retail Business defined. This definition is widely accepted by many researchers (e.g. McGoldrick, 1990; Burt, 2000).

A distinctive feature between Morris’s definition and Roussell and White’s one is the concept of whether a retailer takes part in the manufacturing processes, as mentioned by Schutte (1969). The former emphasised both retailer brand name and selling places whereas the latter added the intervention of distributors in the production process as well as trade marks. The latter, however, still did not raise the question about geographical selling area. In this respect, the above definitions do not overcome this limitation.

In 1988, de Chernatony and McWilliam proposed a classification of branding terminology through investigating the evolving competitive tiers. Whilst they illustrated the branding terms among retailer brands from a historical and competitive perspectives, 'own labels' were treated as the second-tier of competition and 'generics' which are items presented in a commodity form, distinguishable by their basic packaging which is functional rather than aesthetic, given lack of promotional support and characterized by their low prices, were treated as the third-tier.

de Chernatony and McWilliam, however, largely grouped brands into two categories which are manufacturer's brand and distributor's brand. Contrasting the concepts with each other, they defined the manufacturer's brand as being 'an added value entity conceived and primarily developed by a manufacture for a specific group of customers, which portrays a unique, relevant and distinctive personality through the support of product development, promotional activity and an appropriate pricing and distribution strategy' whereas a distributor's brand was described as 'an added value entity, produced by or on behalf of a distributor following the distributor's specifications and being targeted at specific consumers and portrays a unique relevant and distinctive personality which is clearly associated with the distributor and is backed by a coherent use of marketing resources'. This definition was much broader than prior definitions without mentioning the trading area, in marketing terms.

In the early 1990s, researchers started to focus on the degree to which the retailer becomes involved in true branding (Fernie and Pierrel, 1996). There was little literature on the retailer activities related to practical branding processes by which a retailer makes its brand develop as opposed to manufacturer's marketing activities. It is necessary to make sure that retailer brands function in the same way as national

brands, in terms of so-called marketing activities: pricing, packaging, display, distribution, advertising, and so on.

With regard to this aspect, Davies (1992) raised some questions about what factors were needed to be recognized as a brand. He, therefore, suggested that brands had to pass the following four tests; differentiation, pricing, separate existence and psychic value, to be a brand. Without adding a rhetorical device to his method to be tested as a brand, the researcher looks at his four suggestions:

(1) Differentiation: Does the supposed brand name differentiate the product / service positively from other similar offers in the marketplace in the mind of customer / consumers?

(2) Separate existence: Can the supposed brand be valued, used, sold, or licensed separately from the business owning the brand / name?

(3) Premium price: Does the supposed brand command a higher price in the marketplace than similar product / services, because of an image for quality and / or reliability?

(4) Psychic value: dose the supposed brand offer benefits to the consumer at a symbolic or sensory level?

If a “brand” did not satisfy the above conditions, he recognized it merely as a convenient label, not a brand. His considerations should be applied to retailer brands because retailers who do not have serious marketing concepts for their brand processes tend to simply lend their name to smaller suppliers. Without strong brand-ownership or taking part in the branding process, retailer brands might simply be convenient labels. Whether it can be a retailer brand or not should depend on the degree to which the retailer participates in the development process of retailer brands. The researcher will consider this aspect in more detail later. As a simple example, we

have to think about whether we can call the products to which a retailer merely lends its trade name as a trade mark to a supplier without providing product specification, package design, and the like, as a retailer brand or not. In this way, Davies' suggestion is significant and provides evaluation criteria for brand recognition by consumers. These comments, further, encourage the researcher to investigate the extent to which a retailer is associated with the branding process in the field.

Figure 2.2 Distinctions among definitions

Year	Authors	Used Term	Key Points of Definitions
1968	Retail Business	Own Label	-Production by or on behalf of, distributors -Distributor's name or trade mark -Distributor's own outlets.
1969	Schutte	Distributor Brand	-Owned and controlled by an organization -Distribution is primary economic commitment
1979	Morris	Own brand	-The same as Retail Business's definition
1988	de Chernatony and McWilliam	Distributor Brand	-Added value entity -Production by or on behalf of, distributors -Distributor's specification -Being targeted at specific consumers -Distributor's distinctive personality -Coherent use of marketing resources
		Generics	-Presented in commodity forms -Distinguished by basic packaging -No promotional support -Low prices
1995	Bhasin, Dickinson, and Nandan	Retailer Brand	-Distribution limitation to one retailer -Per competitive area

Likewise, Bhasin et al. (1995) defined a retailer brand as “brands where distribution is limited to one retailer per competitive area” (e.g. President’s Choice in the 1990’s and Stearns and Foster bedding in the 1950’s). A particular point here is that the distribution area of retailer brands was again limited. Except for de Chernatony and McWilliam (1988), previous researchers commonly defined retailer brands based on their retailing area. There was little interest in the reasons why researchers adhered to territorial concepts, while the concepts of retailer brands might be against so-called national brands.

As seen in Figure 2.2, although the terms used are apparently different and their implications are slightly different, the common terms involved a retailer’s marketing activities are: production, distribution, brand naming, brand controlling, stocking in own outlets, pricing, targeting consumers, allocating marketing resources and so forth.

Despite the fact that de Chernatony and McWilliam (1988) took a broader viewpoint than other retailer brand definitions, there are still many things to be thought about the trading area limitation of retailer-brand merchandises and the extent of retailer participation in the branding process. With regard to the extent of retailer participation in establishing retailer brands, there might exist many different levels across countries, retailers and product categories, and these distinctions form the basis for this thesis.

2.2.2 Retailer brand’s roles

As mentioned in the prior section, the increased share of retailer brands is given much attention, in both its positive and negative aspects, by researchers with respect to the balance between retailer brands and manufacturer brands. In previous literature, many authors examined the reasons why retailers had sold their own brands, and why

the higher growth of retailer brand sale shares had occurred (Hoch and Banerji, 1993; Mills, 1995; Bhasin et al., 1995; Raju et al., 1995, Richardson et al., 1996b). As retailers develop retailer brands with a wide variety of objectives (Cho, 2001), providing detail of these roles would be helpful to appreciate the processes by which retailers make decisions over the development of items.

Based on the literature about the function or role of retailer brands, it is worth noting the twelve functions that Bhasin et al. provided in 1995, as seen in Figure 2.3.

Aside from these twelve functions, there exists a wide variety of secondary potential functions. Before starting to analyze a few of the main roles in more detail, these roles should be classified into three groups from consumer, retailer and manufacturer perspectives, as seen briefly in Figure 2.4.

For these roles, retailers have been developing and managing their own brands, rather than relying exclusively on manufacturers' brands. From the three different viewpoints; consumer, retailer and producer, the researcher adds additional explanations to the positive main roles other authors have suggested.

2.2.2.1 Consumer perspective

Displaying retailer brand products in stores in itself might stimulate consumers to boost their sensory experiences of sight, sound, scent, touch and taste. Obviously, adding retailer brands to the assortment at the expense of selling space allocated to manufacturer brands in stores is enough to provide new opportunities for consumers to experience, or even exceed the degree of experiences manufacturer brands provide.

Among the reasons for purchasing a retailer brand, the price factor was found to be most important, with 80 % of buyers recognising this (Cunningham et al., 1982). For retailers carrying retailer brands, value for money is an important part of their

Figure 2.3 Roles of retailer brands

No.	Roles	Authors
1	Creation of better customer values	Swan (1974), Martell (1986), Richardson (1997), Baltas (1999), Burt (2000)
2	Retailer differentiation	Mills (1995), Narasimhan and Wilcox (1998) Baltas (1999), Scott Morton and Zettelmeyer (2000), Corstjens and Lal (2000)
3	Develop consumer loyalty	Cunningham (1959), Martell (1986), Leahy (1987), Liesse (1993), Nandan and Dickinson (1994), Richardson et al. (1996b), Steenkamp and Dekimpe (1997), Wolf (1999), Corstjens and Lal (2000), Ailiwadi et al. (2001), Jonas and Roosen (2005)
4	Create related sales	Liesse (1993), Mills (1995)
5	Higher gross margins	Simmons and Meredith (1983), McGoldrick (1984), Handy (1985), Martell (1986), Hoch and Banerji (1993), Liesse (1993), Mills (1995), Raju et al. (1995), Hoch (1996), Richardson et al. (1996b), Narasimhan and Wilcox (1998), Baltas (1999), Wolf (1999), Scott Morton and Zettelmeyer (2000), Corstjens and Lal (2000), Davies and Brito (2004), Ailawadi and Harlam(2004)
6	Facilitate Robinson-Patman Act avoidance	
7	Provide additional leverage vs. manufacturers	Simmons and Meredith (1983), Nandan and Dickinson (1994), Mills (1995), Richardson et al. (1996b), Narasimhan and Wilcox (1998), Baltas (1999), Scott Morton and Zettelmeyer (2000), Tarzijan (2004)
8	Facilitate price discrimination	McGoldrick (1984), Martell (1986), Nandan and Dickinson (1994), Baltas (1999)
9	Facilitate loss leader pricing	
10	Change dynamics of choice	Martell (1986), Leahy (1987), Nandan and Dickinson (1994), Baltas (1999), Burt (2000)
11	Create stock-out advantages	
12	Facilitate the implementation of some merchandise “knock offs”	Nandan and Dickinson (1994)

In addition to Bhasin et al., (1995), there are additional roles as follows.

No.	Roles	Authors
13	Amicable, stable product procurement	Cho (2001)
14	Supplement product ranges by developing new product categories	Cho (2001)
15	Improve store image by providing retailer brands	Simmons and Meredith (1983), Steenkamp and Dekimpe (1997), Baltas (1999), Corstjens and Lal (2000), Ailiwadi et al. (2001)
16	Improve the buying know-how of non-retailer brands	
17	Motivate manufacturers to develop innovative products or become threat	
18	Counter price increase of manufacturer products	
19	Improve effectiveness of selling spaces by delisting inferior brands	Richardson et al. (1996b)
20	Motivate store personnel about product management	Jonas and Roosen (2005)
21	Improve effectiveness of finance department management by reduction of the number of suppliers	
22	Enhance independence from producers	Jonas and Roosen (2005)

Source: adapted from field works

Figure 2.4 Classification of retailer brand roles

Perspective	Roles of retailer brand
Consumer	<ul style="list-style-type: none"> -.Get value for money -.Enjoy shopping experience of choosing a variety of brand assortment and prices -.Save shopping time -.Do not worry about stockout
Retailer	<ul style="list-style-type: none"> -.Build customer loyalty and store differentiation -.Achieve higher gross margin -.Create additional sales -.Gain superior position in negotiations with suppliers -.Reduce management cost of suppliers -.Improve buying skills and store image -.Supplement product assortment -.Protect stockout -.Rely less on suppliers
Manufacturer	<ul style="list-style-type: none"> -.Enhance new innovative products or threat -.Improve retailer-manufacturer (producing retailer brands) relationship.

promotion efforts (Patti and Fisk, 1982; Simmons and Meredith, 1983; McGoldrick, 1984; Martell, 1986; Davies et al., 1986). Retailer brands are provided to consumers as a competitive alternative to manufacturer brands (Dick et al., 1996). The idea that the price element is one of the most significant key factors retailers offer to their consumers can be seen through the value equation (Lewison, 1997).

2.2.2.2 Retailer perspective

Although each role has to be treated individually and cautiously, what is mentioned by many authors is that retailer brands make a big contribution to generating higher gross margins than manufacturers' brands, as demonstrated by the empirical survey data conducted in several European countries (Table 2.1). In this respect, it is necessary to focus on whether or not this is true because several researchers (e.g. Raju et al., 1995, Ailawadi and Harlam, 2004) suggested a negative effect on increasing gross margin. One of the persuasive reasons that retailers can achieve higher profit than on national brands, is that consumers' price comparisons of retailer brands with national or manufacturer brands might not be easy, in spite of the fact that the two products were both provided by the same producer (Bhasin et al., 1995).

Table 2.1 Main objectives carrying retailer brands

Most important objectives	UK %	France %	Germany %	Spain %	Switzerland %	Total %
Better margins	90	90	86	83	62	82
Lower price competitors To A-brands	83	36	91	83	78	68
Improves retailer competitiveness	79	51	82	50	78	65
Image-building	74	64	55	67	44	62

Source: McGoldrick (2002)

Some authors, on the other hand, believe that increasing the share of retailer brands without considering maintaining national brands will cause suppliers of manufacturer brands to stay away from retailers, because manufacturers will lose interest in transactions with retailers with better prices and trading terms (e.g. Wellman, 1997; Narasimhan and Wilcox, 1998). Moreover, Ailawadi and Harlam (2004) pointed out that the absolute dollar profit is actually smaller than that from national brands. As a result, major retail chains like Safeway and Kroger in the USA had to change their active retailer brands strategies into withdrawal or into de-emphasis in some product categories (Salmon and Cmar, 1987).

A widely recognized role is that of generating customer loyalty, pulling consumers into their outlets because of the attraction of retailer brands. A retailer brand product is not available at any competitor's store. Like a strong national brand in this case, undoubtedly retailer brands play an important role by forcing a consumer who experienced retailer brands in a particular store to revisit to purchase the same product. What is important is that retailers should satisfy the consumer who buys and then consumes the own brand at the first experience. If not, this strategy no longer works and to change the dissatisfied consumer's mind, retailers will need to invest a lot of resources to entice the consumer back to their store. In the development stage of retailer brands, this role should be given careful consideration. Just one favourable buying and consumption experience can change consumers' future shopping behaviour (Bhasin et al., 1995). In addition to the role of increasing profits, this fact also was researched to demonstrate how responsive consumers are to retailer brands when deciding where to shop (Dick et al., 1996; Wulf et al., 2005). By contrast, Rao (1969) found that when consumers who bought retailer brands switched their support to a different store, they were more likely to buy retailer brands in the new store. The

relationship between store loyalty and retailer brands will be examined in more detail later.

Another important role is the use of retailer brands as a bargaining counter when retailers are in negotiation with their suppliers. Traditionally, the retailers' position was relatively weak, because of strong manufacturers' power. As an example, most trade terms such as buying prices, order units, lead times and the like, suggested by strong national brands were accepted without negotiation by retailers. The stronger the national brand power, the weaker the retailer position in channels. This kind of situation still occurs depending on retailer-manufacturer relationships. In a word, retailer brands were a decisive tool to offset the tyranny of large suppliers during transactions (Bhasin et al., 1995). As their role has increased in retailing, retailer brands have become more and more of a threat to manufacturers.

In recent years, the relationship between store image and the role of retailer brands has been given considerable attention by several authors (e.g. Baltas, 1999; Ailiwadi et al., 2001; Semeijn et al., 2004; Sudhir and Talukdar, 2004; Vahie and Paswan, 2006). As noted by Narasimhan and Wilcox (1998), carrying retailer brand products at lower prices than national brands gives the store a lower-priced image in the mind of consumers. A lower-priced image can be one of the most important strategies not only to persuade potential customers to visit stores but also to retain existing customers. The average prices of retailer brands are generally around 30 per cent lower than national brands and national brands promote their products with discounts of 20-30% (Ailiwadi et al., 2001). Moreover, some authors agree that retailer brands make a contribution to greater store differentiation rather than to greater price sensitivity in the marketplace (Sudhir and Talukdar, 2004). With regard to the degree to which retailer brands affect directly or indirectly the store image

level, whether positive or not, the researcher will discuss later when ascertaining the factors that influence the consumer decision-making process. Basically, a favourable store image, good value and good product assortments are key elements if retailers are to achieve and maintain success in a highly competitive market (Grewal et al., 1994).

From the retailers' perspectives, it is found that the development of retailer brands has brought retailers various advantages, although some disadvantages are pointed out.

2.2.2.3 Manufacturers perspective

If one analyses the roles of retailer brands in terms of the advantages of its introduction in markets from a manufacturer's point of view, undoubtedly it can be an unfavourable presence. Producers have had to recognise the growing pressures that they face as a result of the constant growth of retailer brand power and determine how they should react to these pressures (Wileman and Jary, 1997)

Not surprisingly, there is no doubt that the success of retailer brands in retailing has resulted in significantly different roles for retailers and consumers. As a counterpart, to manufacturers its success implies threat and opportunity. Major manufacturers are in fact losing their market share but the worst damage is that marginal brands are delisted from retailers' shelves in favour of retailer brands (McGoldrick, 1984).

As retailer brands have become stronger, manufacturers have to make sure that their business can be sustained, overcoming the market situation provoked by retailer brands. Retailer brands, by definition, play a particular role in enabling manufacturers to develop new innovative products for themselves. This can be called a positive role

for the three components of the market, leading manufacturers to become stronger in negotiation with retailers.

With the growing power of retailer brands accompanying these roles in an increasingly competitive marketplace, in order for manufacturers to respond to them, there are four options as follows (Salmon and Cmar, 1987):

- (1) To become a retailer brand supplier in whole or in part
- (2) To defend their market from encroachment by retailer brands
- (3) To integrate vertically
- (4) To investigate what distribution opportunities may emerge out of the shifting emphasis towards retailer brands

As a result of the successful retailer brand roles, major retailers have forced manufacturers to make a strategic decision from among the above four options.

There are many authors who have tried to prove whether these retailer brand roles work in the practical retailing world, through empirical surveys. An effort, therefore, should be made to illustrate the relationship between the theoretical roles and the introduction and operation of retailer brands. In parallel with becoming an increasingly core part of retailing strategies, the shifting positions of retailer brands due to the variety of roles they play in markets, have been evaluated by several researchers (e.g. McGoldrick, 1984; Laaksonen and Reynolds, 1994; Fernie and Pierrel, 1996; Wileman and Jary, 1997; Burt, 2000) using criteria such as price levels, product categories, quality, and development objectives.

2.3 Evolution of retailer brands

Beyond the historical background of retailer brand emergence, retailer brands have continued to evolve according to the diverse objectives of retailers, and have

been perceived differently by different consumers, countries, manufacturers and retailers. In particular, retailer brands are typically more multi-sensory in nature than manufacturer product brands and can rely on rich consumer experiences to impact on their equity (Ailiwadi and Keller, 2004). In order to be called retailer brands, Pellegrini (1993) proposes four tests to identify the stage of development of own brands:

- (1)The degree of identification between the trade name of the retailer and the name used for its brand
- (2)The positioning of its brands with respect to leading manufacturer brands and, consequently, their qualitative standards
- (3)The width of the range of the products covered by the brand(s)
- (4)The extent of backward integration into marketing functions traditionally performed by manufacturers

There are many similar but different types of retailer brands. For some brands, it would be difficult to call them actual retailer brands. According to Cho (2001), the degree to which retailers take part in the development process varies by countries, product categories and retailers. Given the resources and processes that manufacturers invest in developing their own products as brands, retailers are not involved in the branding processes, compared to manufacturers, as demonstrated by Cho's case study (2001). It is unwise therefore, to see every retailer brand in retailing market as a real retailer brand. Many different retailer brands have been developed with different aims and different participation levels of retailers in developing them. Several authors have tried to categorise them (e.g. Laaksonen and Reynolds, 1994; Wileman and Jary, 1997; Burt, 2000). As retailers grow with the increasing retailer brand power, retailers tend to become more and more involved in the brand development process with

accumulated branding know-how learned from cooperation with their retailer brand suppliers (Cho, 2001).

Taking into consideration the degree of retailer participation, development objectives, branding know-how, marketing concept adoption, product sophistication, the ability level of being able to sell out and so on, retailer brands can be classified, as noted by Laaksonen and Reynolds (1994). They proposed that retailer brand development consisted of the four stages or generations in Figure 2.5, while Levy and Weitz (2004) categorised retailer brands into the four broad groups in Figure 2.6: bargain, copycat, premium and parallel branding. In the same vein, the evolution phases of retailer brand development can be explained according to two influential factors which are ‘time & investment’, and ‘quality & relative price vs manufacturer brands’, which allows the whole evolution processes to be distinguished as five steps in Figure 2.7 (Wileman and Jary, 1997).

When they categorized retailer brands, the factors influencing classification criteria should be investigated. The characteristics and changing trends of each stage will, thus, be identified. The factors used to divide retailer brands into groups were based on the practical phenomena of retailer brand performances, rather than on the scale growth of retailers and the development skills of retailer brands. Each generation was analyzed by the following points: brand types, development objectives, development strategies, product characteristics, quality levels and image, relative price formation to market leaders, development technology, consumers’ motivation to buy, consumers’ perceptions, promotion and producers’ characteristics (Laaksonen and Reynolds, 1994; Levy and Weitz, 2004).

McKinsey’s analysis developed by Glemet and Mira (1993) better understands the retailer brand’s evolution, as seen in Figure 2.8.

Figure 2.5 Classification of retailer brands

Heading	1 st generation	2 nd generation	3 rd generation	4 th generation
Type of brand	- generic - no name - brand free - unbranded	- quasi-brand - own label	- own brand	- extended own brand, ie segmented own brands
Strategy	- generics	- cheapest price	- me-too	- value-added
Objective	- increase margins - provide choice in pricing	- increase margins - reduce manufacturers' power by setting the entry price - provide better-value product (quality/price)	- enhance category margins - expand product assortment, ie customer choice	- increase and retain the client base - enhance category margins - improve image further - differentiation
Product	- basic and functional products	- one-off staple line with a large volume	- big category products	- image-forming product groups large number of products with small volume (niche)
Technology	- simple production process and basic technology lagging behind market leader	- technology still lagging behind market leader	- close to the brand leader	- innovative technology
Quality / Image	- lower quality and inferior image to the manufacturers' brand	- medium quality but still perceived at lower than leading manufacturers' brand - secondary brand alongside the leading manufacturers' brand	- comparable to the brand leaders	- same or better than brand leader - innovative and different products from brand leaders
Approximate pricing	- 20% or more below the brand leader	- 10-20% below	- 5-10% below	- equal to higher than known brand leader
Consumers' Motivation to buy	- price is the main criterion for buying	- price is still important	- both quality and price, ie value for money	- better and unique products
Supplier	- national, not specialised	- national, partly specialising to own brand manufacturing	- national, mostly specialising to own brand manufacturing	- international, manufacturing mostly own brands

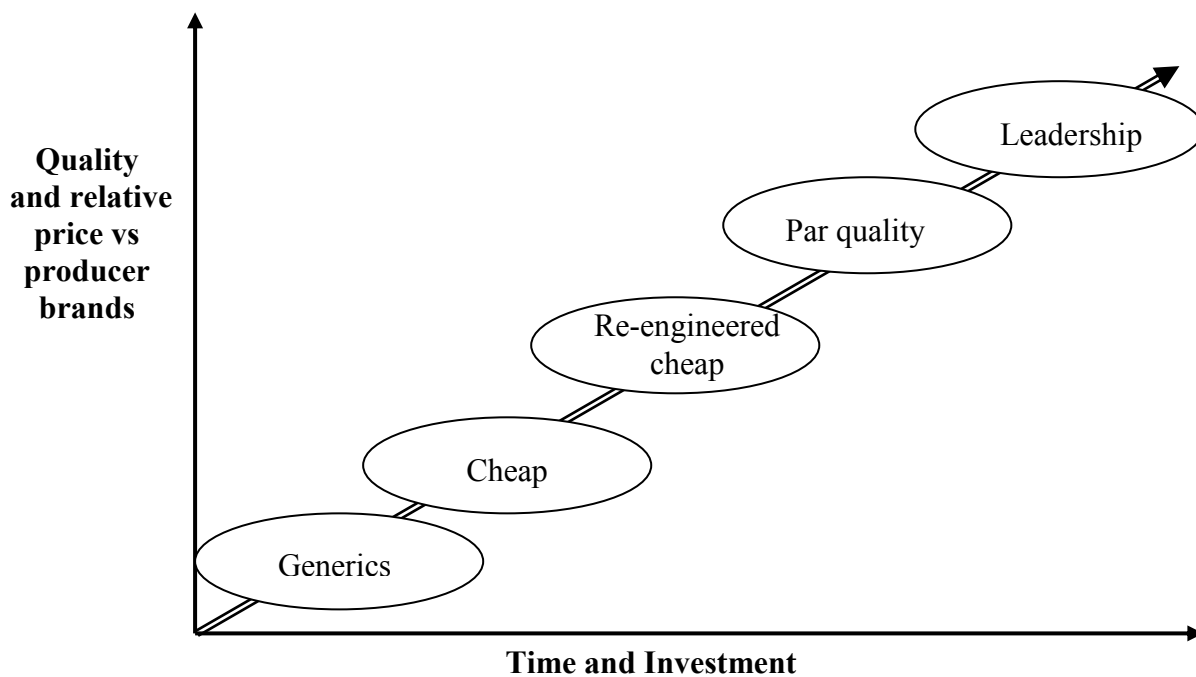
Source: Laaksonen and Reynolds (1994)

Figure 2.6 Four branding types

Heading	Bargain	Premium	Copycat	Parallel
Objectives	-generic -house brand	-compete national brands	-confuse consumers	-steal sales from national brand
Consumers' Characteristics	-price-sensitive	-competing manufacturer brands		
Quality / Image	-lower quality -unbranded	-comparable or excessive quality to national brands	-lower quality	-better value for consumers
Response to National Brands	-defensive	-directly compete	-imitate market leaders	-me-too
Price	-discount price	-modest price saving	-lower price	-lower than national brand
Advertising	-no advertising			

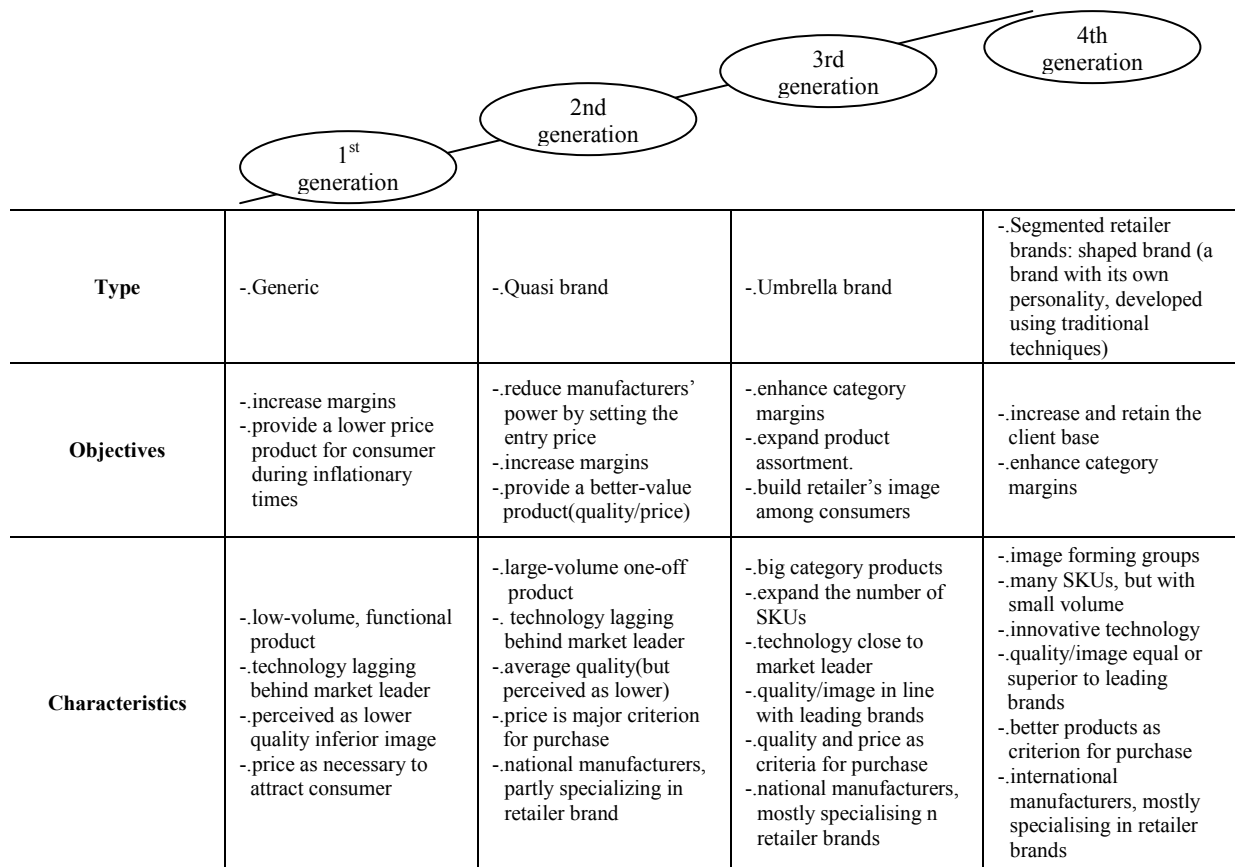
Source: Levy and Weitz (2004)

Figure 2.7 Development stages of retailer brands



Source: Wileman and Jary (1997)

Figure 2.8 Retailer brand's evolution



Source: Adapted from Glemet and Mira, McKinsey analysis (1993)

Each generation or each branding type has different traits on common criteria. Before starting to explain the four evolution stages, one should stress that these brand evolution phases should not be seen as a stepwise spectrum of retailer brand development but be aware of the fact that each stage might co-exist at the same time. In other words, retailers do not necessary develop from the first generation to the next one in regular sequence, consistent with Laaksonen and Reynolds (1994), Fernie and Pierrel (1996), Wileman and Jary (1997) and Burt (2000).

Moreover, retailers can adopt the four generations spontaneously depending on their development strategies for retailer brands and they can be regarded as a “brand hierarchy” which means that each brand or generation has distinctive characteristics within the same store at the same time (Satou, 1994). It should, therefore, be

recognised that the development and evolution patterns of retailer brands can be different across countries, retailers and product categories with different definitions, emergence background, development objectives, development strategies, and development experiences (Cho, 2001).

2.3.1 First generation

In Figure 2.5, 2.6, 2.7, and 2.8, it is interesting to realize that the first generation characterised as a generic brand by Laaksonen and Reynolds (1994) is very similar to the other terms: bargain branding (Levy and Weitz, 2004), generics and cheap brand (Wileman and Jary, 1997). This stage was evaluated by many authors (e.g. Cox, 1978; Jackson, 1978; Nevils and Sundel, 1979; Burck, 1979) as the most significant innovation in the retail branding area. Among the most striking features throughout the four generations, not only does the product quality steadily go up (McGoldrick, 1984), but the prices of retailer brands also increase and then the first stage is relatively seen as the lowest quality and price levels. There is a need for describing the market situation of this phase globally to illustrate how these generic products were positioned in markets.

In France, on 1 April 1976, the ‘produits libres’ developed by French retailer, Carrefour, were launched. These are widely recognised as a representative case of the first generation (e.g. Cunningham et al., 1982; McGoldrick, 1984; de Chernatony and McWilliam, 1988; Prendergast and Marr, 1997; Fernie and Pierrel, 1996). With the liberal meaning of ‘free products’, produit libres or produit drapeau (flag product) were among the most successful retailer brands in France in the late 1970s and 1980s (Fernie and Pierrel, 1996). A line of 50 products were wrapped in plain white packaging different from general packaging concepts, labelled with nothing more than

the ingredients, and marketed throughout their 38 stores (Hawes, 1982). In 1979, the market share of generic products developed by Carrefour in France accounted for 4% of the total sales volume and some product categories reached 40% market share of the total turnover (Cunningham et al., 1982).

By contrast, generics in the UK market were recognised as a fallacy (de Chernatony and McWilliam, 1988) and less successful than in France (Ferne and Pierrel, 1996). The emergence of generics with a deliberate austerity in packaging meant in the British markets that manufacturers faced a new type of competition with their main customers. The generic retailer brand development of retailers was seen as a way to attack retailers' suppliers (McGoldrick, 1984). Fine Fare's "Yellow Packs" were the first generic range in the UK market (McGoldrick, 1984). All the large three multiple retailers, however, withdrew their generics by the late 1980s (de Chernatony and McWilliam, 1988). Instead of reinforcing generics with the aim of weakening suppliers' power, the big retailers launched value ranges to counter the threat from discounters in the grocery market in the 1990s (Ferne and Pierrel, 1996).

Following the introduction of generic products into the U.S. market in 1977 (Faria, 1979), they enjoyed a rate of sales growth much higher than that of national brands, and generic products established themselves in the U.S. market as "new brand" or "no brand" and "no frills"(Cunningham et al., 1982). The introduction of generic brands became a method of either attacking or defending themselves from competition with their counterparts (Harris and Strang, 1985). Resulting from retailer reaction to consumers who want to purchase products priced lower and from retailers' intention that generics can be one of the ways to control shelf space and take power away from manufacturers (Business Week, 1981), their performance peaked at 2.4% in 1982-1983, with dollar value in excess of \$2 billion (Selling Areas Marketing Inc,

1986). From the initial introduction of 44 items as a test market, more than 320 product categories have become involved with generics (Szymanski and Busch, 1987). In 1979, more than 25% of the nation's supermarkets carried generic or no-names brand and the market share of generic products accounted for 11 per cent of the unit sales in the categories where they competed with branded products (Burck, 1979). The share of generics, however, failed to sustain its novelty and sales started to decline at the start of 1983, falling by 1985 to 2 per cent of total turnover (Prendergast and Marr, 1997).

With more than 400 generic products, much attention in the trade press and the academic world was paid to this first generation brand (Hawes, 1982). Here, it is necessary to investigate what characteristics these generic products have and how consumers perceive them.

Among the distinctive guidelines mentioned by many researchers when distinguishing generics from other manufacturer brands, price and quality often appear in the retailer brand literature. In the case of consumer perceptions of buying retailer brand products in particular, the above two elements are predominantly discussed in generics research (Szymanski and Busch, 1987).

One of the major attractions for consumers is the significant price gap between generic products and their branded equivalent (Bellizzi et al., 1981; Prendergast and Marr, 1997). Dick et al. (1995) argued that generic products appealed to the price sensitive consumers and are usually priced 20 per cent lower than the next brand types, but Bellizzi et al. (1981) demonstrated that these products were priced from 30 to 40 per cent lower than the next brand generations. Similarly, Handy and Seigle (1978) stated that generics were the result of incorporating ingredients of lower and more variable quality to maintain the lower prices. Importantly, Dick et al. (1995)

point out that this branding does not provide retailers with the potential for store loyalty, because lower quality and price cannot be differentiated. In order for retailers to provide low-priced generic products in markets, retailers should reduce their production cost. Products manufactured in this way were priced much lower than the competing brands, while Newman and Becknell (1970) stated that some consumers might evaluate product quality on the basis of price rather than physical product attributes. Consumers who buy these generic goods, furthermore, may feel less satisfied for lower prices (Tull et al., 1964). On the other hand, Kleppner (1979) suggested that some consumers recognize that the lower price results from reduced advertising without lowering product quality level.

At this stage, it is interesting to look at how retailers reduce buying and selling prices. In an attempt to price more than 20 per cent lower than manufacturer brands, retailers did not advertise, adopted no-frill packaging, and searched for new buying opportunities (McGoldrick, 1984). In addition, generics rarely involved promotional programs saving considerable expenditure (Murphy and Laczniak, 1979; Reidenbach et al., 1983; Yucelt, 1987; Szymanski and Busch, 1987; Lichtenstein et al., 1993).

Similarly, although the fact that Wileman and Jary (1997) defined the second stage among the five store brand development stages as the cheap phase which is a step above generics, but still offer inferior product quality at large discounts over manufacturers' brand prices is slightly different from the generics phase, it might be said that the cheap phase is very closed to the first generation created by Laaksonen and Reynolds (1994), in terms of product quality and prices.

Through a great deal of effort to lower generic product prices, the first generation can be characterised in contrast with the other generations. Other than price and quality, generics might achieve success in countering manufacturer brands,

preferred by the consumer groups who have different priorities for choosing products and are well educated (Cunningham et al., 1982).

2.3.2 Second generation

The second generation, including the re-engineered phase, are still cost- and price-based, requiring some level of proactive management investment within an organization (Wileman and Jary, 1997). With the aim of reducing manufacturers' power by setting the entry price, this second stage raised its quality level higher than generics, but still focused on low pricing to compete with manufacturers' brands (Laaksonen and Reynolds, 1994). The price levels of own labels or quasi-brands such as Aldi, Lidl and Netto (Coriolis Research Report, 2002) were 10 to 20% lower than branded products. Many researchers agreed that these second stage products provide consumers with better value. Swan (1974) stated clearly that own-label products offered considerable value for money to consumers.

One of the clearest changes from the first generation is the use of the retailer-owned name (Grunert et al., 2006). Retailers not using their own name on packaging started to realize that giving a name to products helped to enhance consumer perceptions of product quality and differentiated them from generics.

Moreover, like any generation, this stage has pros and cons. Coriolis Research Report (2002) concluded that quasi-brands invented controlled labels with no store association and worked most successfully in a limited assortment environment by creating the illusion of selection. This report claimed that quasi-brands have the following strengths: create impression of wide product selection and range; able to replace secondary and tertiary brands with own offering; and unlikely to make shoppers associate product defects with store. The weaknesses were: do not create

shopper loyalty through low quality and price; do not connect brands with store; and do not sustain its success, as can be seen by examples of Kroger, Safeway, Carrefour, and others. As demonstrated by the Carrefour case, the “produits libres” started as a generic product but gradually ran counter to the original generic concepts by changing the packaging to attract more consumer attraction and upgrading the product quality (Laaksonen and Reynolds, 1994; Wileman and Jary, 1997; Burt, 1992, 2000). The stage which Wileman and Jary (1997) identified as the third development phase, the re-engineered store brand, is consistent with the second generation in other typologies.

In the UK market, retailers invested more resources in their own labels and by 1985 had achieved a market share of 26% of packaged grocery sale volume (Euromonitor, 1986)

While there is much literature on generic brands or generic product purchasing (e.g. Cox, 1978; Jackson, 1978; Nevils and Sundel, 1979; Burck, 1979; Bellizzi et al. 1981; Granzin, 1981; McGoldrick, 1984; Szymanski and Busch, 1987; de Chernatony and McWilliam, 1988; Prendergast and Marr, 1997), there is little attention paid to the second generation evolution in particular (e.g. de Chernatony and McWilliam, 1988).

2.3.3 Third generation

This generation of a par quality retailer brand or “me-too” product can be seen as a distinctive phase with a comparable level of quality to national brands but still offered at lower prices, because retailers can eliminate much of the product- or category-specific marketing overheads of market leading brands (Wileman and Jary, 1997). Since retailers saved extra marketing overheads in developing and managing these own brands, these products were also one of the sources of extra profit (Leahy,

1994), despite the price gap (against manufacturer brands) of either 10-25% supported by Wileman and Jary (1997) or 5-10% claimed by Laaksonen and Reynolds (1994).

Parallel with the quality improvement to emulate market leaders, retailers broadened their view about the operation of retailer brands from a mere way to generate additional margins to a new method to improve consumer perceptions of retailers or stores. Consumers perceived this stage to be better than generics with no name or no frills, and this equates to the concept of “parallel branding type” supported by Levy and Weitz (2004). Retailers, in other words, realized that retailer brands could function as a means of encouraging consumers to visit their stores and to build not only retailer’s image but also consumer patronage.

As a way of practising the above concepts, retailers turned their attention into product assortment to enhance product category margins and influenced the decision-making processes of producers supplying retailer brand products through requiring that conditions were met. Through their experiences of the previous stages, retailers had many opportunities to accumulate the skills for the retailer brand development required for the next stages. When choosing a producer, retailers can recruit much better partners with technology comparable to market leaders than when they were developing the prior generations (Wileman and Jary, 1997). As part of efforts to upgrade product quality and packaging, also, retailers increased the investment in the retailer brand development program. On the other hand, Jonas and Roosen (2005) stated that manufacturers started to realise that supplying third generation products was beneficial.

Because of the need for some investment, the price gap between the third generation and leading brands was reduced. Given that retailers have tried to diversify

the role of retailer brands in their retailing business, the third generation can be an important turning point towards the fourth generation.

With the “me-too” strategy on retailer brands, the manufacturer brand market leaders claimed that retailers seriously copied their own products in respect of packaging, colouring, lettering and the like. This issue, therefore, provoked the interest of many authors (e.g. Miaoulis and D’Amato, 1978; Davies, 1995; Kapferer, 1995a, 1995b; Davies, 1998; Balabanis and Craven, 1997; Burt and Davis, 1999). This issue will be described in more detail in the next chapter because often retailer brand developers have limited knowledge of government regulations in retailing, causing a high risk of breaking commercial law. The infringement of the relevant rules could affect consumer perceptions of the store or the company negatively.

It is interesting to note here that at the time many researchers emphasized that retailer brands play an important role in establishing store loyalty (e.g. Cunningham, 1959; Martell, 1986; Leahy, 1987; Liesse, 1993; Nandan and Dickinson, 1994; Richardson et al., 1996b; Steenkamp and Dekimpe, 1997; Wolf, 1999; Corstjens and Lal, 2000; Ailiwadi et al., 2001; Jonas and Roosen, 2005).

In the third generation, retailers did not have to have innovative sophisticated technology to develop retailer brands but they made great strides in their approach to the development process to the extent that they began to control the level of product quality. These development skills and the associated approach might be seen as a stepping stone for the fourth generation.

2.3.4 Fourth generation

This final stage in the retailer brand’s evolution should be approached from a different viewpoint from the previous generations. The previous phases were based on

inferior environmental circumstances compared to market leaders with regard to quality control, product design, promotional skills, and the ability to efficiently and effectively compete with their direct competitors. The fourth generation requires much more sophisticated, innovative methods and the considerable resource investment. Consistent with this, Husson and Long (1994) argued that the premium brands typical of this generation should be treated differently from prior generations.

The fourth generation corresponds to the other end of the spectrum of retailer brands. Burt (2000) claimed that this stage roughly reached to the peak of the brand concept, compared to the generic brand. In this stage retailer brands are seen as “premium” private brands, targeting upscale markets. Premium retailer brands are different from existing retailer brands and provide opportunities for suppliers (Dunne and Narasimhan, 1999). As implied by the terms such as “premium brand” (Levy and Weitz, 2004), “leadership brand” (Wileman and Jary, 1997), in this phase the retailer brand is equivalent to, or exceeds, manufacturer brand leaders in terms of quality and image (Grunert et al., 2006). To achieve success, the fourth generation aims to improve store or retailer image, and to provide store differentiation from competitors and category margins. A large number of development activities are required to provide the exclusivity and innovation needed by these products (Leahy, 1994).

There are several good examples of the fourth generation retailer brands. In Europe, especially in the UK market, Marks and Spencer’s is a notable premium brand, whilst Loblaw’s Presidents Choice - developed by the largest Canadian grocery chain and a pioneer in upmarket retailer brand development - might be regarded as the only really successful example of a premium brand in consumer packaged products (Ailawadi and Keller, 2004). In the Canadian grocery market, Loblaw’s is the retailer brand differentiated itself from its counterparts by triggering a new trend in the cookie

product line by licensing its product and brands to other retailers across the United States (Dunne and Narasimhan, 1999). Their success indicated that the fourth generation has the potential to grow and become major power in the consumer product market (Dunne and Narasimhan, 1999).

In recent years, in the German market, Hamm (1996) claimed that organic products used for image building and customer binding have shown substantial growth. Premium, leadership or the fourth brand is no longer a subordinate concept to the market leading brands. Over a wide variety of product categories or lines, this option can be seen to be tapping even into markets which traditional manufacturers do not exploit, using innovative technology and a high quality. Furthermore, this stage focuses on segmenting existing customer groups and developing new customer targets, with more sophisticated development and handling know-how than the prior generations stealing customers from manufacturer brands. Whilst the generic brand is a simple concept of retailer brands, this generation is a sophisticated, complicated brand.

The researcher examined all four retailer brand generations from generics to premium brands. What is important here is that of the four generations of retailer brands, two or more different generations co-exist together in the same retailer and furthermore in the same product category (see Table 5.1, 5.2, and 5.3), even though retailers can operate the only one premium brand, like Marks and Spencer.

Also, each generation has shown different market share across different retailers, countries and product categories. Consequently, it is necessary to finish this chapter by looking at what factors generally affect retailer brand market share, irrespective of the retailers' competences in establishing their retailer brands.

2.4 Factors influencing the market share of retailer brands

There are internal and external factors affecting retailer brand share. This section will discuss the latter, which is a development and management activity directly concerned with retailer brands within retailing operators' organizations such as marketing, development, distribution, sales, buying, quality control, pricing, and design division. Many researchers argue that retailer brand share can be affected by the external environmental elements. In order to reduce the failure possibility of retailer brands, these external factors should be considered by retailers, before development commencement. Although the external factors cannot be adjusted to meet the development objectives of retailer brands, marketers in retailing should be aware of and adapt to that situation. Much literature related to the share of retailer brands is based on the fact that retailer brand growth is associated with the retailing environment rather than how retailers allocate their internal resources to develop and manage retailer brands.

The next section explores the widely accepted theoretical factors, explaining correlations between the level of retailer brand share and each factor such as retail concentration, economic recession, decreased national brand value, and so on, from various perspectives.

2.4.1 Retailing concentration

Before starting to investigate the retail concentration dimension, there exist two views to be considered in respect of rising concentration. One of them is the shift in power in buying away from manufacturers and the other is the more sophisticated collaboration between retailers and suppliers to develop retailer brands. For that reason, there are two approaches: the use of buying power and collaboration.

Laaksonen and Reynolds (1994), Husson and Long (1994), Nemoto (1995), Steenkamp and Dekimpe (1997), and Tarzijan (2004) argue that growing concentration is one of the major factors influencing retailer brand market share. Because retailers have greater buying power through retail concentration, it is easier to require manufacturers to supply retailer brands, and then in turn the retailer brand share increases. More importantly, it is interesting to look at the argument offered by Laaksonen and Reynolds (1994) who suggested that in well-developed markets the higher penetration rate is because retailers have the power to control suppliers, as can be seen through the examples of large multiples and buying groups in the UK, Belgium and the Netherlands. By contrast, in Europe, in some countries such as Italy and Portugal the retailers did not have enough buying power to control their suppliers and consequently the retailer brand shares were relatively lower than in the well-developed countries (Laaksonen and Reynolds, 1994).

Basically, it is very important to understand the relationship between retailer buying power and retail concentration in terms of the transactional power balance. The more products the retailer buys from a supplier, the stronger the power of the retailer to control the supplier. There is no doubt that a retailer with strong buying power can be in a better position to put pressure on their suppliers to produce retailer brands or to collaborate with them, in order to establish the opportunities to develop untapped product categories as a retailer brand. Based on this transactional phenomena, many scholars have been interested in identifying power relationships (e.g. French and Raven, 1959; El-Ansary and Stern, 1972; Wilemon, 1972; Hunt and Nevin, 1974; Gaski, 1984; Bucklin and Schmalensee, 1987; Stern, 1988; Dawson and Shaw, 1989; Katsikeas et al., 2000; Collins and Burt, 2003). In channel relationships, channel control is gained when any member of the channel successfully exerts its

power over the decision making-process of other members (Skinner and Gultinan, 1985). Retailers achieve this power through buying other members' (i.e. manufacturers') products.

According to Dawson and Shaw (1989) and Bhasin et al. (1995), on the other side, the multiple retailer-supplier relationship is well-organized to collaborate with each other by using retailer brands. Retailers with a growing sales volume can have more opportunities to co-operate with their suppliers through being able to sell out within their outlets if products were developed as a retailer brand. It, therefore, can be proposed that favourable vertical relationship plus greater retail concentration might be one of the most important drivers in increasing retailer brand share through sophisticated co-operation, as evidenced by the high retailer brand share found in the British market. By the same token, rather than arbitrarily wielding their buying power simply to achieve retail objectives, such as switching suppliers, delisting products, and drastically cutting buying costs, a stable relationship through the collaboration plus the growing selling confidence of retailers makes a significant contribution to growing retailer brand market shares.

As the large retailers carrying retailer brands have increased their sales volume shares in the marketplace, the retailer brand share has continuously increased. As evidence, Husson and Long (1994) claimed that the reason why American retailer brand share was lower than some other countries such as the UK, Canada, France, and Netherland, was lower concentration of retail trade, reporting that the top ten American supermarket chain share with around 68% corresponded to the top five retailers' market share in the other markets. In other words, they supported that other things being equal, the higher the retail concentration, the higher the retailer brand market share.

2.4.2 Economic influences

It is important to note that this factor should be considered from three points of view, because the economic situation is directly associated with consumers, retailers and manufacturers. During recessionary times, it is often witnessed that each component is closely connected with each other. As a good example, the reduction of discretionary income leads consumers to spend less on shopping, retailers experience a sales decline and manufacturers have a hard time to modify their production capacity. Particularly, for generic products, their fate is closely related to the economy (Nandan and Dickinson, 1994).

2.4.2.1 Consumer reaction

Hoch and Banerji (1993) proposed, during an economic recession consumers become more price sensitive and switch to retailer brands from national brand products. Likewise, a depression discourages consumers to shop less, because of decrease of personal discretionary income and further leads consumers to become price-oriented (Nemoto, 1995). Wold (1992), furthermore, emphasized that this depression was a main factor consumers switched to the bottle water of the retailer brand from branded waters. Consumers counter their shopping desires, pursuing better value for money. As consumers seek to purchase retailer brand products with lower price and comparable quality to national brands, retailer brand market share grows. There is, however, a different argument. That recession cannot explain the retailer brand market share growth in European countries, particularly in the UK where the economic situation was relatively good in the 1980s in contrast to United States (Husson and Long, 1994).

2.4.2.2 Manufacturer reaction

As soon as economic conditions go down, one of the most popular responses of manufacturers is to reduce advertising budgets (Hoch and Banerji, 1993; Nemoto, 1995). Likewise, in recessionary times characterised by increasing retailer power, as price competition between retailers and manufacturers becomes more and more severe, manufacturers have cut their advertising budgets (de Chernatony et al., 1992). Promoting the price of products has become one method to overcome a sales decline in a recession (Hoggan, 1990). It is, however, more likely that cutting brand advertising costs makes consumers distant from branded products, and they treat both retailer brands and branded products as the same in-store. Such a guarded reaction from manufacturers stimulates retailers to develop their own products or broaden their own brand product categories.

Moreover, surplus production capacity leads producers to think of supplying retailer brand product to optimize their operating costs. The emergence of surplus capacity entices producers to respond to retailers planning to develop retailer brands.

2.4.2.3 Retailer reaction

During the economic downturns in the early 1980s and at the beginning of the 1990s American supermarket chains reengineered their retailer brand strategies with new concepts such as new logo development, new products, increased shelf spaces for retailer brands (Hoch, 1996). Through prolonged business experience, retailers are more likely to focus on value for money strategy to cover falling sales rather than a value-added strategy because of weakened consumer confidence.

Taking advantage of the manufacturers' surplus production capacity, retailers with a desire to better serve or retain their consumers accelerate retailer brand

prevalence in downscale market, resulting from a low price product policy supported by retailer brands. In the marketplace, surplus capacity allows retailers to provide better quality consumer goods because of the fact that when retailers find a producer satisfying their product specification it is relatively easier than good times, to maintain lower prices.

It is evident that economic recession provides an opportunity to increase retailer brand penetration. As noted earlier, this theoretical argument cannot always be true, given that during good times, retailer brand growth was seen in many European countries.

2.4.3 Decreased national brand value

With the constant effort to improve product quality, package design, consumer perceptions and the like, retailer brands have been perceived to get much closer to branded products. The view that the quality gap between brands has narrowed is supported by many studies (e.g. Landler, 1991; Peterson et al., 1991; Nandan and Dickinson, 1994; Bhasin et al., 1995). What is apparent is that resulting from the effort to change consumer perceptions, the relative value evaluation of national brands to retailer brands has been continuously reduced. This is consistent with the emergence of the premium retailer brand.

The variety of different promotional ways that producers have adopted to boost their sales or to compete with their counterparts, have also led consumers to evaluate national brands less favourably than before, because declining brand loyalty triggered by those promotions like increased couponing, sales promotions, has led to a consumer perception change (Giges, 1988; Sinisi, 1993; Nandan and Dickinson, 1994; Bhasin et al., 1995). The increasing number of coupon issues influences

negatively manufacturer brand loyalty but positively retailer brand share. However, consumers with coupons are prone to buy national brands for their price attractiveness and so, the retailer brand share decreases. This result can be caused by producers themselves rather than multiple retailers.

2.4.4 Other factors

In addition to the above, there are 4 other significant factors encouraging retailer brand growth:

(1) Since the advent of diverse methods to advertise branded products such as cable, TV channels, Internet TV, etc. advertising markets have become fragmented for manufacturers and for retailers. Consequently, in recent times the national brand power has become much weaker than the past when national brand producers maintained their competitive advantages through using mass media and mass merchandising (Bhasin et al., 1995).

(2) Because the discount retailing format grows rapidly in food grocery markets, and provokes price competition with supermarket chains in America, supermarket retailers have enhanced their retailer brand programs to counter discounters (Nemoto, 1995).

(3) Retailers have actively adopted the same marketing concepts that manufacturers pursue and consequently improved their product packaging technology (Nemoto, 1995).

(4) Due to the global expansion strategy of multiple retailers, in the same vein as the growth of retail concentration, retailer brands grow (Nemoto, 1995).

2.5 Conclusion

In this chapter, the reasons for the emergence of retailer brands have been considered. The model of a four phases development pattern from generics to the premium brand has been evaluated. A variety of theoretical factors influencing the growth of retailer brands have been reviewed. What is important here is that external factors related to the retailer brand growth are directly out of retailers' control. Although these are considered in the development and management processes, they do not largely impact on the whole spectrum of retailer brands. Researchers and practitioners, however, should take them into account to fully understand retailer brands operated by different retailers, countries and retailing formats.

In modern retailing, retailers stocking their own brand products can use retailer brands as one of strategic methods to achieve a set of their objectives. The roles of retailer brands within total retail strategy have become complex, because retailers use the brand for a variety of purposes, not simply providing low price alternatives to manufacturer brands.

CHAPTER THREE

Influencing Factors on Retailer Brand Development Process

3. Introduction

In comparison to the previous chapter which reported on general issues relating to retailer brands, this chapter will focus on activities retailers should take into account in considering the development and management of retailer brands. For retailers to succeed in their retailer brand programs, they should make a feasible, efficient plan in accordance with the company's product assortment policy, under the overall retail strategy.

A retailer brand's share across the world varies considerably depending on each retailer's policy, as seen in Table 3.1. It is evident that the retailer brand shares in 2004 generally increased compared to those of 2003 in their domestic market, except for Aldi, Schwarz and Edeka. Particularly, a French retailer, Casino achieved 15 % growth of retailer brands. The increasing trend might mean that the retailer brand operation was an attractive company policy.

Table 3.1 Retailer brand share of Europe's leading grocers

year	Aldi	Schwarz	Tesco	Casino	ITM	Carrefour	Rewe	Auchan	Ahold	Metro	Edeka
2003	95%	63%	42%	25%	25%	30%	23%	21%	22%	12%	10%
2004	95%	63%	45%	40%	35%	32%	25%	24%	23%	13%	10%

Source: Planet Retail (2007), available from: www.planetretail.net

From Table 3.1, it might be assumed that retailers' policies are proportional to their retailer brand shares. The more sophisticated the policy of retailer brands, the

more likely they are to have a retailer brand share. This chapter, therefore, reviews the existing literature concerned with the factors influencing retailers when they plan the development of retailer brands, put this plan into operation, and change it, from the three different points of view: (1) consumer, (2) manufacturers, and (3) retailers.

First there will be discussion of consumer behaviour and the customer perceptions of retailer brands, such as the value evaluation of product image, quality and service, and consumer responses to price changes, product packaging, display and promotions, association in-store, as well as a comparison of retailer brands with national brands generally.

Secondly, approaching from the manufacturers' view to retailer brands is an integral part of activities the retailer takes in order to establish its strategy. The actions or strategies that manufacturers take to counter retailer brands in the markets directly affect the retailer brands: advertising, price reductions or increases, brand alliance with other competitors, supplying retailer brands, allowances enforcement and so on.

Thirdly, there is discussion of how retailers establish and execute their retailer brand strategies, using the necessary decision-making processes such as development of items, price, margins, package design, order units, distribution within or outside the organization, upgrade, disposal, stock keeping in-store, production units, subsidiary material, choosing a manufacturer, trade terms, quality level, brand trade mark and copy, brand alliance and so on.

Finally, there is discussion of the joint activity of retailers and suppliers to establish plans or strategies relevant to retailer brands. As a result of co-operation in the processes, a variety of activities occur, for example the brand alliance contract, partnership formation (supply chain management), common development of new products and so forth.

3.1 Consumers' perceptions of and attitudes towards retailer brands

In order to succeed with retailer brand programs, it is important that they are based on a clear understanding of consumers' needs and wants and all programs should be projected and executed with proper resource allocation. It is said that the extent to which companies understand consumers is a key element in being able to develop successful strategies (Foxall and Goldsmith, 1994; Narus and Anderson, 1996). For these reasons, it is important to identify consumers' perceptions of national and retailer brands in order to understand what factors retailers should take into consideration from the customer's point of view. As retailer brands grow in the marketplace, many scholars have paid attention to identifying the characteristics of consumers purchasing retailer or national brand products (e.g. Frank and Boyd, 1965; Myers, 1967; Coe, 1971; Burger and Schott, 1972; Bettman, 1974; Murphy, 1978; Livesey and Lennon, 1978; Dietrich, 1978; Strang et al., 1979; Murphy and Laczniak, 1979; Wheatley, 1981; Bellizzi et al., 1981; Granzin, 1981; Cunningham et al., 1982; Neidell et al., 1984; McEnally and Hawes, 1984; Harris and Strang, 1985; Wilkes and Valencia, 1985; Szymanski and Busch, 1987; Yucelt, 1987; Dick et al., 1995, 1996; Prendergast and Marr, 1997; Omar, 1996; Baltas and Argouslidis, 2007; Herstein and Tifferet, 2007).

Given that there are many different aspects of consumer behaviour, it is necessary to group much of the literature into fewer categories. According to Dick et al. (1996), the earliest research into retailer brand purchasers during the 1960s and 70s can be divided into four groups: (1) socioeconomic variables (Coe, 1971; Frank and Boyd, 1965; Murphy, 1978; Livesey and Lennon, 1978; Granzin, 1981), (2) personality characteristics (Myers, 1966), (3) shopping style (Bellizzi et al., 1981) and (4) information processing (Bettman, 1974). Recent research connects retailer brand

buying with other factors affecting consumer purchasing, such as store image, store patronage, the level of perceived risk, and product evaluation.

Many researchers have been interested in profiling those consumers who prefer retailer brands, and developing predictors of the propensity to buy them in terms of demographic, socioeconomic and attitudinal or behavioural characteristics. Earlier studies treated demographic elements as an important measure of profiling consumers purchasing retailer brands (Granzin, 1981). Many authors attempt to find demographic, socio-economic and attitudinal or behavioural differences between retailer and national brand consumers (e.g. Cunningham et al., 1982; Omar, 1996; Whelan and Davies, 2006; Mieres et al., 2006a).

This section focuses on the common characteristics and responses of consumer to retailer brand products, when buying or planning to shop for them, on the assumption that retailers have some direct influence on consumer behaviour. It is worth remembering that the response of each customer is not the result of simply one independent factor, but the interrelation of many factors.

First, however, it is necessary to distinguish consumers of generic brands from so-called “own label” or “store brand” consumers. Traditionally, despite the fact that retailer brand consumers have been described as a small, loyal group (Burck, 1979), further consumer classification has not been considered (Frank, 1967; Myers, 1967; Rao, 1969; Burger and Schott, 1972). The literature on retailer brands, for the most part, does not draw a clear line between retailer brand consumers and each retailer brand type among the four generations. In retailer brand consumer research, scholars tend to classify retailer brands into two groups: the first generation of generics, and own label or store brands, which might include any of the other three generations (e.g. Cunningham et al., 1982; de Chernatony, 1985). What should not be overlooked is

that prior studies are unlikely to include the fourth generation, the so-called premium brand.

As a consequence, there are the three types of research focus: on only generics (Granzin, 1981; Business Week, 1981; Wheatley et al., 1982; McEnally and Hawes, 1984; Wilkes and Valencia, 1985; Harris and Strang, 1985; Szymanski and Busch, 1987; Prendergast and Marr, 1997; Herstein and Tifferet, 2007); on only own or store brands (Omar, 1994; Baltas, 1997; Dick et al., 1996; Miquel et al., 2002; Hansen et al., 2006; Mieres et al., 2006b; Baltas and Argouslidis, 2007); and on retailer brands versus national brands (Livesey and Lennon, 1978; Bellizzi et al., 1981; Cunningham et al., 1982; Buck, 1993; Omar, 1996; Parker and Kim, 1997; Wulf et al., 2005).

3.1.1 Who buys generic products?

Aders and Jenkins (1980) noted that the emergence of generic brands was “one of the industry’s most successful innovations”. As evidence, the “produit libres”, generic brand, achieved surprising results within a couple of months of launch, with an average 30 per cent of turnover in the 50 product categories (Prendergast and Marr, 1997). The growth rate of generic brands was higher than that of national brands and store brands in the same period (Cunningham et al., 1982). Wills and Mentzer (1982) argued that the growth of generic brands between 1979 and 1980 was mostly at the expense of private brand products and Cunningham et al. (1982) provided more detailed data on generic brand market shares, showing that those generic product categories which gained significant market share at the expense of other brands were food with 3%; toilet tissue with 5.19%; and household plastic bags with 6.22% of sales. In line with the increasing popularity of generic brands, many authors started to

look at generic consumers, attempting to answer the question: what characteristics do consumers buying generic products have in common?

3.1.1.1 Price

Price is an important factor when consumers make a purchasing decision (Jacoby et al., 1971; Olson and Jacoby, 1972; Stokes, 1973; Jacoby et al., 1974; Imperia, 1981). There is no doubt that the lower price was one of the most important factors leading to the successful performance of generic brands. Early studies described lower price as a considerable attraction for generic consumers (Murphy and Laczniak, 1979; Dietrich, 1978; Wheatly, 1981; McGoldrick, 1984, Neidell et al., 1984; Yucelt, 1987; Szymanski and Busch, 1987). Consumers could find generic products priced 30% to 40% lower than national brands (Bellizzi et al., 1981), and 10% to 20% lower than private brands (Wheatley, 1981), and indeed, sometimes as much as 65% below producers' brands (Strang et al., 1979). In other words, customers could save 16% to 20% by not buying national brands in financial terms (Dietrich, 1978). It is interesting that if the price gap between generics and other brands is reduced, generic products are prone to disappear from markets. As most householders perceive generics to be low-priced products (Murphy and Laczniak, 1979; de Chernatony, 1985), a pricing strategy based on a significantly lower price appeals to a mass market and is attractive enough to lure consumers from competing brands (Bellizzi et al., 1981). Similarly, Faria (1979) discovered, through a field survey, that 67% of consumers who bought generic brands viewed price as the main reason for buying them. It can be said that without considerable price gaps, the success of generics would be difficult, as the generic brand-prone consumer group exhibit a relatively low brand loyalty (McEnally and Hawes, 1984).

How can retailers price generic products dramatically lower than other brands? How to reduce prices for generics and the rest of retailer brands is, therefore, one of the biggest issues for retailers.

It is possible for retailers to lower generic prices by reducing direct or indirect marketing expenditures, such as advertising, that national brand producers in contrast have to allocate to establish a product as a brand in the consumer's mind (Prendergast and Marr, 1997). Lower packaging and labelling costs, as well as lower product quality, are used to construct the lower price structure of generic products (Dietrich, 1978; Murphy and Laczniak, 1979, Cunningham et al., 1982). Retailers may also cut product prices through modifying quality levels by incorporating lower quality ingredients (Handy and Seigle, 1978). Altering product quality, however, can considerably affect consumer experiences and quality perceptions.

3.1.1.2 Quality

As retailers priced generic products significantly lower than other retailer brands, it seems natural that consumers perceive generic brands to be of lower quality than other retailer brands. Concerned about this, there are two different views.

According to Dietrich (1978), and consistent with Murphy and Laczniak (1979), 70% to 72% of generic brand consumers, nonetheless, viewed generic product quality as being equal to other brands, while only 28% to 30 % considered generic quality as being inferior to other brands.

By contrast, McGoldrick (1984) and Yucelt (1987) found that around 30% of generic buyers were satisfied with their levels of quality, even though they viewed generic brands as offering better value for money.

Given the above contradictory findings, it can be expected that consumers believe that quality differences exist between generics and other brands, which consequently influences brand choice behaviours (Wheatley, 1981). Therefore, getting generic quality closer to that of national brands, and maintaining considerably lower product prices, aids generics in becoming successful brands. It should be remembered that consumers tend to have different quality perceptions across different product categories, even though products are developed by the same retailer, as proved by the empirical study conducted by Predergast and Marr (1997).

3.1.1.3 Price and quality

It is demonstrated that price is an implied extrinsic cue to the product quality perception of consumers (Leavitt, 1954; Tull et al., 1964; Stafford and Enis, 1969; Andrews and Valenzi, 1971; Valenzi and Eldridge, 1973; Raju, 1977; Wheatley and Chiu, 1977; Wheatley, 1981). Furthermore, some buyers tend to evaluate product quality on the basis of price rather than physical product attributes or real physical differences (Newman and Becknell, 1970). Through an experiment in field, Wheatley et al. (1981) investigated the relationship between price and perceived quality and suggested that price changes have a greater effect on consumers' perceptions than do quality changes.

When it comes to the price/quality relationship of generic brands, Szymanski and Busch (1987) found that the relationship is strongly inter-dependant. This view is supported by the fact that consumers view generics as providing considerable value for money, together with Faria (1979) and Cunningham et al. (1982), who reported that consumers view generic brands as having better prices than national brands, which are considered as having the highest quality. There is, therefore, no doubt that

product price and quality play an important role in the purchasing of fast moving products (Cunningham et al., 1982). Moreover, when consumers are uncertainty about the quality of a product, they tend to use price as a predictor of quality levels in order to avoid the risk of making an uncertain choice of inferior quality products (Tull et al, 1964; Shapiro, 1968). Other things being equal, different quality perceptions can affect consumer shopping patterns, when choosing generic brands versus private and national brands (Szymanski and Busch, 1987).

Maintaining a price gap between generic and the rest of retailer brands, to remain attractive to consumers, whilst gaining comparable product quality perception to other retailer brands, might be a complicated dilemma, because higher quality products need higher production costs. Similarly, Handy and Seigle (1978) claimed that retailers cannot avoid developing inferior product quality as a means of reducing prices. It can be said, therefore, that when establishing a generic brand strategy, retailers should consider the trade off between prices and acceptable quality levels.

3.1.1.4. Income levels

The income levels of consumers, as well as any increase or decrease in discretionary income, have received much interest from the academic world over the last half century (e.g. Dietrich, 1978; Burck, 1979; Zbytniewski and Heller, 1979; Strang et al., 1979; Wall Street Journal, 1980; Faria, 1980; Granzin, 1981; Cunningham et al., 1982; Neidell et al., 1984; McEnally and Hawes, 1984; Prendergast and Marr, 1997). However, authors suggest the contradictory arguments about the correlation between income levels and shopping behaviours.

Consistent with Dietrich (1978), Faria (1980), and Granzin (1981), Prendergast and Marr (1997) argued, through an empirical study of generic brand

versus national brand and store brands, that generic consumers tend to belong to a lower income group than other brand consumers. However, Burck (1979), Sullivan (1979), Zbytniewski and Heller (1979), Strang et al. (1979), Wall Street Journal (1980), Cunningham et al. (1982), Pasini (1982), Neidell et al. (1984) and McEnally and Hawes (1984) found that generic brands were more likely to be purchased by middle income segments rather than lower income groups. It was suggested that lower income consumer groups want to buy well-known brands.

As researchers proposed the conflicting results in identifying the relationship between income levels and the propensity to buy generics relating to price, it would be unwise to say that they are positively related to each other. Consequently, price consciousness has not been closely connected with consumer segments in income level terms (Trier et al., 1960; Murphy, 1978). In other words, although someone buys generics, it cannot be assumed that they belong to a low income consumer segment. In this respect, generalizing an income variable for generic consumer characteristics becomes meaningless.

3.1.1.5 Age

Age is a factor affecting buying behaviour. Many authors have been interested in identifying the relationship between age and purchasing patterns, but it seems to be difficult to clearly understand age influences because there are many conflicting theories. Amongst these arguments, there exist four suggestions.

Firstly, it could be argued that because of the limitations on discretionary income of pensioners, elderly consumers are more likely to purchase generic products (Prendergast and Marr, 1997).

Secondly, Granzin and Schjelderup (1980), Bahn (1982), Wilkes and Valencia (1985), Pasini (1982), and Cunningham et al. (1982) found that generic brand consumers typically come from younger to middle-aged groups. In 1985, Wilkes and Valencia conducted an empirical study to illustrate differences between buyers and non-buyers of generics. According to their research, while consumer age was clear among the two groups, the ages of heavy and light users were unclear.

Thirdly, some authors claimed that middle-age consumers purchase a large amount of generic products for their large household size (Dietrich, 1978; Cagley et al., 1980; Wilkes and Valencia, 1985; Kono, 1985; Yucelt, 1987).

Finally, others argue that every person can be a consumer of generics and, therefore, age becomes a meaningless factor in distinguishing generic consumers from other brand consumers (Faria, 1979; Murphy and Lacznia, 1979; McGoldrick, 1984; Kono, 1985). The expansion of generic brand product categories in stores allows retailers to broaden the consumer spectrum (Harris and Strang, 1985). More interestingly, according to the latest survey conducted by Herstein and Tifferet (2007), generic consumers were found to be aged broadly between 26 and 55, although their economic situation does affect these figures.

As a consequence of this body of research, it is apparently unwise to say that age is closely related to generic brand-prone consumers.

3.1.1.6 Education levels

There are several studies identifying the relationship between generic buyers and the extent to which they are educated, as one of the demographic characteristics of generic brand-prone consumers. Murphy and Lacznia (1979), Strang et al. (1979), Sullivan (1979), McEnally (1982), Pasini (1982), Cunningham et al. (1982) and

Herstein and Tifferet (2007) suggested that generic purchasers had a higher level of education than other consumers. In this respect, McEnally and Hawes (1984) pointed out that well educated people might be more inclined to exhibit a higher perceived risk when purchasing generic products.

When one discusses education, it should be in parallel with the factors mentioned earlier. Prendergast and Marr (1997) found that consumers with lower incomes and elderly consumers are the most frequent purchasers of generics in New Zealand, where generic brands have become popular. The relationship between these two factors and an education variable should be given more attention, according to Hawes and Kiser (1980) who found that generic-prone consumers are information seekers.

These relationships may not be as important as other factors that retailers can control easily, like price, product quality, packaging and display (Wheatley and Chiu, 1977). There has been little literature on this correlation. It is, therefore, difficult to say, that without taking into consideration other factors, higher education groups are prone to buy more generic products. However, when retailers expand their own businesses domestically or internationally with the generic products, an investigation of consumers' education levels can help in understanding the consumer market and the characteristics of a trading area, before segmenting and targeting customers. Accordingly, education levels should be considered as an important factor.

3.1.1.7 Other characteristics

In this section, other demographic and socio-economic factors will be described briefly. With regard to occupation, whilst Strang et al. (1979) argued that homemakers seem to buy generics more than other segment groups, Prendergast and

Marr (1997) suggested that the generic consumer segment is not closely connected with occupation. Considering the time when Strang et al. (1979) conducted their study, their respondents might be consisting mainly of women (as the homemaker), because, at that time, the number of women in the workforce was much less than today (Prendergast and Marr, 1997).

For brand loyalty, Anvik and Ashton (1979), and Granzin (1981) claimed that generic brand buyers had more innovative minds. Previous research proposed that generic brand-prone consumer groups had a lower allegiance to brands (Anvik and Ashton, 1979; Cagley et al., 1980; Hawes and Kiser, 1980; Bellizzi et al., 1981; Granzin, 1981). In the same vein, Cagley et al. (1980) found that generic product buyers are prone to view nutrition as a more important factor than other consumers when making a purchase-decision.

In terms of store loyalty, as Granzin and Schjelderup (1980) and McEnally and Hawes (1984) discovered, regular generic purchasers have a tendency to regularly patronize the store in which they buy generics. Similarly, they are less likely to stick to other well-known brands (Cagley et al., 1980) and more likely to buy generics than others (Granzin and Schjelderup, 1980).

In relation to the size of household, many authors agreed that householders with many family members tend to more buy generics than other brands (Dietrich, 1978; Murphy and Lacznik, 1979; Sullivan, 1979; Nevils and Sundel, 1979; Zbytniewski and Heller, 1979; Cagley et al, 1980; Granzin, 1981; McEnally, 1982; Herstein and Tifferet, 2007).

Finally, there are many other different variables generics researchers investigated in order to understand generic purchasers, such as shopping frequency, product usage rate, regular unit price selection and dealing (McEnally and Hawes,

1984). These variables will be discussed, in more detail in the next section related to the consumer behaviour of store or private brands.

Since the decline of generic brands in the mid 1980s, there has been less academic research on this category. However, with their re-emergence in recent years, generic brands have started to attract researchers' interest again (Herstein and Tifferet, 2007).

In this section, the discussion has focused on what factors retailers should consider when attempting to make generic programs successful, through an understanding of consumer shopping patterns in terms of demographic factors and shopping behaviours. The factors mentioned above can directly affect generic programs or even retailer brand strategies and play a pivotal role in providing consumer satisfaction when making a brand choice among national brands, generics and private or store brands. These different factors function differently, depending on the different brand characteristics which consumers perceive. So the researcher now focuses attention on illustrating how these factors are related to the rest of the retailer brand categories.

3.1.2 Who buys store or private brands?

Before starting this section, it is necessary to note how to use retailer brand terms. Store or private brand terms as used here include the second and third generation of retailer brands, but exclude the fourth generation, as there is little existing research on premium brand shopping behaviours. The store brand should be differentiated from generics, because consumers may perceive generic brands as brands of a different concept, compared to store or national brands (Dick et al., 1995). Similarly, Bellizzi et al. (1981) claimed that store brands were perceived to be “in the

middle” by consumers on dimensions such as price, reliability, prestige, quality, colour, texture, uniformity, confidence, package attraction, and package persuasion.

According to the 1990 nationwide Gallup poll in USA, 85% of respondents evaluated product quality as an important factor influencing the repurchase of store brands, compared to 73% for price (Hoch, 1996). In terms of quality levels, the second or third generation brands called “store brands” or “private labels” have higher quality than generics and are comparable to national brands.

With increased product quality and a narrowed price gap between store brands and national brands, these characteristics are enough to create different shopping patterns. Likewise, recently retailers have reduced the feature differentiation between store and national brands through package design, sizes, colouring, labelling and so on, even ensuring that their products are seen as similar to leading market brands (Sayman et al., 2002; Choi and Coughlan 2006). Nonetheless, many consumers are still prone to believe that even though the quality of store brands outweighs generics, they are still perceived as inferior alternatives to national brands (Mieres et al., 2006a).

Compared to generics, store brands are constantly given much more attention in the academic world, from a variety of perspectives (e.g. Myers, 1967; Rao, 1969; Burger and Schott, 1972; Livesey and Lennon, 1978; Bellizzi et al., 1981; Wheatley et al., 1982; Cunningham et al., 1982; de Chernatony, 1985; Omar, 1994, 1996; Dick et al., 1995; Richardson et al., 1996a; Hoch, 1996; Baltas, 1997; DelVecchio, 2001; Sayman et al., 2002; Wulf et al., 2005; Choi and Coughlan, 2006; Whelan and Davies, 2006; Gamliel and Herstein, 2007). There are, therefore, many papers to be reviewed, in order to extract the most important factors which retailers should consider.

Based on the existing literature on the store brand consumer's shopping behaviour, the characteristics of consumers who buy store or private brands will be described. Consumers are differentiated between store brand-prone and national brand buyers in terms of price reaction, quality perceptions, store loyalty, and so on.

Smith (1970) claimed that there are four types of shoppers in relation to the consumer shopping patterns, irrespective of whether they favour retailer or manufacturer brands;

- (1) The "pre-sold consumer" group which has already made a decision of the brand it wants before entering into a store,
- (2) The "pliable consumer" group which is substantially influenced by in-store factors such as display, sales personnel, and store atmosphere,
- (3) The "store loyalist" group which is faithful to a specific store,
- (4) The "rational shopper" group which shop only after reasonable and systematic evaluation, to reduce purchasing risk

Based on these four classifications of consumer types associated with shopping behaviours, Omar (1996) found that most store brand shoppers were in the first group, the "pre-sold consumer" who prepared detailed shopping lists in advance. When considering the effect of merchandizing activities, like in-store displays, space allocation, in-store specials, display location etc., it would seem possible to make consumers switch from national to retailer brands (Ailawadi et al., 2001). In these cases, consumers may belong to the second group, "the pliable consumer". Taking into consideration this classification, the researcher will describe consumer reactions to each factor influencing shopping behaviours, either directly or indirectly.

3.1.2.1 Price

Price has attracted much interest in a large amount of marketing literature and been used as a traditional marketing tool by retailer brands (Swan, 1974). What does price mean to consumers? Understanding this helps to better know consumer purchasing behaviour related to price. From a consumer's point of view, paying for a product or service is to give up or sacrifice some of their assets (Zeithaml, 1988). For that reason, price is important to consumers, manufacturers and retailers. The extent to which price influences consumer behaviour can be a significant aid to address price related problems. Price information plays an important role when a consumer makes a purchasing-decision (Jacoby and Olson, 1976). When it comes to the growth of store brands, although Hoch and Banerji (1993) and Steenkamp and Dekimpe (1997) stated that its growth is due to improved product quality, the price factor might also make a contribution to growth, taking advantage of the price differential over the higher-priced national brands (Bronnenberg and Wathieu, 1996). Similarly, if the price gap between store and national brands decreases, the growth of store brand shares will, by and large, be affected and store brand-prone consumers will switch from store brands to national brands, due to the attractiveness of the price reduction and the price advantage (Ashley, 1998). As a result of taking action on price gap modifications, retailers will also be involved in profit increases or decreases.

It is not surprising that price is still one of the major key elements attracting the consumers' attention when making a brand choice, whether in-store or not. Omar (1996) found that store brand-prone buyers rated price as a much more important factor than national brand consumers. With regard to the price gap, store brands can generally provide better advantages for their consumers than national brands (Rao, 1969), although store brand prices are closer to national brands than generic brands

(de Chernatony, 1985). According to economists, lower prices are accepted as a catalyst to stimulate consumers to purchase generics or store brands, whilst higher prices deter consumers from buying these cheaper products (Wheatley et al., 1982). For this reason, product pricing in retailing is worthy of attention.

3.1.2.1.1 Determinants of price-consciousness

How much consumers react to price levels is associated with the term “price-consciousness”. This term is defined as the degree to which the consumer focuses exclusively on paying low prices (Tellis and Gaeth, 1990; Monroe and Petroschius, 1981; Erickson and Johansson, 1985; Lichtenstein et al., 1993).

The degree of price-consciousness that a consumer has is correlated with individual demographic and/or socio-economic factors. Among those who have researched price-consciousness related to consumer characteristics, Gabor and Granger (1961) and Lumpkin et al. (1986) identified that the level of price-consciousness tends to be higher among lower income consumers.

This finding, however, is not so much related to the relationship between lower income consumers and store brand buying frequency as demonstrated by many authors (Burck, 1979; Sullivan, 1979; Zbytniewski and Heller, 1979; Strang et al., 1979; Wall Street Journal, 1980; Cunningham et al., 1982; Pasini, 1982; Neidell et al., 1984; de Chernatony, 1985; McEnally and Hawes, 1984). Much of the literature argues that the degree of price-consciousness varies across individual consumers and even product categories for the same buyer (Lichtenstein et al., 1988).

With regard to the degree of price-consciousness associated with store brand purchasing in current research, there is a need to discuss it in more detail. It is important for those who are in charge of price management within the marketing

channel, to consider the price carefully, as how each product is priced will influence its growth and market share relative to generic and national brands. In addition, as pointed out by Lichtenstein et al. (1988), consumer price-consciousness and product involvement varies across each product category. With the aim of maximizing profitability of store brands, to what extent retailers gain product margins, on average, is one of the hardest tasks during the development of retailer brands. Determining each product price across product categories requires retailers to become aware of the characteristics of each product category in order to price both to achieve appropriate profits and attract more customers. This includes national brands' characteristics, which retailers should compete with, after supplying their own brands to stores. In an attempt to identify how price-consciousness is closely related to store brand shoppers across product categories, it is helpful to summarize the research conducted by Sinha and Batra (1999) as follows;

- (1) Consumers are less price-conscious in categories where perceived risk is thought of as being high.
- (2) When consumers perceive a price unfairness of national brands within a category, it tends to enhance consumers' price-consciousness in these categories.
- (3) Consumers' category price-consciousness is a significant predictor of store brand shoppers.

What is important is that, although price-consciousness is closely related to the consumer's intention to save shopping expenditure, price conscious consumers are not necessarily aiming to purchase the cheapest product available among the product category, because there is a possibility that the cheapest product cannot meet all of the consumer's requirements (Lichtnstein et al., 1988).

On the other hand, consumer resistance to higher national brand prices around the world is a good signal for retailers carrying store brands (Ashley, 1998). Together with the emergence of a variety of ways a consumer can easily access price information, and even ingredients of a specific product, consumers' price-consciousness increased in the last few years and this affected partly the store brand growth (Sinha and Batra, 1999).

3.1.2.1.2 Consumer experiences of a product

It is interesting to note the relationship between price levels and consumers direct experience of a product. In this respect, Grewal et al. (1994) found that for a consumer who has not experienced the specific product, price plays a considerable role when they evaluate the product performance risk, leading inexperienced consumers to trust the product's price as a buying decision criterion. As expected, experience accumulated by using the product leads consumers to have more confidence about the product or brand used. Negative experiences with a specific product category tend to discourage consumers to buy other categories of retailer brand, and even erode consumer confidence in the store as a whole (Thompson, 1999). This has been demonstrated by the empirical study of Batra and Sinha (2000), who showed that customers were less likely to purchase retailer brands that required them to try them.

In order to reduce any negative consumer perception of store brand and to reinforce a positive image, associating potential consumers with much higher store brand quality image by encouraging them to experience these brands can be one of the best ways to do so.

3.1.2.1.3 The effect of the introduction of retailer brands on price levels

As the market share of store brands increases, this can affect the price leadership. Adversely, in a market where national brands lead price levels, retailers tend to price their products taking into consideration national brand prices as pricing criteria. However, store and national brands are priced higher in a market with higher levels of retail concentration than in a market with lower levels of retail concentration, due to the power of the retail chains (Anselmsson et al., 2008).

The introduction of retailer brands in product categories has an impact on the overall price level as evidenced by several authors (Putsis and Cotterill, 1999; Cotterill and Putsis, 2000; Pauwels and Srinivasan, 2004). Also, in order to reconfirm the effect of store brand introduction, Anselmsson et al. carried out their research in 2008. They suggested, consistent with previous research, that the successful penetration of retailer brands causes national brand prices to fall, allowing national brand producers to either defend their market shares, or revise their market power. In a product category where national brands still have considerable market power, the price levels of retailer brands tend to increase as a consequence of price following (Anselmsson et al., 2008).

3.1.2.1.4 Price sensitivity considerations

Together with price-consciousness, price sensitivity is often researched to investigate its relationship with demographic variables, such as education, household size, annual income, and age (Webster, 1965; Montgomery, 1971; Frank et al., 1972; Elrod and Winer, 1982; Hoch et al., 1995).

There is little doubt that when retailers or manufacturers price their products or change prices, this factor should be an inevitable part of the process of establishing

prices. According to Hoch et al. (1995), they found this relationship related to demographic and competitive variables, as follows;

- (1) Consumers who are more educated are less likely to be price sensitive because they have a higher cost opportunity and tend to pay less attention to shopping as a chore.
- (2) Consumers who have no budget constraints and expensive homes are less inclined to be sensitive to prices.
- (3) Because households with large families expend more budget and time on grocery shopping, they are more sensitive to price than smaller householders.
- (4) Black and Hispanic consumers tend to be more sensitive to prices.
- (5) Larger stores are more likely to be price sensitive than smaller stores, because the former provides motivation for consumers who find visiting larger stores attractive in many ways, such as price, product range, convenience etc.
- (6) Stores closer to competitors tend to be more price sensitive than in less competitive areas.

Similarly, in the studies carried out by Kim (1995) and Hansen et al. (2006), unlike national brand buyers, retailer brand buyers are more sensitive to prices. They investigated the degree to which consumers buying store brands are loyal to the retailer brand, in itself, or to lower prices, over several product categories. As a result, they found that more than 60% of buyers in certain categories such as toilet tissues and oats bought due to a preference for retailer brands, compared to over 60 % of purchasers who bought for lower price in some categories like tuna, waffles, crockery, bacon and peanuts.

Sinha and Batra (1999) argued that the increase in consumers' access to price information is closely related to the growth of the retailer brands. On the other hand, Hansen et al. (2006) stated that the main reason for this growth was price differential.

3.1.2.1.5 Price promotions and discounts

It is interesting to look at whether retailers cutting their own brands' price to promote retailer brand products and increasing retailer brand awareness, influences shopper behaviours and price competition with national brands or not. If price promotion affects consumers and competition, to what extent does it affect them? Can the price promotion of retailer brands create additional demands and take consumers away from their competitors?

The influences of price promotion on the retailing literature are given less attention than other research areas. Within the price promotion literature, the present study will review several studies conducted by Grewal et al. (1994), Sethuraman (1995) and Aggarwal and Cha (1998).

The former suggested that the price promotion of retailer brands might not positively comply with the expectations that retailers had before taking this action, and that encouraging consumers to move away from national brands would be difficult due to the higher perceived product quality of national brands.

Consistent with Grewal et al. (1994) and Sethuraman (1995) who argued that frequent price promotions will have an adverse impact on a brand's perceived quality, Aggarwal and Cha (1998) confirmed, through their empirical study, that the price promotion of retailer brands does not attract national brand consumers to retailer brands, whereas the national brand price promotion significantly influences the

consumer decision-making process. It has become apparent that when consumers buy a product, they are more likely to react to the price promotion of national brands.

As a consequence, the price reduction of retailer brands to encourage consumers away from competitors might not be a wise marketing activity, although such a promotion might attract consumers from other retailer brands (Aggarwal and Cha, 1998). If retailers want to raise their own brand awareness, cutting price should be avoided. On the assumption that price cutting does not reasonably help retailers to achieve their promotion objectives, retailers have adopted different strategies other than price in order to become more differentiated from competitors (De Nitto, 1995).

Likewise, the strategy of price promotions should be taken into account to avoid profit loss, sales increase or decrease in each product category, brand image damage, the generation of new demand and so on. Consumers tend to wait for another price promotion, repeatedly. More importantly, consumers conditioned by retailers using frequent price promotions can become almost dependant, and expectant on the lower discounted price (Krishna, 1991).

In addition to the price promotions, price discounts should be discussed. As pointed out by Grewal et al. (1994), this method might also have a negative impact on the distribution channel. For example, retailers might meet the same situations triggered by price promotions and manufacturers might be under pressure to reduce production costs at the expense of product quality levels.

Considering the previous works to date, it is evident that price promotions and price discounts should be avoided or conveyed differently in order to avoid adverse effects.

3.1.2.1.6 Other factors related to price

Bellizzi et al. (1981) argued that during the consumer decision-making processes associated with product buying, price may influence consumers together with other factors such as store image, information cues, brand familiarity and the like. This is also, in part, supported by the evolution of the value equation developed by Lewison (1997). Here, willingness to pay for a product is not only related to price itself, but also to the degree to which consumers perceive other additional factors, as noted above. It is, therefore, unwise to beware that price is an absolute factor in decision-making. In other words, one should approach the pricing issue from a variety of viewpoints. If this is not the case, the whole exercise of pricing new products, during the development process, or changing existing product prices, may go wrong.

Many authors have pointed out that price is a key factor in making retailer brand programs successful against national brands (Swan, 1974; Bronnenberg and Wathieu, 1996). However, creating competitive prices for retailer brands is not an easy task. Furthermore, introducing constantly new, upgraded, quality versions whilst maintaining lower prices, leads retailers to innovate their whole retailer brand strategy or even the company strategy.

3.1.2.2 Quality

Consumers' product quality perceptions can always be a focal point, alongside the price element in explaining the differences between consumers buying store brands or national brands in the retailer brand literature. For retailers, moreover, the quality issue plays a major role in the success of store brand programs. As evidence, retailers are closely involved in upgrading the average retailer brand quality to either exceed or match that of national brands (Zeithaml, 1988; Quelch and Harding, 1996;

Grunert et al., 2006). On the basis of investment in R & D and quality control, retailers have achieved favourable quality perceptions from consumers (Salmon and Cmar, 1987; Baltas, 1997). This is congruent with Senker (1987), who claimed that retailers have organized their own quality control departments to improve product quality. There is, moreover, evidence that to improve consumers' quality perception, retailers have allocated their resources to position their retailer brands as so-called "premium brands" in comparison to national brands (Quelch and Harding, 1996). Determining the level of product quality, in itself, might be a core element in establishing retailer brand strategies. Controlling or setting a consistent level of store brand quality is not only proportional to production costs and the need to maintain proper margins, but also directly related to consumers' satisfaction, which in turn encourages consumers to use store brands or experienced consumers to repurchase. Therefore, the quality issue is not just a simple task.

It is often reported that quality has a strong impact on store brand purchasing decisions of consumers (Sethuraman, 1992; Hoch and Banerji, 1993; Dawar and Parker, 1994; Dick et al., 1995; Batra and Sinha, 2000). Quelch and Harding (1996) argued that as retailers carry more and more store brand products of higher quality in their outlets, consumers are more likely to have a propensity to buy store brands over higher-priced national brands. Likewise, other things being equal, when a consumer switches from national brands to store brands, one of their biggest concerns is uncertainty about product quality (Batra and Sinha, 2000). The term "uncertainty" here is cited from three levels of information for product choices developed by Einhorn and Hogarth (1987), who defined uncertainty as knowledge only of the probability distribution of various outcomes.

Dick et al. (1995) found, on the other hand, that consumers who are less likely to buy store brands perceive them to be of lower quality. The quality levels of store brands are perceived to be mid-way between national and generic brands (de Chernatony, 1985). Previous studies traditionally demonstrated that consumers view store brands as being of lower quality compared to well-known branded products (Strang et al., 1979; Granzin, 1981; Bellizzi et al., 1981; Cunningham et al., 1982; McEnally and Hawes, 1984; ACNielsen, 2005; Choi and Coughlan, 2006).

By contrast, many consumers realized that the product quality differential between store and national brands has reduced due to the effort which retailers have made to improve quality levels more recently (Richardson et al., 1994; Raju et al., 1995). There is evidence to argue that the improved store brand quality has contributed to its recent growth, encouraging consumers away from national brands (Hoch and Banerji, 1993; Steenkamp and Dekimpe, 1997; Wellman, 1997). Similarly, regarding the future, Steenkamp and Dekimpe (1997) concluded, through a case study, that quality improvement is the key to success of retailer brand development programs and the fundamental way to expand market share in the future. In contrast, Shaked and Sutton (1982) and Moorthy (1988) proposed that, as a means of competing with competitors, rather than getting closer to the market leaders' quality levels, an alternative way to win is to offer differentiated quality levels. That is to say, retailers might perform better if they offer a lower product quality than that of market leaders, without exceeding the national brand quality. Alternatively, if retailers intend to improve their profit from the retailer brand program, they should increase the penetration of high quality retailer brand products. High quality store brands lead consumers to stay at the store, enhancing the store loyalty of consumers (Corstjens and Lal, 2000).

The efforts that retailers have made to supply store brand products of improved quality is demonstrated by many researchers. Among those, one worthy of noting is the empirical survey carried out by Wulf et al. (2005). Through the blind and non-blind testing of five juices, they found that the result of the blind test was in accordance with a general belief that the quality of the store brand is the same or better than national brands, although during the non-blind test, the store brand scored lower than competing national brands.

3.1.2.3 Price and quality

Many authors have examined whether a general price-quality relationship exists either positively or negatively. Some researchers believe that consumers rely on price as an indicator to assess product quality (Lambert, 1972; Shapiro, 1968, 1973). In comparison, when other product indicators like brand names (Gardner, 1971) or store image (Stafford and Enis, 1969) are recognized by consumers, the price effect tends to decline, according to the research summarized by Olson (1977).

Among those, Myers (1967) is one of the researchers examining the store brand consumer's attitude toward the relationships between price and quality variables. Through a self-evaluative questionnaire, he proposed four types of shopping attitudes based on the four conditions shown in Table 3.2. Not surprisingly, the consumer group buying regularly store brand products tended to believe that the products bought are priced lower than national brands with the same quality, whereas the consumer who never buys store brands was inclined to believe that store brand products have lower prices and are of lower quality.

Table 3.2 Consumer responses resulting from different price and quality levels

Conditions	Frequency of buying store brands				Total
	regularly	occasionally	rarely	Never	
Lower price-lower quality	26%	49%	56%	64%	48%
Lower price-same quality	51%	21%	13%	6%	23%
Same price-lower quality	-	6%	3%	6%	4%
Same price-same quality	23%	24%	28%	24%	25%
Total	100%	100%	100%	100%	100%

Source: adapted from Myers (1967)

Generally, respondents from the consumers buying regularly group have a positive attitude towards the quality side. Through this survey, it has become evident that quality is emphasized as a more important factor than price. In order to manage the successful performance of retailer brand programs, retailers should emphasize product quality, rather than just price levels (Sethuraman, 1992; Hoch and Banerji, 1993; Sinha and Batra, 1999).

Although in 1967 Myers would not have examined the “new” version of retailer brands which are the same or higher price quality, retailers developing the second or third generation retailer brands can still take into consideration his empirical data. In addition, what is noticeable is that the more frequently the users have a chance to access or use store brands, the more positive the users become. Through his empirical survey, it has become apparent that improving and maintaining a series of quality levels comparable to, or in excess of, those of national brands is one of the biggest tasks to encourage non-users to buy store brands, but is also coupled with efforts to lessen consumers’ negative perceptions of price.

When a consumer infers the store brand quality from price, there are three factors influencing the inference process (Tellis and Gaeth, 1990):

(1) Past experience, where consumers having past experience of using store brands, tend to view the price-quality relationship as positive,

(2) Rationalization, where consumers who believe that the higher the price, the better the quality, are likely to rationalize that the reason for this results from companies investing their resources in producing better quality.

(3) Beliefs, where the reason that products/services are priced higher is due to consumers being willing to pay more for better quality.

The above claim is based on previous research which suggests that, when consumers evaluate product quality levels, price is used as a quality indicator (Newman and Becknell, 1970). Some consumers buying lower-priced products, on the other hand, may be less satisfied or feel uncomfortable, because they believe that the higher the price, the better the quality (Tull et al., 1964). For this reason, some consumers tend to be in favour of purchasing higher priced products in order to avoid the psychological, economic and functional risks resulting from the purchase of lower-priced products (Shapiro, 1968). This is congruent with Wheatley et al. (1981), who demonstrated, through an experiment, that price increases on low, medium and high quality products slightly improved perceived quality.

Intrinsic cues which are practical quality concepts such as taste, softness, etc., on the other hand, have a more powerful impact on the quality judgement of consumers than extrinsic cues like prices, brand names, store image, package designs and so on (Olson and Jacoby, 1972). Given that intrinsic cues have more important meanings for retailer brand managers than extrinsic ones, it might be possible for retailers to continue to supply the lower priced and higher quality products. What is important is that when retailers emphasize either extrinsic or intrinsic cues, they might be in a serious dilemma when they make decisions on product costs. If retailers think

of extrinsic cues as more important factors in establishing retailer brands, their marketing costs might become closer to those of national brands, at the expense of the lower price advantage, which has been regarded as a competitive marketing tool.

3.1.2.4. Perceived risk

This factor is one of the most important issues that retailers need to face, when it comes to understanding consumers. Perceived risk is given much attention as it is regarded as a critical determinant of the consumers' willingness to buy a product (Grewal et al., 1994). How to remove perceived risk from the mind of consumers is of common interest for both retailers and manufacturers. Thus, retailers should take into consideration this factor (Bettman, 1970, 1973). Moreover, Bettman (1974) and Narasimhan and Wilcox (1998) viewed perceived risk as the most important factor determining retailer brand market share.

Compared to national brands, it is widely accepted that store brands have very higher perceived risk in terms of quality, although many consumers felt that store brand quality was the same or even better than national brands in the blind test carried out by Wulf et al. (2005). Perceived risk can arise from several dimensions, such as emotional, social, or psychological (Narasimhan and Wilcox, 1998). Consistent with Narasimhan and Wilcox (1998), risk can be divided into six different sub-risks;

(1) Financial risk, where consumers believe buying store brands is wasteful (Shimp and Bearden, 1982; Mieres et al., 2006b)

(2) Uncertainty or performance risk, that products bought will not function as expected (Bauer, 1960; Oglethorpe, 1988; Mieres et al., 2006b)

(3) Social acceptance risk, that buying store brands will damage his or her social status (Mieres et al., 2006b)

(4) Physical risk, that use of the product bought will damage consumers' health (Mieres et al., 2006b)

(5) Psychological risk, that buying retailer brands could make consumers feel unhappy (Mieres et al., 2006b)

(6) Time risk, that because of bad product performance consumers will waste their time (Mieres et al., 2006b)

Among all of the above, uncertainty relating to product performance risk and financial risk are the most important for retailer brand, probably due to the perceived lack of reliability of retailer brand products whereas consumers are likely to view national brand products as more reliable (Mieres et al., 2006a). Likewise, as price increases, financial risk increases (Grewal et al., 1994).

Similarly, one should remember that the degree to which consumers perceive a risk varies depending on individual demographic or socio-economic contexts (Hawkins et al., 1986). Amongst these risks, it is interesting to note the correlation between price and performance risk. The price of a product is positively correlated to the consumers' shopping outlay. Financial risk, derived from buying a product can, therefore, be one of the biggest concerns for consumers. With respect to the relationship between price and performance risk, there is a different view. Whilst price is an inherent component of monetary risk, price in itself does not always have an impact on consumers' perceptions (Grewal et al., 1994).

Through the experiment conducted by Dick et al. (1995), it is clear that consumers who are less likely to buy store brands tend to perceive store brands as being of lower quality and therefore, perceive store brands as wasteful. There is also evidence to suggest that consumers are more likely to believe that buying store brand

products carries a higher perceived risk than buying national brands (Bettman, 1974; Livesy and Lennon, 1978; Dick et al., 1995; Richardson et al., 1996a).

Perceived risk encourages consumers to look for product or brand related information (Narasimhan and Wilcox, 1998). Given that consumers have a relatively higher perceived risk when buying store brands as opposed to national brands, retailers need to improve information and knowledge of retailer brands. As an example, Peterson and Wilson (1985) suggested that a higher pricing will be a good way to reduce risk on the assumption that the higher the price the better the product quality. Unlike other findings, however, their findings suggested that price is rarely connected with performance risk (White and Truly, 1989).

With respect to reducing perceived risk among consumers, McGoldrick (2002) noted that the degree of perceived risk can be influenced by the marketing ability of retailers, the consumers' perceptions of retailers overall reputation, and the necessary time that retailer brands have been established in the market. Similarly, Mieres et al. (2006a) suggested that consumers' perception that retailer brands are secondary alternatives to national brands can be mitigated as familiarity, and that prestige of retailer brands grow from more advertising, along with brand image or corporate identity improvement.

3.1.2.5 Value for money

It is difficult to define value for money from the consumers' perspective. According to the Analytic Quality Glossary (2007), "value for money" is described as "one definition of quality that judges the quality of provision, processes or outcomes against the monetary cost of making the provision, undertaking the process or achieving the outcomes". This is close to a consumers' perspective. When one

discusses this term, financial cost is a basic premise. What is important is that the value equation that consumers think, and feel, has evolved from a simple price issue to additional customer service (Lewison, 1997).

From the retailers' perspective, they emphasize value for money as a pivotal factor in promoting retailer brand programs (Patti and Fisk, 1982; McGoldrick, 1984; Simmons and Meredith, 1983; Davies et al., 1986; Martell, 1986).

For consumers, the performance of the products or services purchased affects perceptions of whether retailers provide good value for money or not. This is one of the most important elements which retailers offer to consumers to gain competitive advantage. In the research conducted by Omar (1996), value for money was one of the three factors (taste, price and value for money) which store brand shoppers, making brand decisions, take into account. Whilst for national brand consumers, quality, packaging, experience and value for money were important factors, Swan (1974) using Consumers Union data, argued that retailer brands provide better product performance relative to the price paid by consumers. Furthermore, Richardson et al. (1996a) demonstrated that perceived value for money influences consumers' buying decisions of retailer brands.

3.1.2.6 Income levels

Many authors have focused on the relationship between annual income levels and store brand-prone consumers. Price is directly correlated to an individual's financial ability to pay for products. As identified in the previous chapter, factors influencing retailer brand market share and individual economic conditions may affect consumers' shopping patterns.

Starzynski (1993) and Akbay and Jones (2005) suggested that consumers who heavily buy store brands, for the most part, come from the lower income group to maximize their utility. This claim has also been supported by Dhar and Hoch (1997), who reported that, in a trading area where store brand market shares are higher, consumers tend to have lower incomes.

On the other side, Dick et al. (1995) suggested that consumer groups buying considerably more store brands belong to the middle income group, from \$15,000 to \$49,999, as opposed to the lowest and highest consumer segments, who avoid purchasing store brands for a variety of reasons, consistent with the widely accepted notion that generic brands are purchased from the middle income consumer group rather than the lower consumer segment (Coe, 1971; Burck, 1979; Sullivan, 1979; Zbytniewski and Heller, 1979; Strang et al., 1979; Wall Street Journal, 1980; Cunningham et al., 1982; Pasini, 1982; Neidell et al., 1984; de Chernatony, 1985; McEnally and Hawes, 1984).

Furthermore, Murphy (1978) reported, through an empirical study with 309 females, that consumers who are most likely to buy retailer brands come from a high income class group, rather than lower or middle income segments.

By contrast, due to fewer budget constraints and price-consciousness, higher income consumers are more likely to purchase national brand products than retailer brands (Ailawadi et al., 2001; Akbay and Jones, 2005).

As noted in the section on generic consumers' characteristics, income level has become a poor variable to differentiate store brand-prone purchasers from other consumers (Myers, 1967).

3.1.2.7 Age

Consistent with the findings of Omar (1996), Dick et al. (1995), in their empirical study, found that a large number of consumers below 45 years old, were heavy store brand users, whilst older consumers were less likely to purchase store brands and were loyal to national brands.

Dhar and Hoch (1997), on the other hand, found in their study that because of the lower opportunity cost and limited shopping outlay, older consumers (over 55 years old) tend to become heavier users of store brands. Richardson et al. (1996a) found that experienced older consumers were heavy users of retailer brands, as younger consumers with less experience placed heavy importance on extrinsic cues like brand names, labelling, and advertisements and so on, and therefore, were more likely to buy national brands. However, the result of their study was that factors such as education and age seem to be ineffectual on consumers' shopping.

According to the above reveals, it would be difficult to conclude that age is one of the few factors affecting consumers' shopping behaviours in relation to retailer brand products.

3.1.2.8 Education levels

While there are many researchers who have examined generic brand-prone consumers with respect to an education variable (Murphy and Laczniak, 1979; Strang et al., 1979; Sullivan, 1979; McEnally, 1982; Pasini, 1982; Cunningham et al., 1982; Richardson et al., 1996a; Herstein and Tifferet, 2007), fewer have researched the relationship between store or private brand consumers and an education variable (Hoch et al., 1995; Omar, 1996; Hoch, 1996; Dhar and Hoch, 1997, Ailawadi et al., 2001; Akbay and Jones, 2005).

Store brand shoppers tend to have a lower education level than national brand consumers (Omar, 1996). There is, by contrast, evidence that well-educated consumers are less sensitive to price than other consumer groups and therefore, the education variable is closely concerned with store brand penetration in the marketplace (Hoch et al., 1995; Hoch, 1996; Dhar and Hoch, 1997). According to Dhar and Hoch (1997), as well-educated consumers have enough knowledge of shopping and consider brand names less important as a product performance cue, they are more likely to buy store brands.

One can generally expect education levels to be an indicator of individual income, because education may function as a surrogate measure (Richardson et al., 1996a). Considering this point, Richardson et al. (1996a) claimed that, although well-educated consumers may be more affluent with more discretionary income, and therefore, more inclined to purchase higher-priced brands, education was statistically not recognized as a significant variable.

On the assumption that consumers who received higher education are less affected by prices because they are well informed about a range of retailer brands' information, the fact that higher education is proportional to consumer's patronage of store brands is supported (Hoch, 1996).

3.1.2.9 Family size

Because of the limited shopping budget, family size has become a major factor in analysing store brand-prone consumers. Although there is little evidence that purchasing characteristics of householders with children are different from householders with no children (Montgomery, 1971), it is necessary to investigate family size effect on shopping.

For consumers with children, brand choice behaviours between retailer and national brands might result in the purchase of national brands due to health-consciousness concerns about children. In these cases, the shopping budget may be limited in purchasing products, except when purchasing children's products. Consequently, consumers purchasing children's products are negatively associated with retailer brand penetration.

It is logical that consumers with larger families spend more on grocery shopping. If two different consumers have different sized families, but with the same income level, the consumer with the big family is likely to shop more economically than the other. This is closely related to the shopping patterns of heavy purchasers of store brand products, whereas the majority of consumers with smaller families can afford to buy national brands (Omar, 1996; Dick et al., 1995). In markets where store brands are sold well, householders with large families are the main consumer group (Dhar and Hoch, 1997). This is inconsistent with Frank and Boyd (1965) and Richardson et al. (1996a).

There is no doubt that the larger the family size, the more likely consumers are to become retailer brand-prone and vice versa.

3.1.2.10 Other characteristics

Basically, one should remember that there is no single factor having an absolute impact on consumer purchasing patterns. However, every factor is closely related to each other. As a good example, Aaker (1996) suggested that other things being equal, retailers associated with a low retail image, lead consumers to think of their retailer brands as possessing lower quality. Sheinin and Wagner (2003), furthermore, described how retailers apply store image associations to their business

strategies: retailers with a low store image should deliver the low prices which consumers expect, and retailers with a higher image should avoid carrying lower-priced products.

Little attention has been paid to whether working women influence retailer brand-prone consumers' shopping patterns. It may be expected that working women are closely correlated to a household's income level and time pressure for grocery shopping. As such, working women may be the factor affecting consumer shopping activities.

Housewives are more likely to purchase store brands, as pointed out by Myers (1967). According to his empirical survey, working women present clear attitudes towards store brand products, contrasting with housewives who appear to have greater acceptors of store brands. One of the reasons why the working women group prefers national brands is time-related. As expected, different from housewives, these females struggle to extract enough time to shop from their everyday life of work. This situation leads working women to choose well-known brands with lower perceived risk than store brands, avoid price comparison shopping, which requires additional time, and to become less price-conscious. For the time problem, this argument is persuasive, however, Dhar and Hoch (1997) found a conflicting result that working women are more inclined to purchase store brands.

Despite the evidence to argue that demographic or socio-economic variables directly or indirectly influence consumers' shopping patterns when buying retailer brands, some authors have claimed that retailer brand-prone shoppers are not different from national brand shoppers on those specific variables. Burger and Schott (1972), Bettman (1974) and Fugate (1979) found that socio-economic variables were ineffectual factors in analysing the differences between the two consumer groups. In

addition, Baltas (1999) also suggested that socio-economic variables were poor predictors of retailer brand proneness, although these factors are related to consumer attitudes towards retailer brands.

So far, this chapter has focused on consumers' perceptions and attitudes towards retailer brands, rather than the direct development activities of retailers. In the next section, therefore, the researcher will review existing literature on retailer brands from the retailers' perspectives, and describe the development processes and operation processes that retailers should consider and implement.

3.2 The development and management activities of retailer brands

Although the growth of retailer brands is present throughout the world, it would be unwise to say that every retailer brand product developed is going to be successful. In order to reduce the possibility of failure and to increase the likelihood of success, there are many tasks that retailers should be closely involved with. From the retailer's perspective, the researcher will now explore the typical development processes for retailer brands, from the suggested introduction of a retailer brand to its production, marketing and the disposal of stock within the distribution channel. What is interesting here, is that retailers allocate more marketing resources to their own brands than manufacturers do. With respect to advertising investment, many authors have observed that the rate at which retailers have spent on advertising, has been greater than that of manufacturers during the 1970's and early 1980's (Fulop, 1983, 1988).

3.2.1 Introduction of retailer brands

Although many authors have identified a number of objectives for introducing retailer brand programs, it is necessary here to explain some of the advantages and disadvantages resulting from their introduction. Retailer brand can have an adverse impact on retailers' profits, as can be seen in the case of major retailers like Safeway and Kroger (Salmon and Cmar, 1987). This is congruent with The McKinsey Quarterly's findings (Glemet, 1995) which demonstrated that, when the whole cost involved in developing and managing retailer brands, and all revenues derived from sales volume and stock turnover, are offset in some product categories, the introduction of retailer brands often appeared to be an unwise method to increase a category's profit. As a means of increasing profits, retailer brand introduction has, however, been supported by academicians and practitioners. However, over-introduction can damage the retailers' profits: Ailawadi and Harlam (2004) pointed out that retailers carrying their own brand cannot continue to increase category profitability, because retailer brands are sold at considerably lower prices.

Pauwels and Srinivasan (2004) proposed the positive aspects about retailer brand introduction from three perspectives: retailer, manufacturer and consumer. On the retailer side, they claimed two benefits derived from stocking retailer brands; high unit margins on the retailer brand itself; and higher margins on the national brands, although these benefits are not always true. For manufacturers producing the fourth generation (so-called "premium brands") in particular, becoming a partner with retailers is profitable in itself. For consumers product ranges supplemented by retailer and national brands provide choice, and active promotions often incorporate price reductions.

On the other hand, Raju et al. (1995) approached retailer brand introduction in terms of competition, based on the number of national brands and the degree to which retailers should experience price competition with national brands. In a category where high price competition exists amongst national brands, a retailer brand introduction might not reach the retailer's expectation. However, in a category where high price competition exists between national and retailer brands, and the category consists of a large number of national brands, retailer brand is more likely to meet their competitive requirements (Raju et al., 1995). In the case of retailers carrying only their own brand, like Marks & Spencer, the competition issue is not relevant. However, they might be able to develop product range extension.

It is interesting to look at the relationship between retailers and manufacturers after the introduction of retailer brand programs. On the existing suppliers' side, the emergence of retailer brands may give rise to new forms of competition with retailers, irrespective of the manufacturers' sizes. The retailer brand's emergence in the marketplace, in other words, is an additional element in the vertical competition between both parties (Anselmsson et al., 2008). There is evidence to suggest that retailer brand programs tend to have a negative impact on second tier producers which are behind the market leaders (Anselmsson et al., 2008). Competition, therefore, should be taken into account from both the retailers' and manufacturers' perspectives.

3.2.2 Retailer versus manufacturer brand competition

As mentioned in the previous chapter, the general aim of retailer brand development is to counter the manufacturers' power in trading. Dunne and Narasimhan (1999) argued that the fourth generation, retailer brand can be a major competitive force in the market, and that the retailer brand's position has constantly

improved, with better product quality and additional marketing activities. Whilst retailers compete with national brands, there are many types of competition like: price cutting; package imitation; allocation of golden shelves to retailer brands; and in-store merchandizing and the like. Among such competitive activities, price competition is regarded as one of the main research areas in retailing.

3.2.2.1 Price competition with other brands

Over the last decade, as a new stream of retailer brand research arose, studies on price competition between national and retailer brands started to appear in a variety of journals (Sethuraman, 1995; Dick et al., 1996). As retailer brands have taken consumers away from national brands, manufacturers have devised strategies to compete with retailers carrying similar, or the same, products.

Authors have suggested several survival strategies as a means of avoiding the fierce price competition in the marketplace. Hoch (1996) proposed basic strategies against lower priced store brands: (1) wait, and do nothing; (2) increase distinctive features from retailer brands; (3) narrow the price gap; (4) produce the “fighting brand”; and (5) become a producer of store brands.

Initially, competition was enhanced by price rather than the improved quality of store brands or other factors. Consequently, previous research examined the psychological criterion of consumers, when making a choice between retailer and manufacturer brand in terms of price levels. As a result, it is demonstrated that the price of retailer brands does not have a significant impact on consumers’ choice patterns, however, the national brand price level strongly influences consumers’ brand choices (Aggarwal and Cha, 1998). Although retailers promote their own brands with large price reductions, the number of consumers switching to retailer brands will not

meet the retailers' expectations. Similarly, a price war may not give rise to benefits for either side, as price-cutting is not an important tool in increasing market power (Steenkamp and Dekimpe, 1997). This finding is consistent with Shaked and Sutton (1982), who found that as the differences between competitors' quality levels became more and more blurred, accelerated price competition between competitors caused their revenue to decrease. For these reasons, the low price policy associated with the retailer brands may no longer be a good means of attracting consumers away from national brands. The challenge that retailers face in attempting to win the price war, and/or to induce price competition, should be given consideration. Rather than the adoption of price promotions, retailers should devise new innovative competitive strategies.

With improved production technology, retailers started to have confidence that, as a competitive strategy against national brands, they could provide so-called premium retailer brands which are of the same, or higher quality than national brands, in terms of quality. When retailers adopted the fourth generation retailer brand, price competition with national brand producers became less important than other retailer brands. The introduction of premium brands can be the optimal way to bring both parties mutual benefits. Likewise, when retailers develop innovative categories as retailer brands, they can completely avoid price competition and dominate the category as a market leader.

In terms of the price competition derived from the introduction of retailer brands over a wide variety of product categories, this can help retailers to increase a specific category's profit, when higher price competition between national and retailer brand enhances its market shares or damages the existing profit levels (Raju et al., 1995).

As pointed out by several authors, price competition is likely to cannibalize mutual profits for manufacturers and retailers. Above all, when retailers cut retailer brand prices to increase market share, they should consider both its negative and positive effects in order to achieve their original promotion goals.

3.2.2.2 Differentiation of packaging design

Apart from price competition, one of the striking debates associated with competition may be consumer confusion provoked by retailer brand packaging, similar to that of national brands. By deliberately making brands look alike, retailers have tried to increase the chances that consumers will choose their own brands, as a means of competing with market leaders.

The launch of Sainbury's Classic Cola in 1994 raised academic interest in "look-alikes" or consumer confusion issues (Hildebrand, 1994; Davies, 1995; Kapferer, 1995a, 1995b; Burt and Davis, 1999), building on earlier research carried out by Miaoulis and D'Amato (1978). Close imitations of national brands have sparked conflicts between retailers and manufacturers, as well as confusion between retailer brand and national brand consumers. As extrinsic factors, like product packaging and labelling, emphasize the company name or logo, and offer a corporate colour throughout the whole range (Burt and Davis, 1999), there is no doubt that product choice tends to be confused. Before discussing these external appearance problems, it is necessary to first note the role of packaging in consumer shopping behaviours, and the reasons why retailers try to mimic national brand packages, as a competitive strategy. By copying that appearance of national brands, what kind of advantages do retailers seek? To answer this question, we should approach it from the consumers' perspectives. In addition, however, packaging is an important extrinsic

cue associated with product purchasing (Olson and Jacoby, 1972). The packaging process is also much more directly involved in the practical development activities of retailers in terms of legal issues and design dimensions in production lines in factories.

3.2.2.2.1 Consumers' attitude towards product packaging

There are many comments emphasizing the importance of packaging on product development literature. As an example, Pilditch (1972) stated that the package design is the “salesman” on the shelves of outlets. Moreover, Wells et al. (2007) found that over 73 % of respondents interviewed rely on packaging to purchase products at point of sale. This is, also supported by the empirical research conducted by Frontiers (1996). After the space available to communicate to consumers, packaging could be said to be one of the most precious marketing resources. More importantly, its fundamental role is to attract consumers' attention in front of stores' shelves (Underwood et al., 2001).

It has become apparent that consumers tend to take package design as an extrinsic surrogate indicator of product quality (Richardson, 1994). Particularly, when consumers are unfamiliar with a product, do not have the opportunity to evaluate the intrinsic characteristics of the product, and cannot make a reasonable evaluation of the intrinsic attributes of the product, packaging is used as an indicator of quality (Underwood et al., 2001). Based on this background, research has suggested how to attract consumers' attention, using visual imagery or information. Visual pictures on the package design have a stronger impact on consumer decision-making processes (Mandler and Johnson, 1976; Alesandrini, 1982; Underwood et al., 2001). Package design elements, moreover, help consumers to enhance their recall ability based on

brain laterality. Depending on the components and position of the package, the degree to which consumers can recall the product varies (Rettie and Brewer, 2000). Rettie and Brewer (2000) proposed, through an empirical study, that some elements of package copy, like brand name or flavour description, should be placed centrally, or on the right-hand side of the pack because central factors are seen by both eyes and, therefore, realized by both sides of the brain, while other topics like legal description, a product disclaimer, or product photography, should be placed on the left-hand side.

As a consequence, the product package function for consumers, retailers and manufacturers should be regarded as a means of information communication, as opposed to merely a legal description. What is important is that these theoretical concepts should be reflected in the package design development process to maximize its effectiveness within a given shelf space, thereby differentiating retailer brands from alternative package designs.

3.2.2.2.2 Design components of packaging

Simply, although the pack design can be said to be an extrinsic cue when consumers make a brand choice decision, there are many different components of package design, such as brand name, trade mark, picture, instructions, size of lettering, whole colour image, font style, legal description, product disclaimer, etc. Despite these many elements, it should be remembered that the construction of package design is inherently multidimensional, harmoniously incorporating all of these elements (Underwood et al., 2001).

It is important to meet any governmental regulations on the pack design. When retailer brand developers start to design new products, therefore, legal issues should be understood first. Across product categories and countries, regulations vary

and therefore, retailers should be careful. For generic brands, the packaging conceptualisation may be to simply follow their legal duty, without taking advantage of space to advertise them. As expected by the term “no-frill” or “no name”, the package design of generic products has essentially protected its functions whilst meeting legal requirements.

In order for retailers to overcome generic brand images, they have attached brand names to products to allow them to be differentiated from generics, and they have changed their package design strategy from simple structures to ones which are comparable to those of national brands. Premium brands can exceed national brand design in some product categories.

There is little literature related to the design structure of each element. Overall, although there are many works on the pack design, there are few studies examining the package architecture. At this stage, however, one should look at the relationship between package image and retailer store image. In 1995, Dick et al. found that store image plays an important role as a quality indicator in evaluating retailer brand quality. Porter and Claycomb (1997), on the other hand, found that brand image influences retail image. Based on those two theoretical arguments, brand image and store image, as perceived by consumers, are interactive. This is also supported by Davies’ finding (1998) that product image and retail image have been closely related to consumers’ brand or product choice behaviours.

Here, it is necessary to briefly mention the definition of store image, in order to explain this interrelationship. According to Martineau (1958), store image is the “personality of the retail store”. The phrase, “personality of the retail store” can be derived from a combination of many different elements, outside or inside the store: like advertisements; store layout; product range; store personnel; store atmosphere;

consumer service quality; product quality; merchandising methods; convenience; accessibility; price level, and so on. Similarly, Baker et al. (1994) and Mazursky and Jacoby (1986) defined store image as an individual's emotion and cognition formed by perceptions or memory inputs toward a specific store in terms of functional quality and psychological attributes. What is distinctive amongst these elements is that product package design makes a contribution in establishing store image in functional terms (Mazursky and Jacoby, 1986).

Therefore, as demonstrated by prior research, the package design of retailer brands influences not only the store image perceived by consumers, but also production lines in a factory. How to structure the pack design can be one of the most significant parts of the development process of retailer brands as a whole.

3.2.2.2.3 Look-alike considerations

As Levitt (1966) has mentioned, new products emerging in the market, for the most part, are not new at all, but are the results of innovative imitation. Retailer brands copying national brand packaging were perceived as a major threat by market leaders (Kapferer, 1995a; Rafiq and Collins, 1996). Rather than imitating other retailer brands' packaging, retailers mimic that of market leaders (Burt and Davis, 1999). As evidence, there is interesting data to confirm the degree to which retailers copy national brands. According to Marketing Week (1994), more than 50% of survey respondents answered that their brands had been imitated by supermarket retailers and a majority of respondents claimed that retailers' copycats had cannibalized their sale volume. This trend of copying others' packaging is a serious problem for manufacturers, who invest considerable resources in establishing their own brand image. So manufacturers formed an organization, "the British Producers and Brand

Owners Group”, in an attempt to lobby parliament to protect themselves (Balabanis and Craven, 1997).

Why do retailers imitate the pack design of national brands? Whilst shopping, there is a possibility that consumers pick up the look-alike product by mistake and, if the copycat is displayed alongside the original product, or if the original product is moved from its usual position, consumers tend to increasingly, and mistakenly, choose the copycat (Davies, 1995). Likewise, if the quality of the two different brands is perceived as the same, consumers with positive experiences of the copycat, have a tendency to take a less favourable attitude and evaluation of the original brands (Zaichkowsky, 1993). Accordingly, it is expected that retailers gain sales volume from market leaders through copycats. One of the major reasons retailers imitate the market leader is to reduce their marketing overheads, that is, retailers can adopt “ready-to-wear marketing” at very little cost and limited risk (Kapferer, 1995b; Davies, 1998). Through this imitation strategy, when retailers expand their own brand into new product categories, they can use some of consumers’ perceptions, developed by market pioneers or leading national brands, with less expenditure. Brand leaders, on the other hand, tap into new markets or product categories with heavy investments in advertising, marketing expenditure, research and development costs. Because of these costs, manufacturers argue for their rights to be protected, contending that retailers have tried to get a “free ride” on the manufacturers’ effort.

There are legislative bills protecting owners via some components of the pack design such as trade marks, brand name, and product container, although these differ across countries. In the UK, for instance, there is the Trade Marks Act 1994 and the 1988 Copyright Design and Pattern Act. Even though developers have to devise innovative designs to attract consumers’ attention, following legal descriptions is not

a selected condition, but a compulsory requirement to be distributed in the marketplace. The publicity generated by breaking regulations, might negatively affect consumers' perceptions. This issue will be further discussed in making the brand policy later. If international retailers want to distribute their own brands across borders, developers should be careful to design packaging with sufficient legal knowledge. Similarly, when retailers produce their own brand products abroad, and import or export these to other countries, checking governmental regulations, as part of the development processes, should not be overlooked.

There have been many cases in the past where retailers have conflicted with national brands, in terms of packaging design, such as similar brand name, design, product container etc. As a representative example in the UK, a major dispute between Sainbury's Classic Cola and Coca-Cola arose in 1994. This forced Sainbury's to alter its graphic design on the condition that both parties no longer claim (Balabanis and Craven, 1997). When a dispute occurs between manufacturers and retailers, particularly multiple retailers, it is not easy for manufacturers to take legal action against retailers, as retailers are usually their main customers (Rafiq and Collins, 1996). From the manufacturers' perspective, due to the risk of being delisted, they cannot afford to accuse retailers of the theft of their rights and, above all, the primary reason why suppliers hesitate to take legal action against multiple retailers is to fulfil their need to keep a good working relationship with them, given that the British market is dominated by several larger retailers (Rafiq and Collins, 1996).

3.2.2.2.4 Consumer confusion

Manufacturers argued that retailers have used their package designs as a means of implying that retailer brands have the same quality as the original brands

and are sourced from the same producers as the original brands (Rafiq and Collins, 1996). With respect to consumer confusion, authors attempted to prove that copycats tend to make consumers confused when making a brand or product choice. However, there is little evidence to demonstrate consumer confusion.

Rafiq and Collins (1996) found, through the examination of five product categories (cola; instant coffee; shampoo; breakfast cereal; yoghurt) with 78.6% of respondents shopping at three multiple retailers (Sainsbury's; Tesco; Safeway), that levels of confusion were not as high as manufacturers claimed. In their study, 34.4% of Safeway shoppers, 11.5% of Tesco shoppers, and 10.3% of Sainsbury's shoppers responded that they were confused by retailer brand products. This finding is congruent with the exploratory research of Balabanis and Craven (1997), who failed to demonstrate that look-alike products were mistakenly chosen by consumers. Consumers bought the products they wanted, although low-priced products, more subject to impulsive buying, tended to provoke more confusion in certain consumer segments.

In contrast with the above argument, Davies (1998) believes that retailer brands encourage consumers to become confused. He argued that retailers copy the physical appearance of the market leaders when developing their own retailer brands and therefore adopt a similar brand personality. In addition, PLMA (1984) found that a large number of consumers believed retailer brands were being produced by the same manufacturers who supply the original brand products. Amongst those who believe that confusion exists, Foxman et al. (1992) approached this topic from a different perspective. They argued that consumer confusion occurs with situational factors like task definition, antecedent state, brand experience as well as the physical, temporal and social environment, cognitive styles and information load. In the same

vein, Miaoulis and D'Amato (1978) found that consumers who bought the copycat were, for the most part, influenced by product expectations formed by the visual impact of the product, whilst Loken et al. (1986) claimed that past experiences of original brands tend to lead consumers to think of retailer brands as being produced by the same manufacturers that make national brands.

In some product categories, there is not always a copycat of the leading brand in the marketplace. Burt and Davis (1999) referred to a new copy pattern, in a category where market leaders do not exist and retailer brands lead the market, (e.g. in an innovative product category), the brands being copied will not be manufacturers' brands but other retailer brands pioneering the market. This can be seen in Marks & Spencer, which has been imitated by other retailers. In this case, consumer confusion between retailers has been given less attention than that between retailers and market leaders.

Copycat has not always had negative aspects for its originators. It is interesting that imitation may help both parties to increase consumer awareness and reinforce the categorisation process of products and brands, within product categories (Loken et al., 1986). In this case, both parties benefit from such mimicking.

From the existing literature on consumer confusion, it is unwise to conclude that there exists clear consumer confusion between retailer' and manufacturers' brands. Nevertheless, retailers who carry, or start to develop, retailer brands should constantly be aware of related laws.

3.2.3 Brand naming

The brand is one of the important issues that consumers use to evaluate a product or service. In establishing a brand, there are many different tasks to be

implemented by marketers in order to identify products. Amongst those works, brand naming is an integral part, requiring retailers to invest their resources, like time cost and/or monetary cost. To develop an adequate brand name, therefore, many firms are inclined to outsource the research and testing of the brand name (Kotler and Keller, 2006). In a number of studies, it is apparent that brand name plays a crucial role in shaping consumers' perceptions about product quality (Zeithaml, 1988; Dodds, et al., 1991; Dawar and Parker, 1994; Dick et al., 1996). In addition, the brand name plays an important role in understanding store patronage decisions with price discounts and perceived brand quality (Crewal et al., 1998). This is in accordance with Dick et al.'s findings (1996) that brand name is a primary cue which customers utilize in quality assessment. Furthermore, the brand name on a pack functions as a criterion of quality consistency, guarantee and so on (de Chernatony, 1989). Likewise, the primary effect of branding with a store name is extrinsically to enhance the influence of price on consumers' perceptions of product quality (Dodds et al., 1991).

For retailers planning to undertake retailer brand programs, how to determine the number of brands to be marketed is one decision. There are two ways operated by retailers independent of manufacturers: to use only one brand over a wide variety of product categories; or to use different sub-brands for specific product categories, for example, Sainsbury's Novon in detergents (Wileman and Jary, 1997). McGoldrick (2002) classified retailer brands into five groups based on previous studies as follows; (1) "retailer name brand", using the retailers' own name or facia such as Sainsbury's and Asda's standard brand, (2) "store sub-brands", carrying both retailer's name and sub-brand's name such as Tesco's Finest brand, (3) "generic brands", such as Tesco Economy and Euroshopper, (4) "exclusive brands", sold under many different names with a retailer's own name and marketed exclusively by retailers such as Aldi's

product ranges, and (5) “exclusive products”, which are not true retailer brands but distributed exclusively to a specific retail chain. Additionally, a new form, a brand alliance between manufacturers and retailers is a new trend with the aim of creating mutual benefits. Previous studies on co-branding, called “dual branding” or “brand bundling”, where two or more well-known brands are combined, and even “ingredient branding”, have mostly concentrated on brand alliances between manufacturers (Vaidyanathan and Aggarwal, 2000). For retailers operating two or more generations of retailer brand at the same time, this task should be carefully considered for each brand with specific aims of targeting different consumer segments, and be perceived to have different selling points in the consumer’s mind.

According to Wileman and Jary (1997), the advantages of only one retailer brand name are as follows; (1) retailers can more effectively and efficiently manage the whole range of products and in-store service experiences of consumers, compared to the management of two or more brands (2) it can create an opportunity to strengthen overall consumer loyalty and preference by concentrating marketing resources on a single brand, and (3) it can reduce the overall branding-related costs. Among British retailers carrying retailer brands, Marks & Spencer, selling 100% retailer brands, is a good example. The advantages of sub-brands, on the other hand, are as follows; (1) retailers can serve diverse consumer segments within the same store, (2) they can increase consumers perceptions of product quality and choices, (3) they can increase the premium and return that they can earn from investing in retailer brand development, and (4) they can reduce the whole brand risk when one of the brands operating within the same store is damaged. Tesco Korea is a good example of adopting this sub-brand strategy. Under the Home Plus brand name, there are three different sub-brands: Premium; Joun; and Alittle brands (see Figure 5.1).

When retailers devise brand names, factors which should be taken into consideration include issues such as the retailer brand strategy, retailing formats, product category traits, and the trading area. A good example is the Japanese retailer, Daiei, once the number one retailer in the Asian market who carried six retailer brands across product categories, as seen in Figure 3.1.

When retailers select the brand alliance approach, the success of the retailer brand relies considerably on the degree to which each brand is positively positioned or perceived in the consumer's mind (Kotler and Keller, 2006). Not surprisingly, it is

Figure 3.1 Example of Japanese Die's retailer brands

Brand name	Characteristics
Saving	Brand attached to commodity with good quality
Captaincook	Attached to product categories with particular quality perception of consumers
Koruthena	Brand of durable products like white goods, furniture etc.
Saliv	Household goods' brand requiring high quality and function
Ribuni	A kind of premium brand suggesting lifestyle
Rettoutzu	Clothing brands

Source: Adapted from Selling Innovation (2000), August.

evident that its primary aim is to generate synergy effects for both parties. For retailers, the advantages are as follows; (1) retailers can save some financial resources in establishing brand awareness, with the help of a trading partner, (2) they can maintain good working relationships with manufacturers with ease, and (3) they can reduce their burden of marketing activities, due to the sharing of branding-related works with suppliers or producers. Selection of this approach should be based on the evaluation of market position, brand awareness and brand equity of well-known brands. Brand alliance is not without its failures, but Vaidyanathan and Aggarwal

(2000) found that the use of a brand name ingredient from a leading brand alongside retailer brands, can have a positive impact on consumer evaluation of an unfamiliar product and that, over some of the product categories, manufacturers may want to deal with retailers as a retailer brand producer, in order to increase their sales volume.

As Dodds et al. (1991) pointed out, brand and store name have a positive impact on consumers' quality and value perceptions and propensity to purchase products. The idea that a brand name influences the consumers' perceptions of product quality is widely accepted by national brand managers as well as retailer brand managers, thus motivating retailers and manufacturers to invest considerable resources. Branding a product not merely differentiates it from others by the brand name, but also bestows additional value to the product itself. Its importance has been extended to new roles, such as an indicator of quality, a symbol of social status, and so on. The increasing importance of brand naming is reflected during the development process of retailer brands.

Given that each method has different advantages and disadvantages, it is more likely that the job of brand naming has consciously become a significant part of the whole retailer branding process. In addition, when retailers select a name from amongst alternatives, or, established retailers change their existing names, they should take into consideration the consistency between the name-choosing and the image they plan for the mind of consumers in the future (Crewal et al., 1998).

3.2.4 Brand advertising

It has long been recognized that advertising is a major factor in building brand equity (Achenbaum, 1989; Lindsay, 1990). It is also regarded as one of the principle components of image creation, representing a very potent source of brand identity

(Meenaghan, 1995). Traditionally, advertising was thought of as being in the possession of manufacturers, until retailers started to allocate an advertising budget to their own brand ranges.

3.2.4.1 Advertising budget

It is interesting to note how much retailers have spent on advertising. According to Mintel's (1984) analysis, retailers' advertising expenditure increased by 105% in real terms, between the 1970's and 1980's, compared to a 20% increase for manufacturers. In addition, retailers in the UK spent more than £155 million on advertising during 1994, which means that British retailers were spending heavily on advertising (Euromonitor, 1996).

It is difficult to identify individual elements of advertising expenditure: for example, to distinguish between product advertisement, store image advertisements, promotional advertisements etc. Unlike national brand producers, retailers cannot focus on advertising a specific product due to narrow trading boundaries, because sales volume generated by their own outlets cannot generally cover their advertising spending. Despite this, some retailers like Sainsbury's have invested in advertising specific sub-brands, just as manufacturers do (Euromonitor, 1996). An excellent example of this is Sainsbury's Classic Cola, which was supported by around £1.2 million of spend, together with Novon and Gio (Euromonitor, 1996). In advertising, the retailer's name, which appears in the advertising, enhances the brand image via its association with the retailer brand product ranges (Ferne and Pierrel, 1996).

In terms of advertising methods, there are many different ways retailers can adopt, such as: mass media; leaflets; pop (point of purchase) within a store; display structure etc. Most expenditure is likely to be assisted by contributions from trading

partners, thus most retailers tend to require their suppliers to contribute in financial terms (Euromonitor, 1996).

What is important is that retailers' spending on advertising is closely related to retail pricing decisions. When developing generic brands with low prices, one of the pivotal ways of reducing production costs is to cut unnecessary parts of the cost structure, consisting of advertising, luxurious packaging, and other additional marketing costs. There exists a trade-off between the level of retail price and advertising. Logically, emphasizing a lower price results in less advertising effort, but more investment in advertisements puts pressure on price, in order to cover the advertising cost. While generics do not require as much advertising budget as other retailer brands, other three of retailer brands are more likely to force retailers to get more involved in advertising activities, in an attempt to differentiate their own brands from other competitors' brands.

The degree of whether retailers should advertise their own brand or not, should, therefore, be based on the initial retailer brand development strategy in order to avoid management confusion. Strategy development plays a vital role in managing retail price, retail margins and cost reduction.

3.2.4.2 Role of advertising for retailers

Many authors have researched the effects of advertising from the manufacturers' perspective, rather than from that of the retailer. A number of studies have emphasized that advertising may be a means of increasing market power (Wills, 1987; Ekelund and Saurman, 1988; Sutton, 1991).

For retailers, advertising was one method of informing customers about low prices throughout the 1970's during the period when retailers concentrated on

developing low-priced retailer brands (Wolfe, 1981). However, retailers have started to use advertising as a means of promoting a clear identity for themselves (Bond, 1985). The objectives that retailers use advertising for, have become similar to those of manufacturers (Euromonitor, 1996). There are many descriptions of the functions of advertising. McGoldrick (2002) identified the following objectives: (1) to win new customers, (2) to increase expenditure by existing customers, (3) to increase store traffic, (4) to increase product sales, and (5) to develop the store image. In addition to his suggestions, advertising serves (6) to increase brand awareness and (7) to provide information of promotions or new product introductions. All of these roles interact with each other. As Dick et al. (1996) pointed out, merely informing consumers through advertising that retailer brands are the cheapest alternatives to expensive national brands is no longer a method able to sustain a competitive advantage.

As a consequence, advertising has played an important role not only as an information source for consumers but also as an image-builder in the mind of consumers, and the effort retailers have made to advertise retailer brands has become more and more sophisticated in comparison to national brand producers.

There is, however, a sceptical view about the effectiveness of retailer advertising. Ody (1987) made an effort to ascertain the contribution of advertising to sales volume or profit increases. A third of the respondents estimated that more than a half of advertising spending was less effective than expected. For this result, McGoldrick (2002) pointed out that the advertising activity of retailers was not approached from a purely scientific assessment of its cost-effectiveness, but from the perceived need to counter competitors' advertising. Whilst there are many studies attempting to identify the relationship between the level of advertising expenditure and the level of practical contribution to sales or profits, there is little literature

relating to retailer brands' advertising costs, particularly for each retailer brand product. Although there is not evidence that advertising for retailer brands completely makes a considerable contribution to retailers, it can be estimated, to some extent, that advertising plays a role in improving retailers' performances, as demonstrated by Ody (1987) and Kim and Parker (1999).

3.2.4.3 Advertising methods

There are many methods employed to advertise retailer brands within or outside stores. They might be grouped into two categories; in-store and out-side store methods. Compared to outside-store advertising, which has been widely used by manufacturers, in-store methods are much cheaper to employ in financial terms and are easier for retailers to control, and more quickly lead to a consumer response.

In-store methods, that manufacturers seldom use, consist of POP, electronic price cards, display skills, end aisle display, product demonstrations, posters, sample giveaway, leaflet, in-store broadcast, notice board, trolley, receipts and so on. The outside-store advertising methods, on the other hand, are very similar to those of manufacturers and thus, it is unnecessary to note those here.

Like any other business, retailers' advertising spend should be based on cost-effectiveness, to reduce or prevent investment failure. Taking into consideration the trade-off between advertising costs and profits, margins, and lower price, except for premium brands being free from price constraints, this spending is not without burden.

3.2.5 Shelf allocation and display

In an attempt to measure the degree of shelf-space efficiency, many authors have examined the correlation between the space occupancy rate and the profit (Martell, 1986; Bultez and Naert, 1988; Dreze et al., 1994; Baltas, 1999). Likewise, with the rapid development of information technology, one of the profit sources for retailers is improved shelf-productivity. Checking stock turnover on shelves in the past may have seemed to be an unimportant job due to lack of effectiveness, analysis and/or labour intensive work. Retailers with EPOS (Electronic Point-of-sale Systems), therefore, can manage in-store spaces effectively and efficiently. As a result, retailers realize the importance of space productivity and gain benefits from the introduction of EPOS technology, as supported by Dreze et al., (1994).

This system has led retailers to assign shelf space according to the sales or market share of products or brands. Thermistocli and Associates (1984) and Martell (1986) found that retailer brands have occupied double the shelf space allocation of the national brands. In explaining the reasons why retailer brand market share of European multiple retailers has increased so much, Baltas (1999) pointed to the generous shelf space allocation of their own brands, as mentioned in the previous chapter. There is little doubt that the more retailers assign space to retailer brands, the higher their market share. Given that shelf space is an “invisible” financial investment, the effectiveness of such a policy, where retailer brands are placed in advantageous place and given more space than manufacturers’ merchandise, should be measured in terms of sales and profit proportional to space allocated (Buttle, 1984). The primary objective of shelf space allocation is in effect to reinforce the financial performance of retailers. It is evident that retailer brands are normally assigned more space in proportion to the level of their market share (Suarez, 2005).

In addition, retailer brands are generally placed all around the market leaders to attract consumers' attention (Fernandez et al., 2001). Displaying retailer brands next to the leading brands increases their exposure to consumers, and leads consumers to compare retailer brands with national brands in terms of price. Frequent exposure of retailer brands in this way means that consumers' perceptions might be positively affected, if they are of good quality and priced lower.

In a similar way, it is necessary to highlight display location. Product positioning on shelves, therefore, should be treated as a more important factor than the number of facings of the product, as mentioned by Dreze et al., (1994), who found that for a single product, a few facings on shelves at eye level were more effective than five facings on the bottom shelves.

On the assumption that shelf space is a financial investment, generously allocating space to retailer brands is not without risk. If a retailer assigns as much shelf-space to national brands as their own brand, yet generates more profits, the retailer should rethink the existing favourable shelf allocation policy of retailer brands, in order to maximize shelf-efficiency. From a shelf management perspective, Nogales and Suarez (2005) proposed that retailers should regularly measure the relationship between the shelf space and profitability, as the over-merchandizing of retailer brands can damage a categories' overall profit. Considering the managerial importance of shelving, retailers should, therefore, carefully allocate them to their own brands. An excellent example, according to Baltas' findings (1999), is Tesco, the survey subject, which achieved 56% of its profits from a shelf space allocation of 44 %, for retailer brands.

In this section, the factors that retailers should consider when they develop and manage retailer brands have been discussed. What is important is that the elements are

closely related to development and management activities, and are interlinked with each other.

3.2.6 Store loyalty

The extent to which retailer brands make a contribution to store loyalty building is a topic which has attracted many authors. As mentioned earlier, it is believed that retailer brands play an important role in retaining consumers (Cunningham, 1959; Martell, 1986; Liesse, 1993; Nandan and Dickinson, 1994; Richardson et al., 1996b; Steenkamp and Dekimpe, 1997; Wolf, 1999; Corstjens and Lal, 2000; Ailiwadi et al., 2001; Jonas and Roosen, 2005). There are three views from the literature. The first is that store loyalty is weakly associated with retailer brands, the second, that retailer brands function as an expected role, and the third, that retailer brands are not connected with store loyalty building.

Through measuring the proportion of an individual's shopping outlay in a store, Cunningham (1959) suggested that brand loyalty was, to some extent, correlated with store loyalty. This was confirmed by Carman (1970) and East et al. (1995). In other words, consumers exhibiting lower store loyalty are less likely to purchase store brands than those with higher store loyalty (Cunningham, 1959). Three decades later, Dick et al. (1996) also reported that consumers who are loyal to stores are more likely to buy retailer brand grocery items. On the other hand, KPMG (2000) argued that consumers who are more likely to purchase store brands, tend to be store-loyal. This is demonstrated by the latest study conducted by Labeaga et al. (2007), in the Spanish market, supporting the idea of Corstjens and Lal (2000), Ailawadi et al. (2001), and Erdem et al. (2004). Moreover, they found additional facts supporting the premise that loyalty varies across product categories and store brands.

Furthermore, Rao (1969) and Buck (1993) reported that, regardless of the degree of store loyalty, heavy users of store brands seem to have a strong propensity to buy them, even when they switch store. That is, store brand-prone consumers are more loyal to store brands than stores. As a consequence, it is difficult to say that store brands raise store loyalty (Ailawadi and Keller, 2004).

Considering the above conflicting findings, there may be a need to reconsider building store loyalty by using retailer brands as a marketing tool. However, if retailers exclusively provide new innovative products, in terms of functional or quality dimensions, without being marketed directly to consumers, it could be said that developed retailer brands establish consumers' store loyalty.

3.3 Manufacturers' strategic responses to retailer brands

There are many authors who have studied manufacturers' strategies to counter the growth of retailer brands (Salmon and Cmar, 1987; Glemet and Mira, 1993; Hoch, 1996; Quelch and Harding, 1996; Ashley, 1998).

The third-ranked manufacturer brand, or other brands, has been noted as the "trapped" brand - trapped between dominant and leading national brands and the emerging retailer brands (Cullen and Whelan, 1997). Furthermore, inferior manufacturer brands could be deleted when retailers operate their shelves scientifically. An issue for this research is not only the choice of the correct retailer brand producer, but also the need to benchmark the superior aspects of the leading brands, in order to effectively and efficiently manage them. For retailers who outsource their own brand production, choosing a production partner can be a pivotal element in making retailer brands successful. At this point, it is important to know how manufacturers have adapted their own strategies to counter retailer brands.

Understanding the producer's perspective might help retailers make the right decision over producers, and help to maintain retailer brands at a competitive advantage. Based on Hoch's suggestion (1996), six options will be presented.

3.3.1 No reaction and observation

The first is to avoid getting involved in retailer brands. In the changing economic climate, retailer brand market shares are likely to be influenced adversely, and therefore, manufacturers should not rush to make decisions related to competition strategy, particularly for product categories requiring large, long term investment (Hoch, 1996). Producers may observe retailer brand strategies with caution and wait until the market changes into a favourable situation. This is not without risk, as the market constantly alters. Like the growth in retail concentration, the retailers' investment in retailer brands increases, and there has been a rapid improvement in performance of weaker retailer brands, withdrawal, etc. (Hoch, 1996). This can be a passive strategy relying on the market, but in a situation requiring massive investment, this might be a reasonable response policy.

3.3.2 Increasing distance from retailer brands

Through distinctive features between retailer brands and national brands in the minds of consumers, national brands can continuously exist in the market as market leaders. In the light of competition costs, manufacturers should invest more financial resources in researching and developing products, rather than other competitive strategies. However, when their market shares fall in markets, this strategy adoption will not be easy. For retailers, the producer adopting this strategy might be a difficult partner in terms of negotiating retailer brand production.

Similar to the product innovation strategy, manufacturers can provide consumers with additional value through packaging improvements, more compact containers and “no-mess” containers. By maintaining existing prices but increasing value they can successfully differentiate themselves from retailer brands (Hoch, 1996).

3.3.3 Narrowing the price gap

It is evident that the market share of retailer brands has grown because of the large price gap between retailer and manufacturer brands and therefore, lowering the price gap would affect retailer brand market share (Ashley, 1998). In the same vein, brand producers price themselves close to retailer brands, in order to match the competitive edge of retailer brands (Risley, 1979). This notion is also supported by Sethuraman (1992), who identified that the price differences between national and retailer brands inversely have an impact on retailer brand market shares. Addressing this situation means becoming involved in direct price competition. The majority of producers reduce their prices as a strategy to keep their market shares, thus encouraging retailers to reduce the price gaps between national brands and retailer brands (Hoch, 1996).

With respect to the effect of the adoption of this strategy, there are two different approaches: from the dominant brand’s and trapped brand’s viewpoint. For dominant brands, rather than cutting prices, they tend to follow a premium price strategy, whilst the trapped brands trade downwards (Cullen and Whelan, 1997). As a result, the secondary brands are more likely to be sensitive to price competition because of low-priced retailer brands. All national brands, however, do not enjoy such a premium. As an example, “Marlboro Friday” presents one of the worst cases of

national brands cutting prices against retailer brands in 1993 and, as a consequence, lost \$13.4 billion in stock market value (Ashley, 1998). Although cutting prices can counter the growth of retailer brand market share, manufacturers can damage their profitability. Taking into consideration these attitudes towards retailer brands, there is little doubt that contacting with the trapped brands as a producer might be easier than the leading brands if they are of the same quality level.

3.3.4 Production of fighting brands

Maintaining existing brand products, launching new products with lower quality and prices than existing products, but higher quality than, and similar to retailer brands, can be another response action of manufacturers. This is called a “value flanker” (Hoch, 1996) and a “fighting brand” (Quelch and Harding, 1996). Before retailer brands became popular in the marketplace, many national brand producers decided to retain their market shares, on the assumption that retailer brands could become strong rivals (Dunne and Narasimhan, 1999). By launching this fighting brand, manufacturers could achieve the following objectives: (1) do not have to cut existing brand prices, (2) attract price-sensitive consumers away from retailer brands (Quelch Harding, 1996), (3) preserve the premium image of existing products (Hoch, 1996), (4) prevent profit erosion (Hoch, 1996; Quelch and Harding, 1996), (5) utilize excess production capacity (Hoch, 1996), and (6) primarily diminish or counter retailer brand shares.

The introduction of a fighting brand, however, may contain some risks. As Hoch (1996) noted, the fighting brand cannibalize the existing brand share or sales and need marketing or distribution costs to be differentiated from both the leading brands and retailer brands. Above all, the fact that a national brand producer provides

a lower quality product for consumers, could possibly damage the corporate image formed in consumers' minds. To overcome these negative sides, producers cannot help allocating their budget to a set of marketing activities. It is possible that the value flanker will be unfavourably treated due to limited shelf spaces. It is not easy for manufacturers to gain shelf space. Given that the fighting brand requires many marketing resources, this strategy should be treated cautiously.

From the retailers' perspective, it is apparent that the shelf allocation of the fighting brand might threaten retailer brand shares with higher margins, rather than attracting new consumers and generating additional profits. For these reasons, the fighting brand may not be favoured by retailers. Retailers could refuse to deal with the fighting brands to protect their own brands.

Manufacturers who invested in production lines but stopped supplying the fighting brands due to a variety of reasons, on the other hand, can be taken into consideration as a retailer brand producer, if the manufacturer want to utilize facilities.

3.3.5 Production of retailer brands

For manufacturers with weaker brand power in the marketplace, producing retailer brands can be a way to increase the productivity of production lines. According to Cho (2001), in the South Korean market, reason why P&G, with weak brand power in paper product categories, produced retailer brand for E-Mart, who is the Korean number one local retailer, was to improve the factory operation rate. Even the leading brand producers can provide retailer brand products, depending on their brand power over different product categories in different markets. In addition, this indicates that for the second or third tier producers, becoming a producer of retailer

brands might be the best way to gain shelf space, as pointed out by Mangold and Faulds (1993). Through this approach, manufacturers can reduce the marketing costs associated with distribution, advertising, and sales promotion (Hoch, 1996).

Together with the fighting brand option, this strategy also has potential risks. First of all, exposure of the producers' names on packaging or in the press may influence the brand equity and consumers' perception about the manufacturing company. When adopting this policy, there are many advantages and disadvantages, listed in Figure 3.2, depending on the manufacturers' brand power.

From the retailers' viewpoint, this strategy can be favourable. Negotiation with producers adopting this policy might be more proactive than with those pursuing the other strategies. This encourages both parties to form a good working relationship, as a collaborative strategy seeking out mutual interests (Nogales and Suarez, 2005). This would be the primary incentive for both parties.

Figure 3.2 Pros and cons of producing retailer brands

Group	Characteristics
Advantages	<ol style="list-style-type: none"> 1.Improvement of factory operation rate 2.Fixed cost dispersion over retailer brands 3.Refusal of retailer brand production may give more volume to competitors 4.Stepping-stone to expand business 5.Smaller producers can reduce market entry costs 6.Brand leaders can increase market control and profits 7.Keeping a good working relationship 8.Discouraging newcomers to enter into the market 9.Pursuing mutual benefits rather than competing 10.Acquisition of consumer information with ease 11.Guarantee of a stable selling route
Disadvantages	<ol style="list-style-type: none"> 1.Production will be short-term profits 2.Possibility subordinate to retailer control may increase 3.Management of own and retailer brands will be complicated 4.Retailer brands will cannibalize their own brand share 5.Corporate image will be damaged 6.Additional investment will be needed without helping own brands 7.Own brands will be set aside as retailers pay more attention to retailer brands 8.If retailers find producers with better trading terms, trades will finish, handing over expensive technology and expertise to competitors 9.Own brands can lead to excessive reliance on less customers 10.Under retailers' pressure, margins are lower than own brands 11.When retailers switch producers after manufacturers have massively invested, the risk will be unexpectedly higher 12.Bargaining power of raw materials is lost if retailers change suppliers 13.Rebuilding cost of own brands will be crucially needed, after promotion or advertising has been phased down

Source: Adapted from Euromonitor (1986, 1996); Glemet and Mira (1995); Samways (1995); Quelch and Harding (1996); de Chernatony and McDonald (1998); Mintel (1998); Kim and Parker (1999); Dunne and Narasimhan (1999); McGoldrick (2002)

3.3.6 Advertising enhancement

There are a large number of articles on advertising and several studies explore advertising as a competitive strategy to win the battle between retailer and national brands. The primary aim of mentioning advertising here is to understand the manufacturers' advertising strategy.

It is demonstrated by several authors that consistent investment in advertising can give national brands the opportunity to take advantage of price premiums and to avoid direct price competition with retailer brands (Hoch, 1996; Quelch and Harding, 1996; Ashley, 1998). In addition, de Chernatony (1989) warned that, if manufacturers continue reducing advertising expenditure, consumers are more likely to perceive their brand as being similar to retailer brands. As a consequence, advertising plays an important role in restricting the growth of retailer brand market shares.

3.4 Conclusion

Since retailers have introduced more sophisticated retailer brands with a stable, controlled selling route, they have become a threat to national brands, particularly the secondary or tertiary brands (Quelch and Harding, 1996).

In this chapter, the researcher focused on many factors that are important when retailers develop or manage their own brand products. They should always take these into consideration, from three different perspectives: consumers; retailers; and manufacturers. In order for retailers to succeed in their retailer brand programs, irrespective of geographical area, retailing formats and product categories, retailer brand developers and managers should keep a constant eye on the changing social and economic environmental factors, like disposable income, consumers' shopping patterns, market structure, and the degree of competition with national brands and/or other retailers' brands.

Like manufacturers, there is evidence that retailers have actively adopted the marketing concept in their own businesses (Burt, 2000). In an era of generics, the construct can be thought of as an ornament which increases the retail prices that consumers pay, and over time, retailer premium brands have been treated as the brand

equivalent to national brands in terms of the following marketing activities: pricing; distribution; research and development; packaging; colouring; brand naming; advertising; shelf allocation; display etc. As a consequence, retailers began to realize that the advantage of providing lower price retailer brands for their consumers (and gaining higher profits) has become blurred due to increased marketing expenditure. To be positioned as another national brand in the mind of consumers, all business activities should be based on the marketing concept. Therefore, how this marketing concept is reflected in the real retailing world, and how its adoption influences the retailer brand development and handling process implemented by retailers will be examined throughout the rest chapters of this study.

CHAPTER FOUR

Research Methodology

4. Introduction

Based on the objectives of the present study, this chapter will discuss the advantages and disadvantages of alternative research methods to justify why the researcher selected the specific research technique used. Before discussing research techniques, however, the research objectives should be mentioned, in line with Maxwell's (1996) view that every research project has personal and practical purposes. The rest of this chapter will then be organized as follows: research aim and objectives; research methodology overview; research design; population selection; interview guide design; observation; comparative study; limitations and conclusion.

4.1 Research aim and objectives

As expected, by identifying development objectives or roles for retailer brands, development know-how has become more sophisticated than far beyond the simple introduction of low-priced retailer brand products. Progressive retail brand developers take control of the whole production process, from the procurement of raw materials, packaging and container development, product cost decisions and so on, to be cost competitive against the leading brands. Retailers also sometimes gain price competitiveness by importing cheaper raw materials from foreign markets, rather than using those in the domestic market.

How Tesco Korea introduced their retailer brand program into the Korean market, and which factors differ from those employed by local retailers in terms of the development and handling process will be illustrated through two detailed objectives.

In other words, *the aim of this research is to investigate how different Tesco Korea, as a representative foreign retailer in the Korean market, is from local retailers, in terms of the development and handling process of retailer brands.*

The researcher first aims *to discover the differences between Tesco Korea and the local retailers in developing their own brands.* According to Korean Consumer Agency (2008), the retailer brand market share of Tesco Korea accounted for 20 % of its sales in 2007, and had increased to 22.8 % by 2008. This figure was the top share in the Korean market, as seen below in Table 4.1. In contrast, Korean number one retailer, E-Mart accounted for 12.2 % retailer brand market share of its sales. Generally, local Korean retailers showed lower retailer brand market share than that of Tesco Korea. Furthermore, according to the latest data published by Tesco PLC (available from www.tescopl.com), the retailer brand market share of Tesco Korea had increased even further to 25 % by November 2008.

Table 4.1 Retailer brand share of major retailers

Retailer	Share in 2007	Shares in 2008 (first half)
Tesco Korea	20.0 %	22.8 %
Lotte-Mart	13.0 %	-
E-Mart	12.2 %	13.0 %
Hanaro-Club	8.5 %	7.6 %
GS Mart	6.1 %	8.2 %

Source: Korean Consumer Agency (2008)

Tesco Korea is regarded as a successful foreign retailer in the Korean market, following the withdrawal of Wal-Mart and Carrefour in 2006 (Joe and Kim, 2007). As seen in Table 4.1, unlike other local retailers, it is evident that Tesco Korea has concentrated on its own brand development activity. It is, thus, interesting to explore

how Tesco Korea has increased retailer brand market share, unlike the local Korean operators.

Secondly, the present study aim is *to examine the retailing know-how transfer process from Tesco UK to Tesco Korea, in terms of the development process and handling of retailer brands*. How and to what extent the UK operation influences the development and handling processes of the retailer brand in Korea, and what kind of relationship exists between Tesco UK and Tesco Korea will be explored. Given the nature of the different retailing business environments, expecting an identical output would be unrealistic, even though the same retailer brand program is adopted in both countries. It is, therefore, worth of investigating how Tesco Korea is involved in the retailing know-how transfer process. Furthermore, the relationship between knowledge exchange and the relatively higher market share in the Korean market will be examined.

With the above two research objectives in mind, this study will be developed on the basis of reliability and validity. How to achieve this is one of the most important parts of this chapter. Reliability and validity throughout this thesis will determine the real value of the study. There are many authors who discuss how researchers study their topics in terms of research methods (e.g. Kerlinger, 1975; Denzin, 1978; Yin, 1981; Eisenhardt, 1989; Chandler and Hanks, 1993; Kent, 1993; Tellis, 1997). Although researchers examine interesting or important topics, if an unsuitable research methodology is adopted, the results can not meet reliability and validity requirements, and might lead researchers to misjudge social or natural contexts. As it is important to choose the right method, the advantages and disadvantages of various research methods will be discussed. Before starting to do this, however, it is essential to understand what research is. Why do we need research activities and for what?

4.2 Research methodology overview

Research can be divided into four categories depending on the research characteristics: (1) descriptive research, (2) experimental research, (3) historical research, and (4) philosophical research (Ary et al., 1990). Given these research characteristics, therefore, to acquire sufficient research value, that is, to attain this thesis's objectives effectively and efficiently, research methods will now be discussed.

4.2.1 Research methodology

Generally, there are two mainstream methods of research (e.g. Kent, 1993; Easterby-Smith et al., 1991; Golasfshani, 2003). These are quantitative and qualitative research. Depending on the topics' characteristics, the researchers' intentions, and the thesis objectives, these methods should be introduced separately or jointly. As Bryman (1988) states researchers select research methods based on their validity in answering the intended research questions. There is, in other words, no one best or correct way to study a research topic (Kent, 2007). Strauss and Corbin (1990), Patton (1990) and Flyvbjerg (2006) believe that a combination of both research methods can exert an effective influence on obtaining the desired research results. Although many researchers have had prolonged discussions over the relative importance of qualitative and quantitative research (Patton, 1990), here it is necessary to note what quantitative and qualitative research is, and what advantages and disadvantages each method has, because the research methods that researchers adopt will influence the degree of research reliability and validity. Each method basically represents a different inquiry paradigm, and research activities are implemented on the basis of the underlying assumptions in each paradigm (Patton, 1990).

4.2.1.1 What is quantitative research?

There are many similar but slightly different descriptions of quantitative research in textbooks, in academic literature, and on the Internet. Dickman (2007) explains it as follows:

“quantitative research is used to measure how many people feel, think or act in a particular way; these surveys tend to include large samples - anything from 50 to any number of interviews; structured questionnaires are usually used incorporating mainly closed questions - questions with set responses; and there are various vehicles used for collecting quantitative information, but the most common are on-the-street and telephone interviews”.

In the same vein, Kent (2007) describes quantitative research as a type of research method that it is basically focused on the construction of quantitative data, and which tends to use formal questionnaire methods, interviews, telephone or postal research, or various forms of experimental or quasi-experimental research. Hoepfl (1997) points out that academics adopting logical positivism or quantitative research are inclined to use experimental method and quantitative measures to probe hypothetical generalizations. This method, furthermore, encourages researchers to familiarize themselves with the problem or concept to be examined, and to generate new hypotheses to be tested (Golafshani, 2003).

Quantitative research can, therefore, be characterized as: emphasizing facts and causes of behaviour (Bogdan and Biklen, 1998); analysing data through the mathematical process together with quantified information (Golafshani, 2003); and explaining results as statistical terms (Charles, 1995). As implied by the meaning of the word, quantitative, this mainly consists of statistical methods. These methods, therefore, tend to lead researchers to fragment and delimit the phenomena studied into measurable or common groups that can then be applied to all subjects or in wider and similar contexts (Winter, 2000). As results are expressed as statistical data there are many limitations in explaining or exploring social topics. Cronbach (1975) and

Cicourel (1981) in their study pointed out that statistical methods can not take into consideration the many interactions that take place in social environments due to the dynamic complex characteristics of society, and the constraints of the survey instruments and analysis methods.

Figure 4.1 Distinctions of qualitative and quantitative research

Qualitative Research	Quantitative Research
<ul style="list-style-type: none"> • phenomenological • inductive • holistic • subjective/insider centered • process oriented • anthropological worldview • relative lack of control • goal: understand actor's view • dynamic reality assumed; "slice of life" • discovery oriented • explanatory 	<ul style="list-style-type: none"> • positivistic • hypothetico/deductive • particularistic • objective/outsider centered • outcome oriented • natural science worldview • attempt to control variables • goal: find facts & causes • static reality assumed; relative constancy in life • verification oriented • confirmatory

Source: adapted from Cook and Reichardt (1979)

Moreover, Bennett (1991) reported that quantitative methods have some advantages in terms of research expenditure and speed, compared to other research techniques, although they often lacked depth of information. The common features of quantitative and qualitative inquiry are shown in Figure 4.1. Considering the characteristics of the present study, the researcher will rely less on these methods.

4.2.1.2 What is qualitative research?

Strauss and Corbin (1990) defined qualitative research as any kind of research that produces findings not resulting from statistical procedures or other methods of quantification. Furthermore, Patton (2002) highlights that qualitative research produces findings arrived from real-world settings where the phenomenon of interest

unfold naturally. Denzin and Lincoln (2005), on the other hand, defined qualitative research as a field of inquiry that cuts across disciplines and subject matters. What is apparent is that researchers studying social sciences can explain effectively with qualitative methods issues not adequately explored or examined with quantitative research inquiry.

The data collected through exploratory qualitative methods can, therefore, complement the weaknesses of quantitative research in terms of relevance (Silverman, 1985). This is supported by Fielding and Fielding (1986), who noted that qualitative research can assist quantitative research by providing a theoretical framework, validating the research data collected, interpreting statistical relationships and deciphering puzzling responses, selecting survey items to construct indices, and offering case study illustrations. In terms of the fundamental objectives of each method, while quantitative researchers seek casual determination, prediction and generalization of findings, qualitative researchers pursue understanding, illumination and extrapolation to similar situations (Hoepfl, 1997). Strauss and Corbin (1990) also emphasized its attractiveness, in that qualitative inquiry can be used to better understand any lesser known phenomenon. Patton (2002) stated that qualitative research is appropriate to examine contexts that remain unexplained, and in areas where the nature of research is uncommon and where previous theory does not exist or is inappropriate. In addition, whilst quantitative researchers attempt to avoid the intervention of researchers' individual perceptions as much as possible, qualitative researchers get involved in the research (Winter, 2000).

In addition, how to build credibility or trustworthiness is a central issue in research to avoid a debate over the value of qualitative inquiry. At this stage, however, it is necessary to discuss the concepts of reliability and validity.

Many authors have discussed the definition of validity (e.g. Hammersley, 1987; Lehner, 1979; Johnston and Pennypacker, 1980). Although the construct of validity is defined by a wide range of terms in this research (Golafshani, 2003), one of the most widely accepted definitions is that of Hammersley (1987):

“an account is valid or true if it represents accurately those features of the phenomena that it is intended to describe, explain or theorise”.

At the same time, researchers realize that there is a need for qualifying checks or measures for their research (Golafshani, 2003). For this reason, many authors introduced new concepts of validity such as: quality rigour and trustworthiness (Lincoln and Guba, 1985; Seale, 1999; Stenbacka, 2001; Mishler, 2000; Davies and Dodd, 2002). Even though qualitative inquiry does not necessary need validity, to be accepted objectively from the readers' perspective, validity is essential.

Reliability is concerned with the consistency of results over time. Results produced later, in other words, should be the same as prior research results with the same variables. The idea that reliability is one of the most important elements in evaluating qualitative research has, however, often been criticized due to dynamic and complex social settings (e.g. Stenbacka, 2001). According to Eisner (1991), good qualitative research can help us to better understand a situation that is enigmatic or confusing. Taking into account the quality of qualitative research, Stenbacka (2001), however, agreed that reliability has no relevance and even misleads qualitative inquiry. In contrast to Stenbacka (2001), Patton (2002) stated that when evaluating research quality, analysing results, and designing qualitative research, reliability should become an evaluation criterion alongside validity. Sometimes, instead of the term reliability, authors have introduced alternative terms like credibility, neutrality, confirmability, consistency, dependability, applicability and transferability as the

essential criteria to evaluate research quality in qualitative paradigms (Lincoln and Guba, 1985).

Before starting to examine the research methods in detail, it is essential to look at why researchers adopt qualitative research methods. According to Kerlinger (1975), qualitative research methodology is suitable for achieving the following objectives: (1) discovering significant variables in a field situation; (2) formulating a foundation for the systematic testing of hypotheses; and (3) discovering interactive relationships among variables researched. As mentioned above, this study aims to uncover the most important variables affecting the different shares of retailer brand in both countries and then to identify their interrelationships. To examine work processes requires the researcher not to quantify, but to describe phenomenon. In explaining work processes or flows, quantitative research techniques relying on numbers and statistics can not be used as a suitable method. Adopting qualitative research techniques should be more appropriate for explaining the reasons based on the retailer brand development and handling processes. In order to accomplish these objectives, it is important to examine qualitative research approaches, to determine the most appropriate research method.

4.2.2 Qualitative research approaches

Drawing a distinctive line between different qualitative research approaches is a complex task. There are many arguments related to dividing qualitative research methods into several categories. As an example, Levy (2006) categorized qualitative methodologies into different five types: (1) ethnography, (2) phenomenological research, (3) action research, (4) discourse analysis, and (5) grounded theory. Kent (2007) suggested six techniques often used by academic market researchers: (1) content analysis, (2) ethnography, (3) grounded theory, (4) phenomenology and

hermeneutics, (5) discourse analysis, and (6) semiotics. Taking into account the purpose of this study, it would be undesirable to mention every method's strengths and weaknesses.

Johnson and Christen (2004) group qualitative research techniques largely into four categories in terms of research purpose: disciplinary origin; primary data-collection method; data analysis approach; and narrative report focus, as in Figure 4.2. Considering this research's objectives, a case study will be used as the main research method. There is, therefore, a need to look at this method in more detail.

4.2.2.1 What is a case study?

There are a large number of studies on case study as a valuable research method (e.g. Eisenhardt, 1989; Tellis, 1997; Soy, 1997). Yin (1984) defined the case study as a form of empirical inquiry that investigates a contemporary phenomenon within its real-life context, where the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used. "Multidisciplinary authors tend to use the case study method as a means of building upon theory, producing new theory, disputing or challenging the existing theory, explaining a context, providing a basis to apply solutions to contexts, and exploring or describing an object or phenomenon" (Soy, 1997). By the same token, among those who strongly advocate the case study, Feagin et al. (1991) claimed it is an ideal research method even when a holistic, in-depth investigation is needed. In addition, the case study is approached from multi-perspectival analysis; that is to say, researchers are using it as a research technique based on not just the voice and perspective of the actors, but also the relevant groups of actors and the interaction between them (Tellis, 1997).

Figure 4.2 Characteristics of four qualitative research approaches

Dimension	Phenomenology	Ethnography	Case Study	Grounded Theory
Research purpose	To describe one or more individuals' experiences of a phenomenon.	To describe the cultural scenes and characteristics of a group of people.	To describe one or more cases in-depth and to address the research questions and issues.	To generate a grounded theory describing and explaining a phenomenon.
Disciplinary Origin	Philosophy	Anthropology	Multidisciplinary roots	Sociology
Primary data-collection method	In-depth interviews with up to 10-15 people	Participant observation over an extended period of time	Multiple methods are used.	Interviews with 20-30 people. Observations are also frequently used
Data analysis approach	List significant statements, determine meaning of statements, and identify the essences of the phenomenon	Holistic description and search for cultural themes in data.	Holistic description and search for themes shedding light on the case. May also include cross-case analysis.	Begin with open coding, then axial coding, and end with selective coding
Narrative report focus	Rich description of the essential or invariant structures of the experience.	Rich description of context and cultural themes.	Rich description of context and operation of the case or cases. Discussion of themes, issues, and implications.	Description of topic and people being studied. End with a presentation of the grounded theory. May also list propositions.

Source: adapted from Johnson and Christen (2004)

As indicated by its definition, through the case study approach researchers can provide: (1) description of an empirical phenomenon; (2) test existing theories; and even (3) generate new theory (Eisenhardt, 1989). Similarly, Cepeda and Martin (2005) argued that in order to capture the knowledge of practitioners and to develop theories in the real world, the case study can be a suitable choice in research strategy. The case study method can be used to generate and test hypotheses as an effective

research technique (Flyvbjerg, 2006) despite the fact that Eckstein (1975) argued that the case study is better for testing hypotheses than for producing them. To sum up, the case study approach can be used to attain the following diverse objectives:

- (1) Providing description (e.g. Kidder, 1982; Benbasat et al, 1987; Eisenhardt, 1989; Yin, 1994; Soy, 1997),
- (2) Testing theories (e.g. Anderson, 1983; Pinfield, 1986; Eisenhardt, 1989, Soy, 1997; Flyvbjerg, 2006),
- (3) Generating theories (e.g. Harris and Sutton, 1986; Gersick, 1988; Eisenhardt, 1989; Soy, 1997; Cepeda and Martin, 2005; Flyvbjerg, 2006),
- (4) Capturing the knowledge of practitioners (e.g. Cepeda and Martin, 2005),
- (5) Testing and producing hypotheses (e.g. Eckstein, 1975), etc.

Among the above categories, this study will be based on the first and the fourth.

Despite all its advantages, however, this research technique can lead researchers in wrong directions. One early criticism of the case study was its lack of rigor because it was not scientific in nature like natural science (Yin, 1994; Tellis, 1997). Likewise, it provides little evidence from which to generalize as a theory due to a very particular phenomenon (Eisenhardt, 1989; Yin, 1994), and it takes a longer time to complete (Yin, 1994). In terms of the number of cases used, Eisenhardt (1989) pointed out that research done with less than 4 cases would have difficulty in generating theory for dynamic complex phenomena, due to lack of confidence in its empirical grounding unless the case has several mini-cases within it. Yin (1994), on the other hand, emphasized that a single case might be effective to confirm or challenge a recognized existing theory, or represent a unique or extreme case.

Despite the continued debate on the pros and cons of the case study technique, the reasons why the researcher uses this method in the present paper are as follows:

- (1) The subject surveyed is a particular retailer with world-wide reputation;
- (2) Rather than testing and generating a theory, the technique is used to discover the causes that make a big difference between both countries in terms of retailer brand market shares;
- (3) The technique should describe the natural business processes of Tesco with regard to retailer brand development and practice within its organization;
- (4) The technique should understand the nature and complexity of work processes, which can not be explained by statistics data;
- (5) The research focus is on exploring and comparing business processes.

Up to now, the researcher has explained the logical necessity of why the case study was adopted. It is now necessary to look at the detailed data collection methodologies used: interviews, observations and the like. In this respect, Yin (1994) suggested six primary ways to collect data for a case study: documentation, archival records, interviews, direct observation, participant observation, and physical artifacts. Each technique will be discussed in more detail.

4.2.3 Overview of research methods

There are many different research methods widely used to collect research data, depending on the research objectives and the researchers' intentions. There are also many articles written about each method's characteristics. Central to this section is how to adopt an appropriate research method to achieve the research goals. As shown in Figure 4.3, there are many pros and cons, purposes and limitations of each data collection technique. It should, therefore, be explained in the relation why the researcher selects some methods, rather than the others, which are explained briefly in Figure 4.3. The three research methods used in this study are: in-depth interview,

Figure 4.3 Overview of research methods

Method	Advantages	Disadvantages
Questionnaires, Surveys, Checklists	<ul style="list-style-type: none"> -Can complete anonymously -Inexpensive to administer -Easy to compare and analyze -Administer to many people -Can get lots of data -Many sample questionnaires already exist 	<ul style="list-style-type: none"> -Might not get careful feedback -Wording can bias client's responses -Impersonal -In surveys, may need sampling expert -Doesn't get full story
Interviews	<ul style="list-style-type: none"> -Get full range and depth of information -Develops relationship with client -Can be flexible with client -Targeted - focuses on case study Topic -Insightful – provides perceived casual inferences 	<ul style="list-style-type: none"> -Can take much time -Can be hard to analyze and compare -Can be costly -Interviewer can bias client's responses -Bias due to poor questions -Incomplete recollection -Reflexivity – interviewee expresses what interviewer wants to hear
Documentation review	<ul style="list-style-type: none"> -Get comprehensive and historical information -Doesn't interrupt program or client's routine in program -Information already exists -Few biases about information -Stable – repeated review -Broad coverage - extended time span 	<ul style="list-style-type: none"> -Often takes much time -Information may be incomplete -Need to be quite clear about what looking for -Not flexible means to get data; data restricted to what already exists -Biased selectivity -Retrievability – difficult -Access – may be blocked
Archival Records	<ul style="list-style-type: none"> -Get comprehensive and historical information -Doesn't interrupt program or client's routine in program -Information already exists -Few biases about information -Stable – repeated review -Broad coverage - extended time span -Precise and quantitative 	<ul style="list-style-type: none"> -Often takes much time -Information may be incomplete -Need to be quite clear about what looking for -Not flexible means to get data; data restricted to what already exists -Biased selectivity -Retrievability – difficult -Access – may be blocked -Privacy might inhibit access
Focus groups	<ul style="list-style-type: none"> -Quickly and reliably get common impressions -Can be efficient way to get much range and depth of information in short time -Can convey key information about programs 	<ul style="list-style-type: none"> -Can be hard to analyze responses -Need good facilitator for safety and closure -Difficult to schedule 6-8 people together

To be continued on the next page

Method	Advantages	Disadvantages
Case studies	-Fully depicts client's experience in program input, process and results -Powerful means to portray program to outsiders	-Usually quite time consuming to collect, organize and describe -Represents depth of information, rather than breadth
Physical artifacts	-Insightful into both cultural features and operations	-Selectivity -Availability

Source: adapted from Yin (1994) and

http://www.managementhelp.org/evaluatn/fnl_eval.htm#anchor1581634

observation, and documentation. The two former techniques will mainly be adopted in the primary field work to gather information about survey retailers, while the documentation method will focus on examining existing information. Furthermore, the rest of the research techniques are introduced in part to complement the three methods.

4.2.3.1 Interviews

Among the survey techniques used for case studies in social research, interviewing is one of the most widely used data collection methods, although many researchers also use it as a quantitative research method (Hoepfl, 1997). Interviewing as a qualitative research technique seeks to cover both factual and meaning levels, though it is usually more difficult to interview on a meaning level (Kvale, 1996). Regarding this method, Patton (1990) in his text book categorized interviewing into three types: (1) informal, conversational interviews; (2) semi-structured interviews; and (3) standardized, open-ended interviews. Sarantakos (1998) reported that researchers adopting qualitative research methods have a tendency to employ non-standard forms of interviewing like intensive interviewing and focused interviewing, compared to researchers preferring structured interviews in quantitative research. In

order for researchers to distinguish each type of interviewing, the following criteria are used: structure, purpose, role of the interviewer, number of respondents, and form and frequency of administration as shown in Figure 4.4 (Sarantakos, 1998).

Interview types, on the other hand, can be classified by the type of location in which they occur: street, home, a hall, a shop, and a business organization (Kent, 2007). Needless to say, this research will occur within a business organization and within shops.

Figure 4.4 Types of interview

Criterion	Interview types
Structure	Structured versus unstructured and semi-structured interviewing
Interviewee size	Individual versus group interviews
Standardization	Standardized versus unstandardized interviews
Role of interviewer	Other-administered versus self-administered interviews
Interview method	Telephone or computer interviews, oral and written interviews
Purpose	Analytical or diagnostic interviews
Etc.	Unique versus panel interviewing Hard versus soft interviewing Personal and non-personal interviews Open interviews Informative interviewing Inquiring interviews Guided interviews Structure or dilemma interviews Ethnographic interviews Delphi interviews Clinical interviews Biographical interviews Problem-centred interviews Focused interviews Narrative interviews Intensive interviews Receptive interviews Convergent interviews Elite interviews

Source: adapted from Sarantakos (1998)

Although adopting the interview for data gathering, its value is more likely to rely on how the interview is executed. Generally, in the light of interviewing practice, qualitative interviewing often occurs as a form of open-ended questioning when taking into account its characteristics (Hoepfl, 1997; Sarantakos, 1998). In the same vein, Frechtling and Sharp (1997) emphasized that an in-depth interview is characterized by extensive probing and open-ended questions. To achieve a successful interview result, there is a need to prepare before going to the field work. The interview should be recorded to allow later analysis of the data, as Patton (1990) stated. In contrast with Patton (1990), Lincoln and Guba (1985), however, reported that recording interviews is not necessary.

What kind of interview techniques will be adopted should be discussed here. The in-depth interview type is a suitable way to gain information on the work processes happening within the Tesco organization. Though Tesco might be “operated” by management manuals, these manuals can not cover the whole work process: there are a variety of unexpected cases like departmental conflicts, sudden trade terminations and the like. In order to get a good understanding of even a small part of the work process information, this method would be appropriate.

It is, therefore, necessary to examine the characteristics of the in-depth interview method in more detail, taking into consideration Bell’s finding (1993) that the interview type is dependent on the nature of the research topic and what exactly one wants to discover throughout the research activity.

While the interview method might help respondents to express their feelings, perspectives and their point of view, and allow researchers to capture these, the in-depth interview also allows researchers to produce information (Frechtling and Sharp, 1997; Guion, 2006). When researchers ask respondents to describe their feeling or

emotions, experiences, knowledge, expectations and perceptions, and can not quantify their responses, the in-depth interview is a good method to use (Patton, 1990). The quality levels of this information are influenced by the interviewer's skills and personality in leading communication during the interview (Patton, 1990). At this stage, the researcher turns attention to the characteristics, advantages and disadvantages of different types of interview. With regard to the methodological characteristics, Guion (2006) suggested the following:

- (1) Using open-ended questions that lead respondents to avoid answering 'yes' or 'no' , but to describe answers to questions;
- (2) Adopting semi-structured format so that the interview flow tends to be flexible;
- (3) Seeking understanding and interpretation of what respondents are saying;
- (4) Necessitating a good communication skill as a listener and a smooth transition skill from one question to another;
- (5) Recording responses and non-verbal behaviours of interviewees;
- (6) Recording interviewer's feelings after the interview.

With these characteristics, this technique has many advantages and disadvantages (Figure 4.5).

As this study aims to explore why retailer brand market share differs among both countries from the retailers' perspectives, the in-depth interview is a suitable technique to identify these reasons through communication with retailer brand developers and managers, because responses to interview questions are a form of explanation of the retailer brand program operated by a retailer. Without an interview, it would be difficult to gain information which might be tacit and invisible, behind simple performance information such as sales revenue, the number of SKU (Stock

Keeping Units) and the like. While respondents might have some limitations to answer questions because of confidentiality, they can describe the whole working process or experiences like success or failure within their own areas of authority.

Figure 4.5 Advantages and disadvantages of in-depth interview

Advantages	<ul style="list-style-type: none"> - Producing rich data, details, new insights - Permitting face-to-face contact with respondents - Providing opportunity to deeply explore topics - Leading researchers to experience the emotional and cognitive aspects of respondents - Allowing researchers to explain and help clarify questions, increasing the likelihood of useful response - Allowing researchers to be flexible during the interview
Disadvantages	<ul style="list-style-type: none"> - Higher costs and time-consuming - Necessitating well-skilled, highly trained interviewers - Possibility of information distortion by interviewees' error or perceptions or desire to please interviewers - Flexibility can provoke inconsistency of the interview - Difficult to transcribe and reduce data because of a large volume of information

Source: adapted from Frechtling and Sharp (1997)

4.2.3.2 Observation

Observation is a classical research method used to gather data. Frechtling and Sharp (1997) defined it as a method by which researchers gather firsthand data on programs, processes, or behaviours, and emphasized that it provides researchers with an opportunity to examine facts that interviewees might be unaware of, and which they tend to avoid talking about. Observation can, in other words, complement weaknesses in the in-depth interview technique. Through this method, the data collected by the in-depth interview can be checked or removed if uncertain, and this

increases both reliability and validity. In addition, depending on researcher participation, the observation method can be classified into two groups: participant and non-participant observation (Patton, 1990; Sarantakos, 1998). How much the researcher participates in the observation should be determined in accordance with the nature of the research. Patton (1990) stated that ideally the decision should be based on the participation levels which will produce the most valuable data for fulfilment of the research program: given the characteristics of the participants; the nature of staff-participant interactions; and the socio-political settings of the program. As an example, the presence of an observer as a researcher can provoke a distortion of the natural setting because there is a strong possibility that participants will be influenced by the observers' behaviour.

It is, nevertheless, essential to note the role of observation techniques in research activities. Frechtling and Sharp (1997) suggest that the functions of observation are as follows:

- (1) Describing the settings of program delivery studied, such as research place, research physical setting.
- (2) Identifying the subjects directly or indirectly related to such a phenomenon, such as their presented characteristics.
- (3) Describing the content of the intervention such as the actual activities and messages delivered.
- (4) Depicting the interactions or gaps investigated between implementation staff and policy makers.
- (5) Describing and evaluating the quality of the delivery of the intervention.
- (6) Being alert to unexpected events or settings that might require refocusing of one or more evaluation questions

Like the interview method, in terms of data record, the observation data should be recorded. There are many ways of recording such data, e.g. field notes, photographs, videotapes, and audiotapes (Hoepfl, 1997).

4.2.3.3 Documentation

According to Pole and Lampard (2002), documents can be classified as the following: written, visual, and physical artefacts. These data can help the researcher to develop the research topic at an early stage. As a result, this method provides various advantages in spite of the disadvantages outlined in Figure 4.3. Accordingly, it is unnecessary to explain why the researcher will adopt this technique in this section.

In the present study, as a part of the documentation research technique, the researcher will use existing data such as academic literature, trade press, and newspapers related to the Korean local retailers to extract the features associated with the operation of their retailer brand programs.

4.3 Research design

The previous sections have explained a set of general concepts about the research methodologies used in social science. Whilst the previous paragraphs provided the preliminary stage to structure this study's overall frame, this section will provide more detail of the research processes adopted to accomplish this research. This section is concerned with the logical sequences in which this study is to be conducted, the components of the study, research procedures, data collection techniques, data analysis, and research report construction. When these factors are incorporated into the overall research design, there should be a high level of confidence that this research can make a valuable contribution to the field of study.

4.3.1 Selection of a case

As a result of examining the research methodology options, the researcher will mainly adopt a case study method as a research technique. Amongst the case studies of international retailers across the world, Tesco is a multiple retailer frequently appearing in academic journals and articles (e.g. Coriolis Research Report, 2004; Palmer, 2005; Rogers et al., 2005; Francis, 2006). Even though there are many case studies of companies such as Tesco, Mark and Spencer, Royal Ahold, the Body Shop, Sainsbury's, Aldi, IKEA, and Yaohan, for the most part, these are associated with studies of the retailers' success or failure in retailing or international expansion or product procurement (e.g. Whitehead, 1991; Mukoyama, 1996; Wrigley and Currah, 2003; Palmer, 2005; Jackson and Sparks, 2005; Kent and Stone, 2007; Jonsson, 2008). Among these studies, Francis (2006) researched the product development process for Tesco brands in the UK's fast moving consumer goods industry using a case study research method.

When considering multiple retailers like Wal-Mart, Carrefour, and Tesco who actively carry retailer brands in their international operations, there has been little attention paid to whether they introduce the same retailer brand program as in the home market or what the result is, when expanding retailer brand development into foreign markets. Similarly, compared to a great deal of literature on the retailer brand in itself, there are few studies of what effect different factors have or if differences exist between both markets in terms of retailer brand shares. When the same retailer operates in both the home market and an overseas market, it would be difficult to expect the same gross margin, contribution to level of sales, market share, and role as in the home market. It does not, however, mean that the retailer brand contribution to the company in the foreign market is always lower than in the domestic market. Tesco

is successfully operating in both Korea and the UK, showing a considerable difference in the share of retailer brands.

4.3.1.1 Value of a case

It is, above all, essential to evaluate the value of Tesco as a case in the present paper. The extent to which Tesco influences markets or is positioned in the UK and Korea can be used as criteria to evaluate the real value of this case study to retail research. Rather than increasing the number of case samples to investigate the market flow or situation, it is justifiable to choose an influential case like Tesco as it is a market leader.

In the UK, Tesco is the number one retailer with over 31 per cent of supermarket share in 2007, followed by Asda with around 16 per cent (TNS worldpanel, 2007). It is worthy of note that its share of sales of retailer brands has gradually increased to 55 % of total sales in 2004 from 21 per cent in 1980 (Coriolis Research Report, 2004). It can be said that in the retailer brand market, Tesco is one of the strongest supporters of the retailer brand strategy. From its position as the UK's leading retailer and through its strong retailer brand market share, it is unsurprising that Tesco attracts researchers' attention.

In comparison to the market leader position in the UK, Tesco's position in the Korean retailing market was thought of market follower by 2007. After the acquisition of 35 Home-Ever stores from E-Land, which was previously owned by Carrefour, however, Tesco's influence in Korea has become very much stronger, on a par with E-Mart. Before starting to discuss Tesco's position in Korea, attention should be paid to a better understanding of the general Korean retailing structure.

Until 1996, foreign retailers could not enter the Korean retailing industry because of investment regulations over foreign companies. Even so Korea rapidly emerged as a viable retailing market by virtue of its dramatic economic growth. Since the complete deregulation of foreign capital entry in Korean retailing in 1996, direct investments by foreign retailers such as Wal-Mart, Carrefour, Macro, Tesco, and Body Shop have accelerated. In such a retailing environment, the Korean retailing structure started to change rapidly. The traditional home market-orientated forms of retailing saw market share fall to 34 % in 2005 from around 72 % in 2001, whilst the hypermarket share rose to 24 % in 2005 from 9 %, and on-line shopping jumped to 16 % in 2005 from 3.4 % of the total volume (Coriolis Research Report, 2007).

In a highly competitive structure, local and foreign retailers have reinforced their positions with new store openings as seen in Table 4.2. After the acquisition of Home Ever in 2008, the number of Tesco Korea stores increased to 111 in 2008 from 61 in 2007. The reason why the researcher describes the number of Tesco stores is to explain its scale relative to the other top retailers like E-Mart with 119 large supermarkets and Lotte Mart with 63 stores. In the hypermarket sector, Tesco Korea recorded a market share of 13.84 % in 2005, overtaking the second largest local retailer, Lotte Mart with 12.08 % market share, and the gap between Tesco and E-Mart was dramatically reduced to 13 per cent in 2005 from 18 % in 2001 (Coriolis Research Report, 2007).

If one analyses Tesco's market power in Korea today, it is unwise to say that its market position is still weaker than other retailers. As the second largest retailer and the most successful foreign hypermarket retailer, there is no doubt that Tesco Korea is one of the most influential retailers, although showing a lower share of the retailer brand than in the home market. Likewise, the fact that Tesco Korea has a relatively

higher retailer brand share than that of local retailers in Korea is enough to attract the researcher's interest, as noted in Table 4.1.

Table 4.2 The store number of major retailers

Retailer	2004	2005	2006	2007	2008
E-Marrt	69	71	103	110	119
Tesco Korea	31	33	51	61	111
Lotte Mart	36	38	47	56	63

Sources: Adapted from <http://about.shinsegae.com/museum/MUMainM.asp>
<http://about.shinsegae.com/company/COHistoryV.asp>
<http://company.homeplus.co.kr/intro/history/index.aspx>
http://www.lotte.co.kr/s2_business/sub2_02-5.html

4.3.2 Design of the research framework

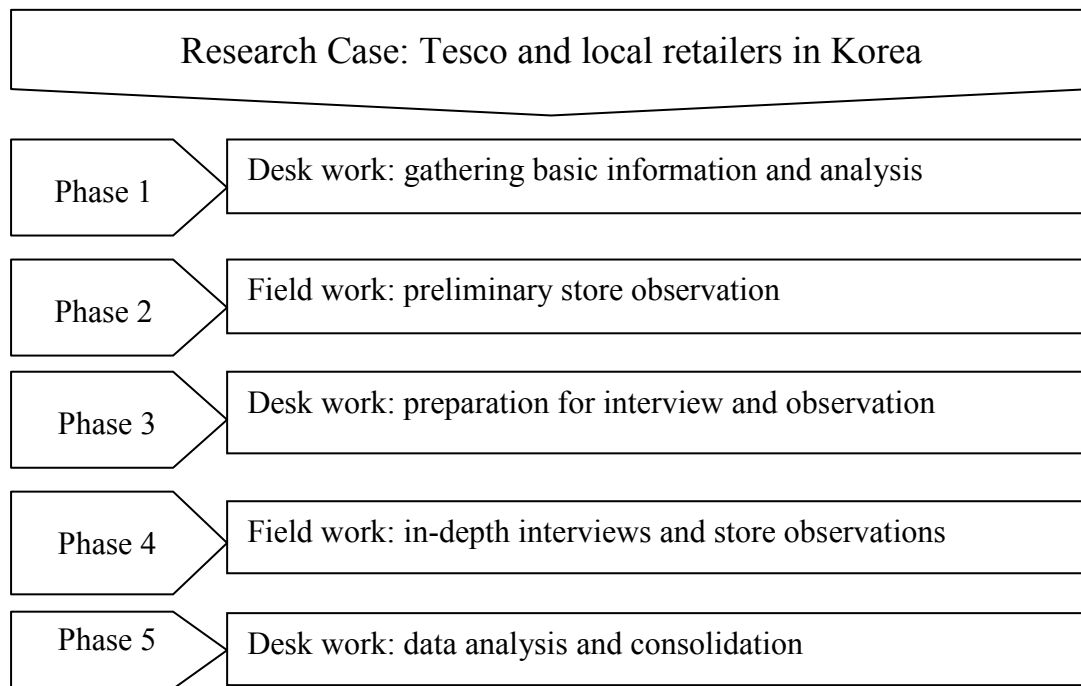
In addition to determining the subject of the research case (Tesco), the researcher should look at the whole research design to accomplish the original research objectives noted earlier. From the point of view of managing time and funds, it is very important to effectively and efficiently design the field work on the basis of a determined research technique before going to the field. Forecasting potential research problems is also a useful part of designing the research processes.

As shown in Figure 4.6, the research process is largely divided into two parts: desk work and field work. Through re-examination of the overall research phases, it might be possible to prevent any unnecessary overlapping of research activities with associated time and costs.

As the initial step of the research processes, the researcher gathered secondary information related to retailers and retailer brands, relying on existing data. Like any phase, each stage influences the next stage. As an example, this initial phase provided basic guidelines for the researcher is used later when compiling the interview guide.

Frechtling and Sharp (1997) pointed out that a good well-prepared interview guide, including a list of questions or issues, made best use of the interview time. Even Hoepfl (1997) emphasized that an interview guide lead researchers to effectively use the limited interview time.

Figure 4.6 Outline of research procedure



There are many information sources available from which to collect the information required in phase 1: including the Internet, subject literature, newspapers articles, magazines, journals, and trade press. Most of the information can easily be gathered through the Internet with less effort than in the past. According to the outline of the research procedure (Figure 4.6), the researcher takes a step forward.

In phase 2, the researcher observed Tesco Stirling store in order to confirm the information gathered in phase 1 and design interview questions.

As a practical preparation stage for interview and observation, the researcher organised interview questions and observation details, based on phase 2.

With an interview guide, the researcher interviewed suppliers in Korea with audio-recording, with the aim of accumulating interview skills, and then Tesco Korea and finally local Korean retailers. With the agreement of respondents, the researcher recorded the interviews.

Interviews were conducted from September to October 2008 at the headquarters of Tesco Korea and suppliers or Tesco branch offices. Depending on the interviewees, each took from 1 hour to 3 hours. In-depth interviews with local Korean retailers were carried out during February 2009.

On completion of phase 4, the researcher analysed and consolidated the various data and information gathered through the in-depth interviews, observations and documentations, comparing them with each other.

4.4 Selection of interview population

Choosing core participants is an important procedure when planning interviews, in order to acquire the appropriate information from respondents. It is, therefore, essential to discuss the selection criteria used for the interviewees, with the aim of gaining primary information about the retailer brand program. Depending on the decision-making authority and responsibility of respondents, it is likely that the researcher will collect information of different quality. This in its turn will influence research quality, as Eisenhardt (1989) pointed out. Furthermore, selecting inappropriate interviewees will be a waste of time and money and result in an unproductive research activity. Respondent selections should, therefore, be based on the right criteria.

To collect a wide variety of information on the retailer brand development processes and management procedures within Tesco, there are two approaches

available: one is to make direct contact with Tesco staff, such as a retailer brand developer or manager, and the other is to interview the suppliers or manufacturers of Tesco retailer brands. Although it is difficult to contact Tesco Korea as well as suppliers, the researcher successfully interviewed both, thanks to the help of the author's friends and acquaintances. The supplier interviews, however, have some limitations concerning original information concerning Tesco Korea. Suppliers could provide direct production information concerning the retailer brand programs, rather than details of retailers' strategies for developing and managing own brand programs. In other words, the suppliers provided the researcher with the opportunity to not only confirm the production-related information obtained from Tesco, but also to acquire both primary and complementary secondary information.

4.4.1 Retailers

This section begins with discussion of the retailers' organization, noting that every organization is based on classifying and grouping work activities (Robbins and Coulter, 2005). It is evident that retailers have developed more complex structures over time (Kent and Omar, 2003). Particularly, in the buying function of most large retailers, there is a general trend to centralise activities (McGoldrick, 2002; Berman and Evans, 2004). Generally, store authority over who can purchase products directly from suppliers, and the decision-making responsibility of store managers with respect of buying, has been reduced or stopped (Freathy, 1997). The characteristics of a retailer's organizational structure depends on the product types offered, product assortments or variety, customer service types, and the like (Lewison, 1997). Among the diverse divisions adopted, the researcher should focus on the merchandize

department responsible for developing, procuring, controlling, and designing retailer brands.

Consequently, the researcher selected interview subjects directly dealing with retailer brands. These respondents allowed the researcher to access the latest retailer brand development trend information and further reduce the risk of information distortion. The researcher could, therefore, ascertain the whole development work flow, while interviewing.

Even though the researcher reduced the options of potential interviewees - from the entire Tesco Korea organization to those in the buying department directly involved in the retailer brand program - there are still a large number of buyers and managers forming the population. When it comes to the population selection, the researcher considered the importance of the following factors: (1) product category characteristics, (2) development or selling experience, and (3) the degree of authority and responsibility.

As a part of past research topics, authors have focused on identifying the characteristics of categories of retailer brand with high market share (Hoch and Banerji, 1993; Dhar and Hoch, 1997), and how much the retailer brand contributes to product category margins (Ailawadi and Harlam, 2004). The relationship between the characteristics of a product category and the retailer brand development process, on the other hand, has been given less attention, in spite of the fact that the retailer brand development process might be simple or complicated, depending on the product's characteristics. This means that product categories which need relatively simple production processes and require less investment to produce, have been marketed much better than other product categories requiring complicated production lines. Accordingly, if the researcher interviews only a buyer who is in charge of a product

with a very simple production process (e.g. eggs), the research result will be limited. The researcher should, thus, collect information for different types of retailer brands.

By contrast, interviews with experienced subjects over the various product categories will provide very useful information for the researcher, in terms of time and research budget saving. This also reduces the number of interviewees. In order to have an interview with subjects like this, it is essential to try to make contact with buyers having sufficient experience of the development activity. Thus, among the three selection criteria, this condition is the most important.

Finally, the researcher should make contact with buyers who are to some extent responsible for the retailer brand program and who have a role that bridges between top management and the buyers or developers, to identify the practical development activity and the company policy. Interviewing only buyers in lower level roles would probably allow the researcher to develop an inadequate picture of the development and handling process in retailers.

As a consequence, the researcher interviewed managers, who had enough development experience over diverse categories and more than 7 years experience, who are in the middle of the organization, and who worked at the headquarters, including the regional area manager and the Public Relations Team manager. Given the above selection criteria, in-depth interviews with these managers should provide the researcher with valid and reliable research materials.

4.4.2 Store personnel

This section begins with an explanation of why the researcher also made an effort to make contact with store personnel. First of all, unlike managers at the company headquarters, store personnel are more closely involved in the selling stage.

As noted in Figure 4.5, while interviewing three personnel, it would be possible for managers to distort management information, because they might want to avoid or disguise some negative events in their own stores. In addition, managers might give a different answer from store personnel to the same questions about the success or failure of retailer brands. It is necessary, therefore, to confirm whether the comments obtained from the managers are true or distorted (from the perspectives of the store).

In choosing interview subjects in the store, there are many options. It should be remembered that this procedure is not only about collecting handling process information occurring in stores, but also confirming some of the information gathered from head office managers. To obtain valid information from the store level, the interview population should have sales experience in the food and non-food sectors of more than 3 years in the chosen store, and be “middlemen” between the store manager and sales personnel – essentially either the sales assistant manager or a senior sales associate.

In terms of the number of the product categories managed by staff, the store personnel take charge of many more SKUs than managers at the headquarters. It would be possible to gain general information over various product categories by interviewing only one assistant manager concerned with selling activity. While interviewed one store manager of Lotte Mart and one store assistant manager of E-Mart, the researcher interviewed one assistant manager with experience in the fast moving consumer goods of food and non-food, and two senior associates involved with produce and fish products respectively in the case of Tesco Korea.

4.4.3 Suppliers

As a good external source for primary or secondary information, and to in part check the primary information obtained from Tesco, interviewing retailer brand providers or general suppliers can be valuable, even when one cannot specifically gain primary information from Tesco Korea and local retailers. It is through these interviews that the producer-related information gathered from retailers can also be confirmed. Further, the researcher can examine in more detail the production processes, than he can from the retailer interviews. There can be significant advantages from this research process.

During the supplier selection process, selection criteria should be considered. Actually, retailers have dealt with a huge number of suppliers, including retailer brand providers. At this stage, there are basically two options: a general supplier and a Tesco brand supplier. Likewise, taking into account the imports of Tesco UK brand products, the import agency should also be interviewed. As a result, the number of interview subjects was three suppliers. Among the large number of general suppliers, from market leaders to third or fourth tier producers, which supplier the researcher will choose needs to be explained. The supplier interviews should provide the researcher with information related to both Tesco Korea and Korean local retailers like E-Mart and Lotte Mart. The potential interview subject should, thus, be involved with the above retailers and have strong market influence in Korea. Consequently, the researcher made contact with the number one market leader in the non-food sector, LG Household & Health Care, and with Oxy, owned by the UK Reckitt Benckiser. The researcher met with the former company three times to hear about: the E-Mart retailer brand program; the reasons why the company decided to supply the E-Mart brand products; and general information associated with the local Korean retailer

brand programs. The latter company has led some parts of the detergent and fragrance product categories. Both suppliers provide their products to most retailers in the domestic market.

In choosing the retailer brand supplier, there are some considerations. For product categories with simple manufacturing processes like produce, the providers might have little retailer brand production process information. For products requiring high technology or complicated production procedures, the providers might have more information on the production process than the retailer. Needless to say, the more interviews, the better the research result, but this would be time consuming. Rather than choosing many suppliers, considering the constraints of time and the research budget, the researcher had an interview with only Lotte Wellga, the cooking oil producer of the Tesco Korea brand. When the researcher introduced the first retailer brand of cooking oil in the Korean market where there were two strong market leaders accounting for more than 90 per cent of cooking oil market share, this company became a very successful producer, capturing around 50 per cent of the edible oil market share within stores. Thanks to this trading experience, this supplier was very willing to be interviewed. This supplier has kept a good relationship with Tesco Korea, for more than 10 years.

Finally, the researcher examined the import agent to gather import process-related information for Tesco UK brands brought in from the overseas market.

The researcher consequently selected the two market leaders in the non-food sector and one retailer brand producer supplying cooking oil in the food sector, which has also imported Tesco UK brands in an agency role (see Figure 4.7). Likewise, the interview populations were within the senior management class to collect information about the retailer brand programs of local retailers.

Figure 4.7 Interview populations

Category		No.	Class	Characteristics
Tesco Korea	Headquarters	3 1	Manager Area Manager	Good experience
	Store	1 2	Assistant Manager Senior Associate	
Supplier	LG	1 3 2	Senior Manager Manager Assistant Manager	Provider of E-Mart brand Good experience (E-Mart, Lotte Mart, E-land, Carrefour, Hanaro, supermarket etc)
		Oxy	1	Senior Manager
Tesco Brand Producer	Lotte Wellga	2	Director	Supply over 3,000 SKUs (excluding clothing)
Import Agency				
E-Mart	Headquarters	2	Manager Ex-Manager	
	Store	1	Assistant Manager	
Lotte Mart	Headquarters	1	Manager	
	Store	1	Store Manager	
Hanaro Club	Headquarters	1	Manager	
Total		22		

4.5 Interview guide

As Payne (1951) stated, asking questions is an art. During an interview, considerable interviewing technique is needed to gain the necessary information. Leading interviewees to smoothly respond to questions is directly proportional to the interview results the researchers want to get. In this study, because of the focus on acquiring information of the interviewees' experiences and behaviours, the researcher will adopt the open-ended form of questioning. This type of interview allows respondents to answer the questions with the greatest degree of flexibility (Patton,

1990). Depending on the respondents' roles within retailers and the suppliers, the interview guide should largely be divided into three groups: manager, store personnel and supplier.

4.5.1 Interview guide for retailer managers

Focusing on how to achieve the research objectives, the interview guide should be developed. This is largely categorized into four parts, according to the "model" process or procedure for retailer brand development, developed from information collected from documents and gathered through the frequent preliminary store observations of Tesco Stirling. These parts are: (1) overall retailer brand strategy, (2) decision-making stage from potential item suggestion to final development decision, (3) production stage and (4) selling stage. Assuming that different retailer brand strategy, development and practice processes, employed by Tesco from those of the local Korean retailers influences the present difference in market shares, the questions should involve the entire development processes for retailer brands.

It is an essential step to have a close look at Tesco's retailer brand strategy to distinguish Tesco Korea from local retailers. The first-section allows the researcher to identify these characteristics and get a general idea of the retailer brand program of retailers over all product categories. During the interviews with managers, the following topics were offered:

- (1) Aims of development of the retailer brand
- (2) The number of retailer brands operated and brands names distributed
- (3) Reasons why develop a few brands and its distinguishing criteria
- (4) Product assortment, price strategy, and delivery system
- (5) Annual rate of upgrading and stopping production

- (6) Quality control, corporate image control and legal confliction
- (7) Promotion strategy, price reduction and price increase policy
- (8) Advertising strategy and shelf allocation policy
- (9) Consumer service e.g. returns, complaints etc.
- (10) Criteria for product withdrawal from stores
- (11) Responsibility and authority of each department
- (12) Influence degree of Tesco UK and how to import Tesco UK brands
- (13) Competitors' retailer brand program

The second-section deals with the process of retailer brand development. This process will include all the stages from a development suggestion to the final development decision of a retailer brand. Even though a specific item is arbitrarily suggested for development as a potential retailer brand, the suggested item might be faced with development discontinuance, if there will appear to be failure risk through additional development activities such as marketability analysis and investigation of price competition degree.

Furthermore, depending on the procedures followed for potential items, the initial development process might be different from those of other retailers, in terms of a new retailer brand introduction. This means that if a retailer encourages new or existing producers to suggest a new product item as a retailer brand, it would be easy to introduce a new retailer brand product with an innovative concept not being retailed in the current marketplaces and to create additional sales volume. However, only if buyers suggest potential retailer brand items, the new retailer brand introduction might be more limited than the above case. If there are also many steps

needed to gain authority to start introducing and developing a new retailer brand product, the process speed can be slower than in a slim organization.

Based on the earlier considerations, the major issues discussed in this section are as follows:

- (1) Who suggests potential items for the retailer brand range (buyer, consumer, supplier etc.)
- (2) Who picks up the import items among Tesco UK brand products
- (3) How are brand types for each item suggested decided
- (4) How to research and evaluate a product marketability
- (5) Decision-making process to develop suggested items

These should help to identify the differences and similarities in how Tesco Korea implements the retailer brand program, compared to the local operators and how much this activity is related to market share difference.

After the final development decision of a suggested item, retailers might accelerate its production procedures requiring additional development activities like producer searches and decisions, factory inspection, the construction of distribution networks, sample production, package design development, marketing plan and so on. This stage between the decision to produce an item and the distribution of a developed item to the store, should be given as much attention as the core development stage. Although the retailer has decided to develop specific items as a retailer brand, during this stage the development decision can be cancelled. As an example, although the retailer may have developed a product specification, if the retailer cannot find appropriate producers, the development plan can be cancelled or suspended. Before asking about production processes, how retailers search for or decide upon producers should be considered. The third-part should involve the following points:

- (1) How to search for and select producers
- (2) How to determine levels of product quality and controls
- (3) How to develop product specifications
- (4) The process of deciding and developing packaging designs including the product names
- (5) Trading terms and conditions, and legal regulations like trade marks
- (6) How to develop marketing activities inside or outside Tesco
- (7) The decision-making process of product cost, retail price and retail margins
- (8) How to decide delivery units, lead time, and stock levels
- (9) Clearance plans for failed products remaining in outlets
- (10) Shelf allocation criteria and promotion strategy
- (11) The flow of Tesco UK brand products imported

Finally, the fourth-section, focused on selling, upgrading existing products and removing discontinued products, emphasizes the handling process of retailer brand products. In terms of the selling stage, this phase seems to be closer to store personnel than the buyers of the headquarters, although staff at headquarters check item performance trends and quality controllers manage them. In respect to selling activity, the key issues are:

- (1) How to keep an eye on sales trend and promotion implementation
- (2) Decision-making processes to upgrade package or quality
- (3) Decisions to reduce price and to stop production because of low performance
- (4) Procedures to sort out unexpected problems
- (5) Adjustments of ordering units or product boxes delivered
- (6) Returns policy and accounting procedures for return products
- (7) How to manage suppliers from the initial production to trade termination

With the above interview structure, the researcher met four Tesco managers and gathered a great deal of primary information associated with the Tesco Korea brand development and handling process in the food and non-food sectors (exclusive for the clothing category).

4.5.2 Interview guide for store personnel

The aim of building this interview guide is to check whether the information provided by head office managers of each retailer is consistent with the store personnel's view. It might be expected that there is a different view, or perception, between store staff and managers to the same questions. The degree to which store personnel make an effort to sell their retailer brands might, furthermore, influence the current market share difference between Tesco Korea and the local retailers.

During the interviews, therefore, the researcher focused on asking their opinions toward the retailer brands, on issues such as:

- (1) The degree of contribution to a store's profit and sales volumes
- (2) Delivery systems like lead time, ordering units, containers
- (3) Implementation of promotion policy, and shelf display
- (4) Customer services like returns, repairs, exchange etc.
- (5) Customer reactions to retailer brands, compared to leading national brands
- (6) Clearance systems for failed or discontinued products
- (7) How to manage products getting closer to sell-by date
- (8) How to maintain adequate stock level on shelves or in the backroom
- (9) Communication methods with buyers

4.5.3 Interview guide for suppliers

As mentioned earlier, the in-depth interviews with the providers of retailer brands and with general suppliers allowed the researcher to collect valuable information. Basically, there should be two types of interview guide: one for a general supplier and the other for the retailer brand supplier. This information is probably secondary information in relation to Tesco Korea and the local retailers, but is obviously an important intelligence source to gain further information on the overall retailer brand program. The interviewees, having more than 15 years experience as senior managers or as directors in the Korean retailing market, might be able to provide quite trustworthy data or information. Therefore, the supplier interviews should involve the following:

- (1) Aims of supplying retailer brands
- (2) The SKU number of retailer brands and brands names
- (3) Who suggested retailer brand production at first
- (4) How do retailers decide brand type
- (5) Research and marketability analysis of Tesco
- (6) Decision-making process within retailers
- (7) Who leads the development process
- (8) How to develop product specification
- (9) Quality control and delivery systems
- (10) Process of negotiating costs, production units, lead time, and trading terms
- (11) Whether retailers control raw material purchases or not
- (12) How to keep a relationship with retailers when production costs increase and vice versa
- (13) Special allowances or support to retailers

- (14) Processes of deciding and developing packaging design
- (15) Trading terms and conditions, and legal regulations like trade mark
- (16) Returns policy and clearance costs of failed or discontinued products
- (17) The degree of influence of Tesco UK
- (18) Whether or not the supplier provides other retailers with retailer brands

Rather than asking about the process of retailer brand development and practice management, when interviewing the general supplier, the researcher paid particular attention to collecting detailed retailer brand information about the local retailers. Most interviewees used to directly trade with major hypermarket retailers such as E-Mart, Lotte Mart, Hanaro-Club, and E-Land and with supermarkets like Hanwha, GS, and Haitai.

Likewise, one of the suppliers (LG) has provided retailer brand products for E-Mart, in spite of being the market leader in the non-food sector. All of the suppliers have supplied their products to most of the local retailers. This is very helpful in achieving the research objectives. During the interviews, the researcher asked similar questions as those asked of Tesco managers to easily compare Tesco Korea to other retailers. The following points were, however, added:

- (1) How each major retailer operates the retailer brand
- (2) Whether they import the retailer brand from overseas
- (3) General trading terms and conditions
- (4) Producer selection and control methods
- (5) Relationships between retailers and suppliers
- (6) Examples of trading conflicts
- (7) Expectations for the future Korean retail market

4.5.4 Interview guide for the import agency

In the course of the interviews, the researcher explored how Tesco Korea has imported Tesco UK brand products from foreign markets and how it managed them in Korea. The key issues needed to be explained were:

- (1) Who is involved in the import process
- (2) What kind of works are internally done
- (3) The co-operation relationship with Tesco
- (4) Profit margin and cost structure
- (5) How the imported products are managed should be explained.

Accomplishment of the interview objectives was not difficult in this case because the agency is fortunately the same company that is the cooking oil provider.

What was specifically asked during this interview, however, was how the Tesco UK brand products are imported, because after the agency delivers the products to the central distribution centre, the whole process of management is similar to products developed by Tesco Korea.

4.6 Observation

The information collected through the interviews should also be confirmed by on-site investigation to avoid information distortion by headquarters interviewees. In other words, it is necessary to undertake store observation to increase the validity and reliability of the interview information. Through this research process, how well the company policy flows from the headquarters to store level was examined.

For the above reasons, the researcher continued to conduct field work without noticing to interview retailers, with the aim of gaining objective store information. What was looked for in the visiting stores was as follows:

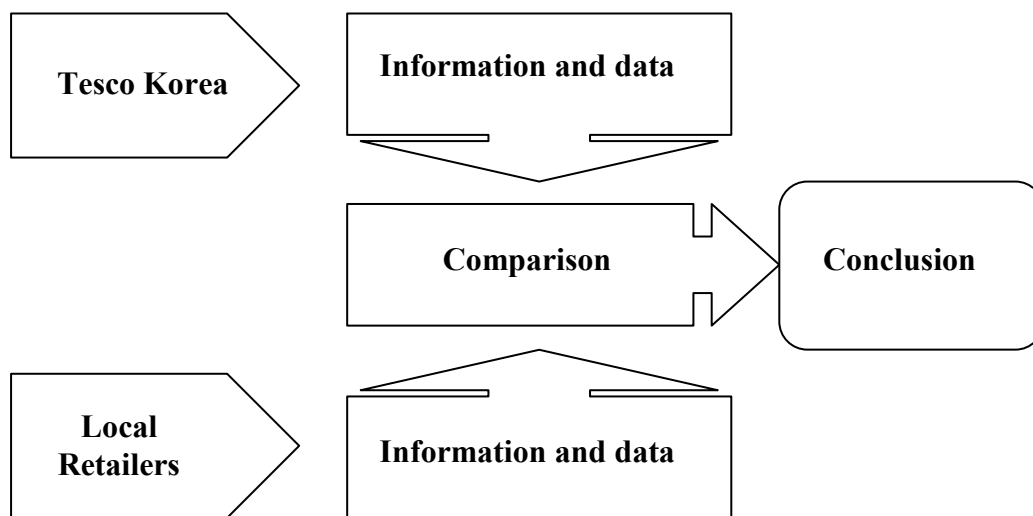
- (1) Retailer brand product display situation, comparing the retailer brands with national brands and how retailer brands were promoted
- (2) Prices and price gaps between national and retailer brands
- (3) Implementation degree of shelf allocation policy developed by headquarters
- (4) Whether promotion areas were operated by retailer or national brands
- (5) What kind of in-store advertising methods were preferred?
- (6) How often the replenishment of retailer brands was implemented
- (7) Whether there is a retailer brand promoter?
- (8) How discontinued retailer brand products were cleared out
- (9) Whether there was a difference between a store and a store, in terms of implementing the company policy

Based on the above contents, the researcher examined three stores in Korea, considering distance from the head office, as geographical elements might influence the store management structure. One of them was the pilot store, where buyers test all new products before distribution to all the stores, in Seoul. The second store is near Seoul, and the final store is on Jeju, which is far from Seoul.

4.7 Comparative study

As noted in chapter one, this study adopts a comparative research method. The approach of Tesco Korea is compared to those of the local Korean retailers from the retailer brand perspective (Figure 4.8). Through this comparative analysis, why Tesco Korea has shown a higher market share of own brands than the local retailers is explained, based on the field work results and documentations. Likewise, a comparative research method is one of the best ways to explain or utilize tacit, invisible knowledge or experiences of respondents (Arteology, 2008).

Figure 4.8 Comparison structure



4.8 Limitation of research methodology

Like any research, the present study has some limitations influencing the reliability and validity of the research results, in spite of every effort to reduce methodological errors.

Regarding data quality, the information on local retailers was collected over fewer interviews, due to time limitation and the research budget. Information about the retailer brand development handling process of the local retailers might, thus, be evaluated as being of lower quality than that of Tesco Korea.

Secondly, although there are a large number of articles associated with retailer brand, the lack of prior research related to the retailer brand development and management process discouraged the researcher. Due to information confidentiality on the part of retailers, this topic might, therefore, not be given much attention. It is apparent that the lack of prior work in the existing articles was an impediment.

Finally, as the researcher took into consideration the only limited geographical factors when choosing the three stores for observation, this selection might also have an influence over the reliability of the present research. Despite the fact that store

personnel mainly follow company policy, there is some autonomy to adapt to the local retailing environment. Their autonomy to operate the stores can lead the researcher to misjudge information assumed to be common features.

4.9 Conclusion

Central to this study is the application of a case study research design to identify the reasons why Tesco Korea has shown a higher retailer brand market share than local Korean retailers. In order to examine how different the development and practice management of the retailer brands of Tesco Korea and the local retailers are, describing and explaining experiences, feelings, perception and a workflow are one of the most important parts of the present research activity. The in-depth interviews with suppliers and store personnel to confirm the interview results from retailers, or to minimise information distortion increase research reliability and validity.

In addition, based on the field work results, the adoption of a comparative research method allowed the researcher to identify the different characteristics between the retailer brand program of Tesco Korea and those of local Korean retailers.

CHAPTER FIVE

Development and Management of Tesco Korea

5. Introduction

This chapter presents the findings from the data collected from the interviews, observations and documents relating to Tesco Korea. This presentation consists of two major parts: the development processes of the retailer brand ranges and the handling processes of the retailer brand in the store, because from the point of view of the retailer, one can distinguish the development of retailer brands from the selling of a retailer brand.

The presentation of the findings relating to the retailer brand development process (excluding the selling process in stores) will also be separated into two further stages: first the development decision, and second the supply to stores. Rather than simply describing the development process, according to the interview findings, the researcher will concentrate on extracting the key characteristics associated with development activities, such as item decisions; design development; supplier decisions; ordering unit decisions; and distribution options.

Consequently, based on the field work results, this chapter is structured into three stages, each comprising several distinct activities:

< First stage: item decision processes >

- (1) Item suggestion for retailer brand development
- (2) Preliminary investigation of the items to evaluate their marketability
- (3) Final decision-making process to start development

< Second stage: production >

- (4) Producer selection

- (5) Brand naming and design development
- (6) Product specification development
- (7) Product pricing
- (8) Promotion planning
- (9) Distribution system
- (10) Clearance plan for “failed product”
- < Final stage: selling >
- (11) Sales stage
- (12) Upgrading or clearance
- (13) Contribution to internationalization

5.1 Tesco brand development

Currently, Tesco sells around 420 products under its Home Plus brand in Korea and recently started to sell a dedicated children’s clothing label “No. 1 for Kids” (Planet Retail, 2008). How Tesco started to develop its own brand program should, therefore, be considered here in order to understand what kind of objectives it has for its brands. Also, whether the retailer brand know-how created in the home market has been transferred into Tesco Korea is worthy of noting, in the light of knowledge transfer through retailing internationalization. If this is led by the UK-based Tesco operation, it is necessary to understand how much the operation of the UK’s retailer brand has impacted on Tesco Korea’s market share.

Tesco operates nine own brand types in Korea including four clothing brands. In the clothing sector Tesco has increased the number of brands over time and concentrates on developing “better” clothing through these Tesco brands, while over the remaining food and non-food ranges, five brand names are sold. The researcher

asked respondents how they distinguished between these brands. Their replies are based on distinctive characteristics like price appeal, quality level, product range differentiation, and imported overseas product (Figure 5.1). It is, therefore, essential to note what characteristics each brand delivers to customers and what role each brand plays within Tesco. These aspects are demonstrated in the following quote:

“At the initial introductory stage of the Tesco brand, a decade ago, what we could do differently from the national brand was the price emphasis to attract customers who purchased the market leading brand. Except for differentiated price strategy, there was no way to appeal to both the competitors’ and the national brands’ customers and further most of the retailers used the price factor as a competitive marketing tool. However, over the last few years, we have realized that to lure upper customers, to effectively compete with our competitors and to grab customers who used to go to the traditional clothing market, we need to develop better Tesco brands than price-focused brands, in terms of quality, even though a few brands have been priced slightly higher than the leading brands. Consequently, we are currently running diverse brands in Tesco stores.”
(Tesco manager)

Figure 5.1 Brand names and characteristics

Brand name		Characteristics and Objectives
Premium Brands	Home Plus Premium	- Higher quality, same or slightly higher price - Attracting upper customers
	Wellbeing Plus	- Organic products
Home Plus Joun		- Equal quality to national brands - Lower price than national brands - Tesco’s image improvement
Home Plus Alittle		- Middle quality - Lowest price
Tesco		- Imported products - Outstanding in non-food sector
Clothing	No. 1 for Kids	- Children is the major target
	Free Sunset	- Casual clothing brand
	Easy Classic	-Adult clothing brand
	Spring Cooler	-Sport good brand

Based on this interview, the emergence of Tesco's brand could be seen to reflect the high price competition amongst retailers with national brands at that time. Furthermore, the development of Tesco's own brand has gradually changed from an emphasis simply on lower price to the addition of higher price premium products, with outstanding quality level and to product category supplementation. Moreover, this respondent stressed that Tesco ultimately aims to develop its own brand over all product categories. In the course of the interviews, the researcher found that as buyers accumulate development experience and the company sales volume increases, they start to have more confidence in introducing new types of retailer brand to the existing product categories. As seen in the above quote from the manager, the direct or indirect experience of Tesco's brand development of lower price products can become an important cornerstone to expand the retailer brand.

5.1.1 Grocery brand characteristics

When looking back at retailer brand development history, it is possible to ascertain the characteristics of the core brands in the grocery range. Firstly, attention should be given to the brand "Home Plus Alittle". This brand was the first brand developed, basically to emphasize price competitiveness compared to competitors like E-Mart and Lotte Mart. This brand tends to be used for frequently purchased product categories sensitive to price, irrespective of whether leading national brands exist within the categories. This brand is characterized as middle quality level and lowest price level. Compared to the quality of the leading brands, this is at a lower but acceptable level from the customers' perspective. On the other hand, price is much lower from 10 to 20 % lower than the national brands, which means that the price factor is still the core feature of this brand.

The premium brand (Home Plus Premium) is developed with the aim of differentiating itself from “Home Plus Alltle” and focuses on enhanced product quality with a slightly higher price or a price equal to the national brand. The objective of this brand introduction was to give customers an opportunity to choose the best product quality even though the price is higher, to improve the profitability of products suffering from price competition, and to position Tesco as the best retailer in the customers’ mind. More importantly, this brand functions as a market strategy to avoid direct price competition with other retailers.

As seen in Table 5.1, 5.2 and 5.3, some product categories have a mixed brand strategy. This aims to attract a wider customer base within a specific category, satisfying different consumer perceptions about product origin. As an example, when choosing sesame oil, Korean customers tend to think of “made in Korea” as the quality guarantee, even though the price is much more expensive than “made in China”. While the Home Plus Alltle brand of sesame oil costs around 830 WON per 100ml, the Home Plus Premium is over 4,000 WON, almost 5 times higher.

The “Home Plus Joun” brand is slightly different from the two other brands in terms of price and quality. In the quality dimension, this is better than Home Plus Alltl, but lower than Home Plus Premium and equal to or slightly lower than the national brands. However, price levels are slightly higher than Home Plus Alltle, but lower than Home Plus Premium and the national brands. While Home Plus Alltle emphasizes the price side without being compared to the leading brands, the Home Plus Joun has been created to respond to national brands in terms of both quality and price. In addition, this tends to help Tesco’s overall brand image to improve from “lower price and lower quality” into “lower price and better quality”.

One research aim is to identify the relationship between retailing internationalization and retailer brand development. The “Tesco” brand directly imported by Tesco Korea is a fourth brand type, and indicates this direct relationship. What is evident is that “Tesco” is imported without any involvement of the buyers in Korea. Associated with the Tesco brand import, is the global sourcing team, established in 2003 within Tesco Korea. This team determines what kinds of product Tesco Korea sells, and orders them from the importer, Lotte Wellga Company. Tesco receives the products from the importer and then distributes them to its own outlets. Depending on the sales performance in a pilot store, distribution of these products may then be expanded into other stores.

In respect of the Tesco brand, what is distinctive is that even though some product categories are sold in the food sector, most of the imported products in non-food sectors, such as clothing, electronic gadgets, stationary, and household products.

Although Tesco has plans to extend its own brand into clothing, as the fashion category becomes a more important sector in increasing profitability, the discussion of clothing is limited here because the focus is on FMCG (Fast Moving Consumer Goods).

5.1.2 Development categories

Through the in-depth interviews with managers in the buying department and Lotte Wellga, it was found that the retailer brands sold within Tesco Korea can be grouped into three categories according to the product sourcing method: (1) the domestic retailer brand produced only in Korea, (2) the overseas retailer brand produced by Tesco Korea in a foreign market and (3) Tesco UK’s retailer brand imported directly. As mentioned above, the Tesco UK products are provided by the

global sourcing team within Tesco Korea with Tesco UK's co-operation. The other brands are led from item suggestion to the final stage by the Tesco Korean buyers without the intervention of the global sourcing team.

Surprisingly, the overseas retailer brand products are developed by buyers with the dedicated importing agency, Lotte Wellga, who supply more than 3,000 SKUs under the Tesco brand. According to the sales director of Lotte Wellga, the products are midway between the domestic brand and UK products in respect of the buyers' degree of influence during the development process. This means that the buyers are more closely associated with the domestic brand development than the UK brands.

More importantly, depending on the above three sourcing categories, the degree to which the buyers are involved in the retailer brand development processes is different. As evidence, the researcher found that products developed by Tesco UK are actively controlled by the global sourcing team, albeit with the buying department's co-operation. In this case, going to the UK and picking items to import to Korea is in principle the responsibility of the team, although shelf allocation, pricing, promotion and so on are done by the local buyers. With regard to the handling processes of the imported Tesco brands, one of the managers explained that the buyers tend emotionally to pay much more attention to the domestic produced Tesco brands than the buyers have already involved relatively more in their development stages, than the imported Tesco UK brand, because the buyers tend to take more moral responsibility for domestic producers to guarantee sales volume. By contrast, the Tesco UK brand's handling puts less pressure on the buyers in terms of trading relationships with overseas producers. Although the imported brands are treated differently within Tesco Korea, this is essentially in relation to the import process (such as the item-picking

among the Tesco UK brand products, and the import procedures), as the other activities like pricing, promotion, shelf allocation, and clearance system are the same as for the other retailer brands.

The reason why the researcher distinguishes the three sourcing categories here is to highlight differences when investigating the detailed development activities below. The researcher will, therefore, return to this categorisation whenever differences emerge later.

In summary, it can be said that Tesco Korea is in the process of extending its own brands over all product categories and increasing its market share with a variety of brand names in both the food and non-food sectors. Beyond simple brand extension into non-food sectors, this process implies that Tesco strongly believes its retailer brand program is one of the superior marketing tools available to the company to get over the highly intensified competition, as indicated in the passage below:

“Tesco is not Tesco of the past any more in the product development dimension. We have quite strong buying power, and have developed ourselves somewhat to diversify the Tesco brand product area to the clothing sector. Compared to the past, our customers have become more and more aware of our own brands positively. When it comes to sales performance of Tesco brands, the growth rate is remarkable because of active brand extension, although it is difficult to open the exact year-on-year growth rate. As you know probably, customer response to our brands is great. Its word-of-mouth reputation is really positive. As the Tesco brand performance improves, the roles of the retailer brand have become more and more important than the past.” (Tesco Manager)

The remainder of the chapter will now focus on the three development stages identified earlier

II. Item Decision Processes

Three development activities can be identified which contribute to the decisions to develop a retailer brand item.

5.2 Item suggestion

As Cho (2001) highlighted in his work with Daiei, the possibility of retailer brand success was likely to be higher when the items developed were suggested by customers rather than by buyers or suppliers. The item suggestion process is the starting stage of the retailer brand program and should be considered as an important part of developing a successful retailer brand. The system of encouraging customers to recommend items for retailer brand development might also affect the organizational form, that is, force the retailer to establish an internal department dealing with customer requirements.

There are three subjects able to recommend an item: customer, supplier and retailer. Through the interviews with the Tesco Korea managers who are generally in the middle stage of the decision-making process, it becomes evident that Tesco Korea does not have a dedicated organizational department to organize suggestions for its own brand product development. They stated that general buyers purchasing general merchandise have for the most part developed and managed the retailer brand program since Tesco entered the Korean market in 1999, despite the fact that Tesco Korea has recently been influenced by Tesco UK in terms of the retailer brand enhancement. Within the company's retailer brand program, buyers have been authorized to propose items for development and instructed to develop Tesco brand products. There are, of course, cases suggested by suppliers and their colleagues staying closely with their customers, but such cases are few and far between. Officially, Tesco Korea is more likely to give buyers the whole authority and responsibility to suggest and manage the item development process. What is evident is that even though some items tend to be developed from customer or supplier propositions, these suggestion activities are managed by buyers, that is, through

official debate over whether they can be a potential item for retailer brand development within Tesco. However, in the case of overseas retailer brands, most of them are suggested by the supplier.

In terms of reflecting the customers' needs and wants in the retailer brand program, it can be said that there is little room to listen to customers' voices directly. Buyers tend to be closer to suppliers than their customers. Customer communication in the initial stage is considered as a low priority.

“Tesco doesn't have any department dealing with customer voice concerned with Tesco brand development and involvement in the item suggestion process. Obviously, over 99 percent of developed items are proposed by buyers, though there are sometimes cases where managers or our bosses make suggestions.”
(Tesco Manager)

In order to illustrate the process through which buyers recommend a potential item as a retailer brand, there is a need to turn attention to what criteria they adopt. The next section will, therefore, discuss item suggestion criteria in detail.

5.2.1 Item suggestion criteria

It is natural that buyers should have criteria to evaluate any potential item for retailer brand development. The researcher, accordingly, asked the respondents to explain these criteria.

One of the managers stated that when buyers propose a potential retailer brand item, although they use in theory a variety of selection standards such as product sales volume, acquisition of additional profit, and supplement of product ranges, the other criteria buyers apply seemed to be ambiguous, and unclear. Likewise, a common feature throughout the interviews was that when selecting potential items there is no particular order of priority. Moreover, it was stressed that buyers tend to propose items to their managers without clear suggestion criteria, but under the pressure of the

retailer brand sales targets delivered by a director. Despite the apparent lack of a standard, formal role of criteria, the researcher will summarize several key criteria identified by the interviewees.

A major factor, which they tended to emphasise, is the current scale of the category sales volume. This means that as they develop a product category with a larger sales volume, effectiveness might be maximized and even risk of failure can be reduced. Tesco is less likely to allocate its resources to developing small size product categories as own brands. It can, accordingly, be said that products with the largest sales potential tend to be developed first.

“Recently, we are aiming at spreading Tesco brand area to product categories with small sales volume. Nevertheless, our development focus is still on categories with enough sales size because of sales failure risk.”

(Tesco Manager)

The next widely used principle is the items turnover rate. This is similar to sales volume because the higher its turnover rate the larger its sales volume, unless the unit price is considerably lower. This factor is, therefore, directly proportional to the turnover concept. As indicated by the managers, examples such as milk and eggs in the food sector and toilet paper in the non-food sector are product categories with a higher turnover rate and high scale at the same time. Equal to the sales volume element, the turnover rate of product is treated as a very important criterion.

Unlike the previous two elements, there is a specific item suggestion criterion provided by bench-marking competitors such as E-Mart which is the market leader. As an example, if Tesco’s competitors introduce new own brands and succeed in selling them, the buyers are prone to recommend the same categories for development, because category success is demonstrated by others. At the initial introduction stage, learning from competitors is an obvious process as this overcomes any lack of knowledge about a category.

One of the major elements under consideration over the last few years is to supplement the existing product range, to provide customers with wider product choice, because most of the product categories with high turnover rates or large sales volume have already been developed:

“Well, go to stores and check the popular product categories. We have already developed them as a Tesco brand. It is difficult to discover new categories with large sales volume, and then we are slowly turning our attention to the existing undeveloped categories. We want to give our customers shopping experience selecting among various options. That is, the existing product range is to be extended by introducing Tesco brands.” (Tesco Manager)

Through store observation and the interviews, it was found that new categories have gradually emerged as a retailer brand. Among such product categories, edible oil is a good example because Tesco added three kinds of edible oil: olive oil, rapeseed oil, and sunflower oil as own brands, to the existing two kinds: soyabean oil and corn oil, to provide a better shopping experience for consumers. This development activity is typical of product range supplement activities, rather than gaining additional profits or increasing sales performance, and is practised more and more by Tesco Korea.

In addition to the above criteria, buyers consider other elements like the suppliers' suggestion, as seen in the development of the overseas Tesco Korea brand products and safe product sourcing. In the former case, Tesco tends to easily accept producers' proposals because of both the producers' promise to take the whole responsibility of failure and lower handling risk. Tesco might also be involved in developing frequently purchased products to guarantee enough stock of products during the peak season as in the later case.

Importantly, individual criteria function independently or in combination when developers consider potential items. Some product categories, not suitable on these criteria might be excluded from the preliminary item analysis at the outset.

Although every item is suggested through a set of criteria, there are some product categories for which development of a retailer brand is prevented.

5.3 Marketability investigation

After the item suggestion stage, the retailer needs to investigate the items' marketability. When buyers make a decision on development, one of the most important development activities is to analyze item appropriateness. Unlike the past when buyers had to rely on accounting books associated with product flow, the collection of data to investigate item marketability has become much easier, thanks to information technology.

“Needless to say, today’s retailing war is really a matter of who can first build a faster, better information system than competitors. Without IT (Information technology), whatever you do, you could not succeed. In the case of a marketability investigation, Tesco massively reduced its time cost to collect data. In front of a computer, whatever you want, you can get everything, because of the sophisticated information technology.” (Tesco Manager)

The EPOS data system within Tesco helps buyers to effectively research and analyse an items' marketability, and further to reduce data collection time and cost.

5.3.1 EPOS system

As many authors have pointed out, innovative information technology allows retailers to take power from their suppliers. All the interviewees passionately believed that the information system gives Tesco a variety of advantages such as turnover analysis, sales trend information, stock control, management support, and so on.

As a method for collecting a wide range of important data associated with the marketability analysis, the EPOS system data play a significant role in deciding product developments. Generally, the buyers interviewed regarded this system as the

most important information source for the Korean market. The potential of the EPOS system is well expressed in the following passage:

“In a word, the EPOS system is like blood of a human body. It is not easy to briefly describe its advantages. Unlike the initial system, which is very simple and focused on only the product flow management, the recent EPOS function might exceed your imagination. The important thing is that it has provided the product flow-related information in real time for the product-related department 24 hours a week.” (Tesco Manager)

As noted in the above interview, the system is of considerable help to buyers enabling them to efficiently and effectively make a development decision, based on the marketing team’s data analysis. The data collected from it, include: (1) an item’s total sales volume and profit, (2) the number of stock keeping units, (3) each brand’s market share and profit, (4) each SKU’s market share and profit, (5) purchasing cost, selling price and margin, (6) each SKU’s turnover rate, (7) estimation of consumer perception, and (8) market trend. Managers believe that compared to external information collection such as outsourced market research data, this can be an easy, economical way. Accordingly, the EOPS system is one of the most important information sources.

5.3.2 Trader information

Managers are also concerned to find information collection methods which will enable them to identify the overall market trends associated with the suggested items. In analyzing current and future market trends, the routine information accumulated through the trading interview plays an important role in determining suggested items’ marketability. While conducting the interviews in Tesco Korea, the researcher confirmed that intelligence gathered through suppliers allows Tesco to collect market research at minimal cost. In the case of the overseas product

development of a Tesco brand, the supplier makes a significant contribution to the information acquisition process.

“Honestly, how many buyers can directly gain overseas market information? Well, as they can do it, indeed, it’s very little because there were too many things the buyers should do everyday. You know, without us, Tesco buyers would spend more time and budget on investigating or gathering foreign market analysis information. We help Tesco reduce such cost dramatically.”

(Lotte Wellga)

With the help of suppliers who want to trade with or maintain a good relationship with Tesco Korea, Tesco can easily gather information on how certain items that might be developed as a retailer brand perform in competitors’ stores. Again this minimises information collection cost, reduces data collection time and increases the likelihood of success.

Likewise, when buyers research potential producers in the market, knowledge already accumulated by trading experience helps them to choose a potential manufacturer. The kind of information available from suppliers includes: how many producers exist; to which retailer each producer supplies; production cost; quality levels; production capacity etc.

What is evident is that this information plays a pivotal role as an external source, in contrast with the EPOS system as an internal source. With respect to the market research stage, buyers believe that these sources enhance the retailer brand development of new product categories which Tesco does not already carry. This information about new categories cannot be gathered from its EPOS system. When introducing an innovative category as a retailer brand, it was found that suppliers’ cooperation was very important. Given that Tesco Korea alone cannot create product specifications, the help and co-operation of suppliers might be seen as a precondition for the introduction of innovative Tesco brand products.

5.3.3 Market investigation

This third phase complements the information collected from the EPOS system, suppliers, and trade press, and analyzed by the customer unit insight team (an in-house organization supplying market information collected once a year to buyers). One of the important things to investigate is whether a potential supplier is able to produce the suggested items for the domestic market. Although some items have good marketability, the development process could be hindered because buyers cannot identify any potential producers of the suggested items in Korea. Even if the buyers find a potential producer, if the producer rejects Tesco's proposal, the development cannot go ahead.

This market investigation activity consists of a competitor survey and conventional market visit by the marketing team established within Tesco, who analyse sales information and then provide them to buyers. It is a natural process that buyers should generally look around the market to supplement existing intelligence. In an effort to reduce the possibility of failure, before deciding to develop items, this market investigation is thought of as the final stage in gaining additional market information, according to the interviews. For the overseas produced Tesco brand, the researcher confirmed through the interview with Lotte Wellga that Tesco Korea buyers rely wholly on the supplier for this phase, because of limited access to foreign market information because of linguistic problems.

Armed with a variety of information related to the suggested items, buyers are then expected to go to the next round: the final decision as to whether to develop or terminate development. After the buyers have suggested potential items and researched whether they have enough potential to become a retailer brand, how the final development decisions are made within Tesco should be given attention next,

because without development permission from their managers, development activity cannot progress.

5.4 Final decision on development

Based on the data and information collected through these various channels, buyers will officially report their opinions to their managers, to gain approval to start to develop the suggested items as retailer brands. In reality, unless the report has serious reservations, the buyers' recommendations tend to go through because during the initial analysis period of the suggested product's market appropriateness, some product categories are discontinued by the buyers themselves.

With respect to the decision-making process, one manager said that buyers should report the development project to the product development committee, consisting of a director of the buying division and senior managers, to get development permission, and that Tesco has encouraged buyers to develop a retailer brand product per product category. Also, he added that unlike in the past, when Tesco placed the retailer brand development responsibility on buyers, top management are now seriously interested in retailer brand sales, and thus the buyers are under pressure to increase the number of Tesco brand items. As a result, this results in buyers utilizing Tesco brand development as a tool to supplement the product range. After approval, the buyers become actively involved in the retailer brand development, seeking advice and comment from the committee members.

Until now, the process discussed can be seen as the preliminary phase for the next stage in the process. With the green light, how buyers then progress forward to complete the retailer brand product will be discussed in the remainder of this chapter. Before discussing this development activity, however, it should also be remembered

that the development activities that the researcher examines in the chapter can occur in parallel or sequentially.

II. The Production Stage

5.5 Producer selection

Before discussing the second stage, even though the producer selection task is less directly related to the production activity, there is a need to look at how Tesco Korea selects its own brand producers and what kind of factors are evaluated during this selection process, in order to identify or better understand the retailer brand development program of Tesco Korea. The first stage of information collection relating to identifying the best producer is done as part of the market investigation during the item decision stage in the development process (item decision), although the final producer decision is made in the second stage. As pointed by Tesco, choosing an excellent, trustworthy producer can guarantee more than half of the success. Under the general concept that separates the production responsibility from the selling responsibility, the choice of the best producer leads Tesco to its own brand success. This means that Tesco can fully concentrate on sales activities without worrying whether the product quality required is always maintained and this reduces the producer supervision cost. Because of these advantages, both respondents from Tesco and a supplier emphasized that the selection process of the producer should be given serious consideration.

The criteria that the buyers consider, or whether Tesco has a producer assessment program when choosing a producer should be explored next. Based on the wide range of relevant information gathered through internal and external examination at the initial development stage, the buyers list the potential producers

available in the Korean market for the domestic Tesco brand, and arbitrarily start to assess each producer against assessment factors such as: quality level; financial structure; reputation; trading relationship with other retailers; potential growth; and competitive unit cost. Except in the case of the UK Tesco brand, the producer selection method for imported overseas Tesco Korea brands requires additional consideration, as will be discussed later.

5.5.1 Producer assessment program

Whether Tesco runs an assessment program for suppliers, including retailer brand producers, is examined firstly. What should be remembered here is that retailer brand producers cannot be treated as general suppliers because of the different legal relationships. In other words, the producers of the retailer brand should be evaluated and managed differently, because of different government regulations. Because of the legal regulations, the researcher found that Tesco has run a specific producer assessment program devised by Tesco UK.

According to managers, Tesco UK is certainly involved in the Tesco Korea retailer brand program, in terms of the producer audit standard. This evaluation program is shared by both Tesco UK and Korea, when inspecting producers. More importantly, if any producer is selected or approved by any Tesco unit in the world, this producer can provide its products for any Tesco company, without being audited again. As an example, the producer of the Tesco brand of canned tuna developed in the overseas market can be used without an additional factory inspection from Tesco Korea, because this factory has already produced other Tesco brand products. The managers interviewed believe that this enhances the retailer brand program competitiveness in itself.

5.5.2 Selection standards

Above all, Tesco Korea generally believes that quality maintenance is the most important key criterion for trade with suppliers, although other evaluation factors have to meet Tesco's requirement level. Although buyers sometimes alter the order of importance of the assessment standards depending on the characteristics of product categories and brand types, quality is always the top priority for the buyers. The managers also stress that this propensity is much stronger in the food sector than the non-food sector. Also, to judge whether the producer can keep a consistent quality level, there are many different factors that will be examined later.

With the difficulty of picking out the best producer with the best quality, the second criterion is closely associated with product cost. As indicated by the interview results, producers carrying higher quality products generally have a higher product cost structure because of better raw materials. How the producers control this product cost structure is given significant attention by Tesco buyers.

Whilst quality and cost are the essential criteria, Tesco considers the following additional assessment factors: financial structure; company reputation; future growth; trading relationships with retailers; delivery ability; raw material procurement ability; whether the producer already supplies the retailer brand of other retailers; and disciplinary punishments from the central or local government. The producer assessment form used by Tesco Korea is provided by Tesco UK.

Tesco regards the quality and the unit cost as the most important criteria and the additional factors tend to be assessed differently on a case by case basis, although Tesco evaluates a number of selection assessment standards when finally choosing an own brand producer, regardless of a product category and a brand type. However, there is a degree of difference to which Tesco makes an effort to discover the most

appropriate producer with respect to the quality issue. As an example, while it is relatively easy to look for a producer in the case of the Tesco Alltle brand which is not so quality dependent, the Tesco Premium or Wellbeing Plus brand forces Tesco buyers to make more effort in searching for producers, because of the higher quality requirements. In the course of the interviews, one of the managers recognized that finding and furthermore signing up a higher quality producer was a difficult process:

“Customers preferring higher quality products have continuously increased over the last few years. So, we must find, and make a contract with, producers having an excellent ability to produce higher product quality. This has become a new marketing tool in itself, but it is not a straightforward task to sign up with the excellent producers, even though we have found them, you know, because the producers with innovative, great quality development know-how were less likely to provide the retailer brand and further prone to keep their own brand names with better profit margins in the market.” (Tesco Manager)

5.5.3 Producer selection limitation

As managers and producers commonly pointed out, it is often difficult for Tesco to open an account with the producer because there are unpredictable internal or external trading relationship problems, even though the producer passes through Tesco’s “producer assessment program”. The researcher asked for, and obtained, details on what happens in these situations.

One of the main barriers hindering a selected producer from providing Tesco’s brands is the business relationships that it has with other retailers. The name of the producer must legally be displayed on the package. Exposure of the producer’s name can lead the producer into conflict with existing clients. As a representative debate, other retailers realized that their suppliers were providing retailer brands similar to the products being sold in their outlets, for their competitors. This puts strong pressure on the suppliers to reduce the product cost to a similar or equal level to the new retailer brand cost, and if the suppliers refuse to do so, business relationships might be broken

off by existing clients. The suppliers interviewed argued that when trading with retailers (particularly major retailer like E-Mart and Lotte Mart), this kind of problem often occurs, so the major national brand producers hesitate to produce retailer brands for newcomers such as Tesco, in order to avoid unnecessary trading conflicts. Likewise, from a customer perspective, the suppliers believe that letting customers know that they simultaneously produce retailer brand and their own brand, with different prices and possibly different qualities risks, deteriorating their own brand reputation in the long term. In the end, the exposure of producer names can be the key issue deterring the producer from supplying retailer brand because of the need to maintain existing business relationships. However, for medium or small sized producers with smaller market shares or lower brand awareness than the market leading brands, this labelling standard is less of a problem. The reason why this conflict occurs was clarified in the interviews with suppliers: namely that most retailer brand products are very similar to manufacturer brand products with respect to quality, and tend to only be differentiated by the wrapping and packaging in the later stages of production.

It was found that Tesco is more likely to outsource its own brand production to the second tier manufacturers and then the third tier producers rather than making an effort to contract the national brands, compared to the Korean number one retailer, E-Mart, which tries to contract the market leading brands (see Figure 5.2). One of the senior managers of LG Household & Health Care which is the market leading brand in the non-food sector in Korea, told the researcher that the leading brands might want to join with E-Mart rather than Tesco Korea, because of its market dominance over the last decade, if they should decide to provide retailer brands. Also, to avoid or

prevent trading conflicts, Tesco might prefer second or third tier producers to national brands producers as a matter of company policy.

Figure 5.2 Tesco’s brand producer examples

Product category	Market leading brand	Tesco brand producer
Toilet Paper	Yuhan-Kimberly	Monaria (Second brand)
Cooking oil	Haepyo, CJ	Wellga (Third brand)
Milk	Seoul	Namyang (Second brand)
Instant noodle	Nongshim	Hankuk Yakulut (Third brand)

5.6 Design development

As one of the major development processes, Tesco buyers start considering the package design for the selected item during the second stage: production. In order to efficiently manage the packaging development process, Tesco runs a design development centre which takes responsibility for developing the design concept to be adopted for each retailer brand product. Based on this design concept, each packaging specification is outsourced to three package design agencies. More importantly, this fundamental design concept is managed through each department (buying, advertising, marketing, and stores) in order to maintain a unique Tesco image within Tesco. The design concept indicating or reflecting Tesco’s retailer brand policy is then followed by the producers in parallel. After learning that Tesco runs a design centre for the retailer brand development, the researcher asked the buyers and suppliers to explain the whole design development processes.

The respondents stressed that Tesco has a basic design construct for all the product categories according to brand type, and that before every design is developed by the design agencies, the designers are reminded that this design concept should be

reflected on the packages. With a standard design for the logo and symbols provided by Tesco, the selected producers within the design agency then start to devise a product design including delivery box, label and container.

It is important to note that in the design development process the development cost is not paid by Tesco but is offset when the product price is determined. One of the producers explained that after the producer gets a few design samples from the design company, the producer visits Tesco to get clearance for the developed design from the buyer and the design team. The design development work is not an easy task for producers, even though the producers work hard to reduce development time. From the producer's perspective, the design development process tends to provoke additional production costs and is time-consuming. Part of this arises from the differentiation of brand types by packaging, leading to Tesco allocating design development resources differently. For example, the Tesco Premium brand is a more luxurious package design than the national brand package. As for the design policy, it was found that making the package appearances look costly or better quality is based on this packaging policy. On the other hand, the Tesco Alittle brand package is designed to be seen as the lowest economical compromise of price and quality, compared with the leading brands

During the package design development stage, the job of buyers and the design department staff is to evaluate whether the design samples devised by the agency correspond with Tesco's design policy and finally signal the "OK". In this regard, the researcher discovered that some categories involving simple production lines like eggs and toilet papers might attract less design development cost than for example cooking oil, where specific containers are required or washing-up liquid recognized by the leading national brands.

“Some simple product categories like fresh produce don’t require long design development time and cost. Its packaging development process is very much simpler than that for the finished goods. It is true.” (Tesco Manager)

If the development cost is greater, buyers are more likely to reflect this cost in the product price, but if it is small, they tend to ignore it or treat it as a one-off outlay. In addition, suppliers tend to accept this cost.

It should, however, be noted that under the design development activity, there are different components such as: labels, boxes and containers. In the case of both labels and boxes, design development activities are relatively simple, compared with those for containers. There is, therefore, a need to examine how container development impacts on retailer brand product development in more detail.

5.6.1 Container development

One of the important decisions associated with the production stage is how many dedicated product containers with the Tesco logo should be produced in the initial batch, because in the case of product failure, the remaining materials will not be usable for other Tesco brand products, and so will have to be destroyed at Tesco’s own cost. This issue cannot, therefore, be overlooked from a buyer’s perspective. One supplier emphasized that buyers regard this decision as one of the hardest tasks related to retailer brand development because of their production and an additional disposal costs.

As a result, the decision on how many package container units Tesco will order needs to be made to reduce potential disposal expenditure, in the event of failure. In cases with the highest assessed risk of failure, it was found that Tesco produces the minimum quantity of a container, or that Tesco was willing to use the supplier’s product container with the supplier’s logo. As evidence, although Tesco

sells soybean oil as a retailer brand with the external package wrap displayed with the “Home Plus Joun” brand, the company symbol and logo on the product container belongs to the supplier, which means that Tesco does not manufacture the own brand container to avoid disposal cost and to save on production costs. Developing a package container can be a barrier to the completion of the retailer brand development. In other words, even though the external packaging vinyl might display Tesco’s own design, Tesco may stop the development of the retailer brand, if the risk cannot be eliminated or reduced to an acceptable level. Otherwise, Tesco would choose to use the supplier’s container.

Consequently, the higher the clearance cost of package containers after failure or the higher the failure risk of a retailer brand, the more the package container development activity becomes a vital part of the retailer brand development program.

In respect of packaging design, there is an important point that designers have to take into account when devising the whole design concept, that is, the labelling requirements to be displayed on the package. Furthermore, as this labelling regulation is changed, developers need to be constantly aware of amendments. Labelling infringements can result in serious penalties or even court action. The researcher will now examine in detail how the Korean government regulates the labelling system of food or non-food products to explore whether it affects the retailer brand program implementation.

5.6.2 Labelling standards

Products retailed in Korea must have labels printed with some fundamental descriptions in letters large enough to be readily legible. Products without such labels

can be classified as illegal goods. For even produce cultivated and distributed in Korea, retailers have to display country of origin on packaging.

Before mentioning the detailed legal contents, one should note that the government regulates food and non-food differently, based on different labelling standards depending on the product characteristics, and further generates many different regulations to protect customers in terms of safety, “right to know” etc. First of all, the researcher will focus on examining the relationship between the food-related legislation and retailer brand development activity.

As a legal condition, all the producers including importers or retailers selling retailer brand products must currently display the regulated descriptions on the package, apart from the nutritional labelling requirement which is optional for most food products (see Figure 5.3).

Figure 5.3 Labelling standards

Labelling Requirements
(1) The name of the product
(2) The type of product
(3) Manufacturing date, month, and year
(4) Shelf life
(5) Contents by weight, volume or number of pieces
(6) Ingredient(s) or raw material(s) and the percent age of each
(7) Manufacturer’s, seller’s or importer’s name and address and the address where products may be returned or exchanged in the event of defects
(8) Nutrients for special nutritional foods, health supplementary foods, or products required to carry nutritional labels and products required to carry a nutrient emphasis mark, subject to nutritional labelling
(9) Any other item designated or detailed by the government food standards bodies, such as wrapping materials, cautions, standards for use or preservation method

Source: Adopted from KFDA (2008).

Although every legal content display should be thought of as an important factor when designing the package, in terms of the information revealed in the interiors, particular attention has to be paid to clause 7 in Figure 5.3. This is because for retailers the disclosure of the producer's name on the package is the most likely issue to provoke a serious trading conflict, even trading termination between retailers and manufacturers, or an adverse customer reaction, as pointed out by Fugate (1986). Likewise, the nutritional information is related to the product specification which may be conserved as part of the company's competitive advantage and confidentiality. In an interview with Tesco managers, they felt that the more product information was legally required to be disclosed on packaging, the more effort was needed to respond to the regulation. Particularly, they commented that this regulation might function as a producer selection barrier:

“We must display overall product information, according to the product-related laws. Actually, this is completely on the customers' side. Above all, a clause of disclosure of a producer's name on the packaging sometimes provokes trading conflict between retailers and suppliers or between a retailer and other retailers. When we want to make a contract with a supplier who has already provided another retailer's brand, as a Tesco brand supplier, the supplier rejects our proposal because of potential conflict arising from information revealed on the packaging.” (Tesco Managers)

Tesco Korea is no exception: when E-Mart realised that Busan Milk was producing the Tesco's brand through examination of the package, E-Mart required the producer to reduce the price of the product to a similar level to that of the Tesco brand, and in the end, trading was terminated as a result of that conflict (Kookje Newspaper, 2008).

Disclosure of the producer's name on the package can, thus, be a serious barrier to making a contract with popular producers favourable to E-Mart (see Figure 5.2), although these code provisions might help all retailers to search for and gain

potential supplier information. As for the retailer brand suppliers, it is not easy to expand their own business through producing other retailers' brands because the company name disclosure tends to entail unnecessary trading conflicts between the supplier and existing clients who do not want their own suppliers to provide retailer brands for other retailers. The revelation of the producers' name, accordingly, has a significant impact on the selection of the retailer brand producers.

On the other hand, the non-food sector is less well regulated by the government. In the area of product safety, both categories are strictly supervised. But unlike in the food sector, when producing many different retailer brand products, non-food producers tend to have less debate with retailers, even though their names are on the packages. The exception is for the market leading brand among major fmcg product categories such as toilet papers, washing-up liquid, laundry detergent, toothpaste, etc.

It is not necessary here to note all of the overall packaging-related legislation in detail, but only to identify the factors directly or indirectly affecting the retailer brand development process in relation to the packaging design as discussed above.

5.7 Product specification development

When evaluating the ability of retailers to procure their own brand, independent of the producers' cooperation, the criterion of whether the retailer is able to generate the product specification is a paramount factor. If the retailer does not have the ability to create the product recipe, it follows that they are fully dependent on the producers' quality control systems for quality-related activities. As a result, the retailer brand can be seen merely as a product in which the package of the producer has been changed for a package with the retailer logo or symbol. More interestingly,

whether one can regard this as a real retailer brand product should be considered. Thus, the product specification development ability, in parallel with the quality management, should be given attention.

5.7.1 Quality development

In organizational terms, it was found that Tesco does not have any department producing or creating technical specifications for product quality, rather the quality control centre's main function is to examine agricultural products at random, and to test the quality of the finished products carrying the Tesco brand twice a year. Tesco actively cooperates to improve or test producers' quality levels with suppliers. The quality examination results delivered by the Quality Management Team, are more importantly used to maintain sustainable quality levels and as a means of controlling the producers.

“In fact, we cannot create quality level for ourselves. I mean we should rely on suppliers. We don't have any special organization to develop the quality. However, we can manage our product quality and producers, quite well, through the Quality Management Team.” (Tesco Manager)

Rather than being focused on Tesco brand developments, that team is generally managing all the products being sold on the shelves, in an effort to retain customers and increase levels of satisfaction with Tesco quality. It is incorrect to say that Tesco Korea operates a dedicated quality development centre for retailer brands. Despite the fact that Tesco has introduced Tesco premium brand, the product specification fully relies on producers. Although Tesco expends considerable effort in developing its own quality level and maintaining it, significantly producers lead this whole quality-related process.

From Tesco's perspective, developing or creating quality is directly proportional to the choice of producer. In other words, if Tesco trades with a producer with higher quality and technical management skills, then Tesco will be able to carry a higher quality product with its own brand, and vice versa. In terms of quality development, Tesco currently has no direct influence on the product specification, although the Quality Management Team examines the product quality provided and audits the production line. Given that Tesco does not give its own brand makers any product recipe, Tesco entrusts producers with the quality development activity and decides the Tesco quality levels from among the quality levels proposed by suppliers.

Consequently, choosing a reliable manufacturer for the Tesco brand is one of the most important tasks in managing the quality issue. With regard to the factory inspection, the food manager explained this as follows:

“Tesco technical managers must visit the manufacturers to check whether the hygiene level of a factory that will produce a Tesco brand meets the company's standards before signing a contract with them. And then, if they judged the factory unfit to the standard regulations devised by Tesco, the developers should stop the development process or find new suppliers. Of course, if an alternative, potential supplier can be found, this process by the technical managers can be repeated.” (Tesco Managers)

Whilst interviewing managers, the researcher found that Tesco staff took a negative attitude toward this issue. Moreover, managers argue that quality issues like quality improvement, innovation, and creation cannot keep being dependent upon suppliers.

5.7.2 Quality management

As noted in the previous section, the quality control of the developed retailer brand is led by the Quality Management Team and the suppliers themselves. Even if the buyers have considerable knowledge over a wide variety of products, direct management of product quality is in fact an impossible task. Because there are many

other things the buyers must do such as meetings with traders, pricing, competitor research, communication with sales personnel etc. Tesco operates a specific team for this task, allowing the buyers to concentrate on buying activities.

It is essential to explain here the quality management process of the retailer brand. With regard to quality management by the Quality Management Team, the manager believes that there are largely two stages at which the team implements the quality control program; one is the development stage, the other the selling stage.

At the first stage, before producers are identified as a retailer brand supplier, they should pass through the factory inspection procedure led by Tesco Korea, according to the audit form given by Tesco UK. At the development stage, this team tests sample products several times, may further require producers to improve quality, and occasionally visits the factories to supervise or advise the supplier.

At the second stage, once Tesco finishes developing its own brand and starts to place it on the shelves, this team collects sample products at random twice a year in Tesco's stores to test their quality and monitor them. Following the test results, the team then cooperates to effectively and efficiently manage suppliers' quality levels with buyers who are in charge of purchasing the retailer brand and technical managers.

In terms of the quality development of Tesco's brands, the researcher discovered that Tesco prefers to trade with producers having higher technical development abilities to develop its own original quality recipe themselves, and that the Quality Management Team focuses on supervising and managing the quality levels of the whole range of products sold, rather than developing or improving the retailer brand quality. It is, therefore, difficult to say that Tesco Korea creates its own

quality and leads the pure quality development of the retailer brands, prior to its producers.

5.8 Product pricing

Together with the previous development activities, what can be done almost immediately is to price the retailer brand product being developed. Like quality, the price factor is given much attention by academicians and customers, as mentioned in the previous chapters. In analysing the factors affecting the development process of the retailer brand, the price functions are as important as quality. At the initial stage of retailer brand introduction, price is thought to be one of the key factors in success. Similarly, Tesco Korea emphasized price at the introduction stage of the retailer brand program, when compared to the leading brands.

“Price is one of the most important factors to attract customers from competitors’ brands in our stores, rather than from our competitors’ stores in the past. However, recently our customers and Tesco Korea started to emphasize the quality importance.” (Tesco Manager)

Moreover, price is closely related to Tesco’s aim of increasing its profitability. On the assumption that the quality level is similar to the market leading brands, the interviewees believe that maintaining price competitiveness of the retailer brand against the leading brand price is unfeasible, although Tesco might be able to get rid of the price bubble resulting from such marketing costs as advertising and promotion allowances. Through this development experience, Tesco Korea currently operates a few brands whose price levels, as well as quality levels, are varied. Furthermore, Tesco buyers might have been concerned about the reductions in profitability by pricing at the lowest level:

“Well, as long as we can, we should lower Tesco brand price against the leading brand. However, we should think about trade off between lower price

and profit achievement. Pricing much lower than the leading brands could cannibalize the category's existing profits, particularly in the case of the higher quality brand because of higher raw material cost. So, the premium brand should be priced higher than other Tesco brands.” (Tesco Manager)

Accordingly, pricing differently depending on different quality levels is an inevitable pricing strategy to avoid the above problems. The whole pricing process should be examined to better understand how Tesco uses prices as a marketing tool to achieve the retailer brand advantages. As confirmed by store observation, Tesco has adopted different price levels for different brands. When understanding Tesco Korea's pricing policy, one should consider the characteristics of brand types described earlier.

5.8.1 Product cost negotiation

From the trading relationship's view, the buying department plays a decisive role in mediating between Tesco and its suppliers. Among those roles, holding a meeting with a trader to negotiate terms and conditions of business can be the most important task for both the supplier and Tesco. Over the general buying job specification, negotiating retailer brand or branded product costs with the suppliers can be the core point for both parties. Needless to say, from the point of view of suppliers, the product cost decided between the both parties has a significant impact on their financial performance. In an effort to improve profit, the buyers commonly stress that purchasing products at much lower prices is an essential duty of buyers.

With respect to the product cost negotiation, therefore, the researcher asked interviewees to explain the difference between general merchandise and Tesco brand products in terms of the product cost decision method. As indicated earlier, the buyers purchase non-retailer brand products and simultaneously develop the retailer brand, so

they can determine the retailer brand product cost from the parallel procedure of negotiating general product costs. According to the managers, cost negotiation for the retailer brand is much more complicated, difficult, and time-consuming task than purchasing branded products.

Through comparing the cost negotiation process for retailer brands with that for branded products, it is possible to discover the degree to which Tesco is directly related to the retailer brand development. In the case of the retailer brand, cost analysis needs an inspection of the whole production processes in order to achieve a reasonable agreement about product costs. Also, analyzing thoroughly cost details will in practice need more knowledge, experience and time from a buyer's standpoint. In accordance with this opinion, Tesco firmly believes that the buying job should be done by the most experienced personnel because, if a buyer does not have sufficient product knowledge when negotiating business terms with traders, it will be difficult for the buyer to lead its negotiation. For this reason, without at least two years sales experience in the stores, Tesco staff cannot become buyers. To consider the buyer's experience or knowledge, the researcher then divided the cost negotiation methods into two groups; general merchandise and retailer brands.

5.8.1.1 General merchandise

In the course of interviewing managers, what was found was that most of the buyers are most likely to over-rely on the price catalogues submitted by suppliers when deciding the final product costs, although the buyers require a great deal of information such as: the current market trend; selling prices at competitors; and promotion allowances from sales forces of the suppliers, to reach a reasonable agreement during the negotiation of trading terms. It is, however, certain that apart

from the price list, such additional information can also help the buyers to decide the final target price.

This was demonstrated by the interview with a global company supplying non-food products. In this case, the product cost negotiation was easily reached, based on the prices listed in the general merchandise price catalogue. When Tesco negotiates with suppliers, it is much easier to reach agreement for manufacturer brands than for retailer brands. As a matter of fact, when considering the daily work loads of the buyers, analysing each product listed in the price catalogue, including Tesco brand products, would not be feasible in regular working hours, even though this must be the most appropriate way to negotiate the best product cost. Though Tesco buyers might have the strong intention to negotiate the best cost/price for all general products with national brand producers, due to the superior trading power of market leading brands, there are limitations to what the negotiation process can achieve.

The reason why the researcher has described the general merchandise buying process is to understand how much the retailer brand development process differs from the buying of branded products. Throughout the product cost negotiation process, all of the interviewees argued that the retailer brand needed a more thorough cost analysis than other products.

5.8.1.2 Retailer brand

At the initial introduction of the retailer brand, and in the case of the Tesco Alltle brand, negotiating the product cost at the lowest level is the key factor in achieving additional profit margins as well as an important retailer brand development

goal. Although Tesco sells the premium brands at a relatively higher unit cost and selling price than other retailer brands, this issue can be the top priority.

Before examining the negotiation process for the product cost, one should remember that Tesco does not, and indeed currently is not able to, generate its own product specification. Considering cost analysis in parallel with the development of the product specification is an almost impossible task without help from a supplier, as one of the managers pointed that it was hard to examine the product cost in detail as manufacturers would do, because of a lack of product knowledge or experience. However, what is important here is that Tesco buyers do make a greater effort to investigate the cost structure of retailer brands, unlike national brands. The extent to which the buyers can actually attempt to analyse the cost structure should, therefore, be considered.

Basically, the initial stage is to decide on a target product cost by comparing prices provided by potential suppliers. Surprisingly, however, there are many instances where Tesco buyers tend to suggest the product cost to suppliers, before even receiving the price list. This means that the Tesco buyers ask potential suppliers if the suggested items can be produced at the prices given by Tesco. Those product costs/prices that the buyers require to achieve and have confidence in achieving are based on national brand prices. According to the managers, these cases are normal.

On the other hand, rather than proposing the unit cost to the suppliers, after comparing prices/costs in the price catalogue, Tesco may also start to think about a possible, acceptable price zone and then makes contact with possible suppliers. Furthermore, the unit cost stage is closely related to producer decisions. Although Tesco decides internally on the product cost, if there is no producer available to meet

Tesco's proposal, the retailer brand development is held up until an appropriate supplier is found.

The buyers also require those suppliers who want to produce the item to submit not only a product sample but also a product specification including unit cost details. Based on these information sources, the buyers then analyse the cost structure from raw material prices to distribution cost. They state that without the product recipe, it is much more difficult to negotiate the unit cost with suppliers. According to one of the suppliers interviewed, handing the product specification to Tesco is inevitable, if they wish to trade with Tesco, even though the company know-how is revealed. The product costs provided by different potential suppliers are then compared by Tesco, and subsequently the Tesco buyers tend to require a supplier to produce the retailer brand product at the lowest price. In other words, Tesco buyers trace the unit cost composition using the data provided by suppliers. After deciding on the producer, Tesco actively negotiates the final cost. Therefore, Tesco with both the product specification data and the price list makes a considerable effort to examine the cost structure. In the end, buyers meet with the preferred producer to reach agreement and if necessary, to compromise on the official product cost. Unlike the negotiation of regular unit cost and promotional unit costs in the case of general merchandise purchasing, only the regular product cost is normally agreed, although there is occasionally a special promotional cost requested by Tesco. The latter situation arises when the selling price is reduced, in order to promote the retailer brand. However, in most of the Tesco brand promotion cases, Tesco does not require the producers to reduce the unit cost, but rather covers the whole promotion costs itself.

Up to now, the researcher has discussed the process of how Tesco buyers negotiate unit cost with producers over all the brand types. There is, however, a need to turn attention to identifying the different negotiation characteristics of different brand types. As one producer pointed out, rather than producing Tesco Alltle brand, the Tesco Premium brand is much more beneficial from a manufacturer's standpoint and tends to be preferred by producers. In this case, the degree to which the buyers can put pressure on producers to achieve the lowest product cost can be evaluated differently.

Even though the managers argue that there is no difference in the unit cost negotiation efforts between the low-priced brand and the premium brand, suppliers believe that the latter seems to be a more profitable option for both parties, easier to negotiate with each other, and therefore, a better way to keep a good relationship between Tesco and its producers. In addition, as the Tesco Alltle brand implies lower price and to some extent lower quality than the leading brands, keeping similar quality to or better quality than the national brands and pricing at the lowest level is practically impossible, given that higher quality requires higher raw material quality, with associated higher cost. In the case of the Tesco Alltle brand, the buyers are more likely to analyse the cost structure in more detail and are less likely to preserve the producer's profits because of higher price competition with the national brands. For this reason again, producers prefer to supply the Tesco Premium brands, characterised by differentiation from even the leading brands, in terms of quality.

It is evident that the process of negotiating the unit cost of retailer brands with suppliers will need more effort and time than in the case for branded products. Nevertheless, Tesco buyers might seem to over-rely on the producers' co-operation to finally decide on the product cost, which is based on the price lists given by retailer

brand and national brand producers. This situation arises essentially from an inability to create product specifications.

5.8.2 Margin achievement

In financial terms, this concept is a pivotal element of survival in the business world. Before discussing this issue, one should bare in mind the practical issue of company secrecy, that is to say, it is very difficult to gain precise information on margins for retailer brands. This issue is discussed with considerable limitations. Notwithstanding this, the researcher will attempt explain this issue based on the interview results with Tesco managers and suppliers, and the observations made in Tesco stores, and even make comparisons with the total margin of the general merchandise.

As expected, considering that Tesco Korea runs many different own brands, different Tesco brand types have different margin policies. Unlike the branded products, the suppliers of retailer brands do not give any allowances like shelf promotion fees, advertising expenditure, give-away samples and so on (known as the “back-margin” in Korea), and further, Tesco does not require the suppliers to provide them. In this respect, Tesco brand products are making a profit only through product sales activity. Additionally, when outsourcing production of retailer brands to other producers, it should be noted that all Korean retailers must observe regulations made both to protect subcontractors such as the producers of Tesco brands and to prevent the trading power abuses. Requiring producers to support the above allowances is regarded as unfair trade and supervised by the Trading Affairs Office. Tesco can, therefore, not help making a contract with a producer at the lowest price to maximize its profits without breaking the trading law. However, as a manager pointed out, it is

not easy for Tesco buyers to reasonably compromise the lowest price with suppliers, because of their inability to develop and analyse the product specification, Consequently, the product margins of some retailer brands are affected by the producers' negotiation skills and trading power in the Korean market.

When analysing the margin structure or the margin width between selling price and the product cost, the researcher found that the buyers usually start by considering the margin of the branded products. When discussing the market appropriateness of the retailer brand, Tesco tends to regard the national brand as the benchmark for relative evaluation criterion over whether to introduce a new retailer brand into the existing category. In the same vein, if the branded products provide greater profits, including additional allowances than the development of a retailer brand, buyers may rethink retailer brand development. If Tesco buyers, therefore, conclude that they cannot gain sufficient profit margin at the development stage, Tesco will in some cases stop development. Even though this process of planning the product margin might have an impact on pricing, or the margin might result from the final selling price or the unit cost, managers stressed that branded product margins are crucial in making the decision of whether to continue or not.

According to the interviews with Tesco managers and the regional manager, it is estimated that the overall profit of Tesco brands might be around 5 percent higher than the general product margin rate in the grocery sector. They also added that the profit margin of the Tesco Alltles brand is slightly lower than the Tesco Premium brand. In terms of the total gross margin, the buying team managers admit that some retailer brands have not met margin expectations, even though they were developed through the above margin formation process.

5.8.3 Pricing

Like product quality, the price element is also given considerable attention by Tesco buyers. The retailer brand providers are sensitive to price decisions, although the decision is ultimately in the hands of Tesco. Suppliers strongly believed that the cheaper the product, the more products were sold. Managers stated that, during retailer brand development, the price of the items being developed is one of the most difficult tasks, because decisions on price are likely to affect the customers' intention to buy them and so, function as a key factor influencing the success of a retailer brand. It should be noted from the interviews that the pricing issue is the top priority for Tesco and producers, to make the retailer brand successful within Tesco.

It follows from the introduction of a number of different retail brand types, that different pricing processes for each of the brand types are adopted. It is, therefore, worthwhile to summarise the common process, irrespective of the characteristics of the brand types, together with the individual processes for each brand. Rather than simply explaining the pricing methods listed on the text books, the researcher will mainly focus on the major elements considered when the Tesco buyers price the retailer brands. Needless to say, there are many influential elements such as quality level variable, national brand prices, and competitor's own brand prices. To what extent each factor is related to the pricing should be discussed later.

5.8.3.1 Quality standard

While Tesco prices each brand differently, depending on the company policy for each brand, buyers commonly take into account quality levels. As noted in the previous section related to brand type characteristics, Tesco's price levels relate to product quality levels, that is to say, consumers can recognise that the higher price,

the better quality, and vice versa. One of the managers briefly divided all of the Tesco brands into three concepts, based on quality: good, better and best.

As evidence, the researcher examined the shelf prices of the Tesco brand types and the leading brands similar to the retailer brand quality level (Table 5.1. 5.2 and 5.3). In the case of the egg product category, there are three Tesco brands: Tesco Alttle, Tesco Joun and Tesco Premium. Although there are a few branded eggs in the

Table 5.1 Egg Prices

Brand Type		Won (per unit)	Price Difference		Characteristics
			Won	(%)	
Tesco Alttle		151	0	0	- While there are a few branded eggs, most ranges are Tesco brands - There is no market leading brand
Tesco Joun	Normal	158	7	4.6	
	Special	176	25	16.6	
Wellbeing Plus		369	218	144.4	

(Data collected on 6th October 2008)

Table 5.2 Sesame oil Prices

Brand Type		Won (per ml)	Price Difference		Characteristics
			Won	(%)	
Tesco Joun		14	0	0	- Country of origin is a very important factor when customers Select sesame oil - Tesco Joun uses foreign raw materials, but Tesco Premium uses domestic ones
Ottogi		18	4	28.6	
Haepyo		15	1	7.1	
CJ Food		19	5	35.7	
Tesco Premium		81	67	478.6	

(Data collected on 6th October 2008)

Table 5.3 Toilet Paper Prices

Brand Type	Won (per M)	Price Difference		Characteristics
		Won	(%)	
Tesco Alittle	5	0	0	- 4 brands ask a similar quality level. - Monariza paper is the producer of Tesco brands.
Monariza Paper	8	3	60.0	
Daehan Paper	9	4	80.0	
Yuhan Kimberly	8	3	60.0	
Tesco Joun	9	4	80.0	- 3 brands with a similar quality level. - When Tesco Joun is reference point, the price gap between Tesco brand and leading brand is 120%
Yuhan Kimberly	20	15	300.0	
Daehan Paper	15	10	200.0	

(Data collected on 6th October 2008)

market, the product assortment for eggs mainly consists of Tesco brands. In the other product categories observed, there is a price difference between Tesco brands and national brands. In order to illustrate the price gaps between them, the researcher calculated the differences, based on the Tesco Alittle brand as the datum point.

As seen in the categories of eggs and sesame oil, the price gap is considerable, in the case of the former by 144.4% and the latter, 478.6%. While the price difference between Tesco Alittle and Joun brand eggs is only 16.6% at a maximum, in the case of toilet paper, it is 80%. Given these observations or findings, there is no doubt that quality is closely associated with the price structure and product cost. As long as quality is associated with the prices of the raw material or ingredients, it would be unreasonable for the higher quality products to be priced at lower levels.

If one views only the egg category, when analysing the pricing process of Tesco buyers, the buyers seem to rely on quality levels without hesitating over other factors such as competitors' prices or the national brand prices with similar quality.

However, this idea would be completely wrong. With the aim of achieving a distinctive price competitiveness against both national brand price levels in the case of the Tesco Joun and Tesco Alittle brands, and competitors' similar own brand prices, the Tesco marketing team researches its competitors conventional market prices, and then, informs the buyers of the results. These results are reflected in price adjustments.

5.8.3.2 National brand price

Basically, Tesco managers agree that they cannot help being conscious of customers buying branded products, particularly the national brands, because of the price competition within Tesco stores. On the assumption that there is no quality difference between national and retailer brands, that retailer brand prices are lower than those of national brands, and that customers know these facts, some interviewees pointed to the importance of the price gap between national and retailer brands to attract customers, and stressed that retailer brand prices should be perceived as attractive by customers. Managers strongly believed that most customers are prone to use the national brand price as a reference criterion, when buying retailer brand products. How to establish a price differential between the national and the retailer brands, therefore, seems to be a complicated task. In respect of retailers' efforts to reduce prices relative to the leading brands, however, one of suppliers sceptically stressed the following:

“Let me explain why the lower pricing strategy of a retailer brand doesn't work as well as retailers would expect. As you probably know, when we promote our products, we have provided retailers with more than 20 percent off regular price. Even, if we take buy one get one promotion. As the retailer brand was priced lower by around 20 percent than our brands, its price competitiveness could not be strengthened, because we seriously cut prices more than 20 percent to promote sales. In addition, sales promotion frequency has increased rapidly. Right, I'll give you an example of recent real sales

promotion situations. There are more than three national brands in the laundry product category with the retailer brand with about 20 per cent lower price than the national brand. What is interesting is that for every month sales event held by the retailer, the three national brand companies participate in the sales promotion in rotation. As a result, one of the national brand prices is always similar to, or even lower than, the retailer brand”.

(LG Senior Manager)

Although there are a variety of product brand ranges, Tesco buyers pay much more attention to the market leading brands. This does not, however, mean that the second or third tier brands are completely ignored. In order to attract customers away from the national brands, it was found that the price of the national brands plays an important role as a reference point in pricing Tesco brands. Through price observation in stores, it was difficult to discover a particular rule associated with the pricing strategy practiced by Tesco, related to the national brand price. One supplier argued that Tesco’s pricing policy depends on the brand types or the product category characteristics as perceived by the buyers. As an example, while the price difference for sesame oil products between the leading brands and the Tesco Joun brand is around 28.6 – 35.7 percent, the toilet paper price differential between the national brands like Yuhan Kimberly and the Tesco Joun brand among the similar quality level range is more than 120 percent (compared to Tesco Alittle, it is 300 percent). Furthermore, managers added that some Tesco brand prices are likely to be determined (based on the national brand price zone), before the suggested items begin their development as Tesco brands.

However, with the increasing number of innovative product categories as retailer brands, such as ready-meals, which Tesco Korea is now concentrating on, the consideration of national brand prices and qualities has become blurred, because such categories do not have any market leading brands for comparison.

It has become apparent that Tesco relies heavily on the use of national brand prices as the basics for pricing retailer brand products, even though there is no official adoption standard that can be applied to branded product prices vs Tesco brand prices.

5.9 Promotion plan

In parallel with the above development activities, a promotion plan can be an important component of a good marketing strategy. Before being distributed into Tesco stores, the buyers usually prepare a promotion strategy to facilitate the introduction and settling of the new retail brands on the store shelves. In relation to the promotion budget, the retailer brands cannot legally acquire promotion costs from suppliers. This means that Tesco must bear the whole of the promotion expenses within the margins generated from product sales. Compared to the variety of promotional activities available to a national brand, and which might well incur considerable associated expenditure, Tesco uses relatively limited promotion methods for its own brand.

What is important here is that the expenses of every promotion plan should be borne by Tesco, even though there are cases where producers bear some parts of the expenditure, as indicated in the next quote:

“Legally, we do not have to provide any monetary cost for Tesco requiring our co-operation to promote a Tesco brand. However, it would be very difficult to reject Tesco’s proposal. Sales promotion is not only for Tesco. In fact, it influences our performance. So, even though a small loss might be predicted, to increase our product market share or customer awareness within Tesco, we have sometimes agreed with the Tesco’s requirement.” (Supplier)

If Tesco’s promotion proposal is accepted by the supplier, the planned promotion is regarded as a legal action by the Fair Trade Commission.

Unlike the situation where purchase of a branded product provides access to many different promotional budgets, the relatively limited promotional co-operation for retailer brands leads Tesco to rely on its own marketing resources. From Tesco's perspective, what promotion methods Tesco can implement are illustrated below. One should remember that Tesco Korea does not use price reduction as a promotion method.

5.9.1 Space allocation

Among the diverse internal promotion methods, allocation of store space to Tesco's brands can be the most efficient, effective way to attract customers:

“All we can do, without spending directly from our budget, to make our customer become aware of a Tesco brand, is to display Tesco brands in the best places. Some people say that the best shelves carry lower productivity, because of Tesco brands. However, we believe this method is currently the best way for the Tesco brand growth.”
(Tesco Manager and Sales Assistant Manger)

As seen in the above quote, shelf allocation is more likely to lead Tesco to promote its own products, despite the fact that placing the retailer brands on the better shelves is an invisible investment. Arguably, if national brands were placed on these golden shelves, Tesco might generate more profits, as well as sales volume, than from its own brands which have lower brand awareness. This is a sacrifice that is seen as an investment for the future.

Although the sales effectiveness of Tesco brands is expected to be lower than the national brands at the initial sales stage and as a result, an opportunity to sell more branded products is lost, it was found that Tesco allocates its own brands to the best shelves, promotion areas, and end caps, to more frequently expose them to customers to increase the retailer brand awareness.

“We know if we allocate a national brand to better places, we can right now gain more sales volume as well as profit. However, it’s obviously the short term strategy. In the long term to achieve stable sales and profit, displaying Tesco brand on favourable spaces is natural, although there is currently a little loss. This should be approached from investment perspectives.”
(Tesco Manager)

In addition, the retailer brand products are strategically placed near to the market leading brands to attract customers’ interest. Considering the shelf acquisition battle among brands, this preferential treatment should help retailer brand awareness to increase in the customers’ mind.

Displaying Tesco’s brands on the end caps or in the promotional areas where customers more frequently pass within stores, might generate more opportunity costs than the shelves. In this respect, one of the suppliers argued that displaying retailer brands in the best places (which are preferred by suppliers), is in effect a practical financial investment, as this store space could be sold to the suppliers, and would probably be higher overall profits, including a variety of allowances provided by the national brands. In spite of this argument, Tesco operates these areas as strategic places to rapidly gain brand awareness. For the shelf allocation process, the researcher found that Tesco Korea has systematically managed store shelves by using this shelf allocation approach. When new products are listed, Tesco buyers immediately inform the team in order to reserve shelf space. In the case of a Tesco brand, the buyers require the team to allocate relatively more space than for branded products.

As an important promotional method without directly spending the marketing budget, it is apparent that the better space allocation for retailer brands is favoured by Tesco. Moreover, this appears to be official company policy.

Nevertheless, if, after two or three months, the new Tesco brand performance is lower than expected, the favourable shelf space allocations are reduced, because of

the constant requests for these optimal sites by the store managers. As a result, the researcher found in store observation that these are in many cases where the national brands still get more space than the Tesco brands.

5.9.2 Advertising

As mentioned in the previous section, Tesco carries out the overall marketing activities for retailer brand via the profit margin achieved on the product range. As for advertising spend for the retailer brand range, the interviewees agreed that Tesco Korea cannot help being passive, compared to the active advertising of the national brands. Notably, it does not spend any budget on advertising individual items. Tesco believes that allocating the retailer brands to the better places on the shelf as noted in the prior section, fulfils, in part, the same advertising role. In a word, because Tesco cannot advertise, as national brands do, displaying retailer brands in the best places on shelves is regarded as the best advertising method. With this advertising policy, it is necessary to note how Tesco administers its marketing budget to increase Tesco brand awareness in detail.

On the assumption that Tesco does not allow buyers to independently advertise products, Tesco distributes various leaflets and brochures as a means of informing customers of the development of new retailer brands, together with other brands, when organising sales events. Furthermore, Tesco makes good use of the internal magazine published by Tesco Korea to communicate new Tesco brand introductions. Except for these methods, there is no particular advertising from head office. Within the stores, store managers use smaller or bigger POP (point of purchase) leaflets in front of the shelves.

Tesco also significantly focuses on public relations to build on or improve the retailer brand reputation in the marketplace. Even though there are slight differences in establishing each brand's reputation, depending on each brand's characteristics, the overall brand advertising management is carried out in accordance with the company's advertising policy.

5.10 Distribution system

It is not sufficient that Tesco and producers work together to develop a new product of the right quality and price. Other components of the retail system, and in particular, the delivery system are equally vital. In the past, this may have been an obstacle to the development of new products, such as in the fresh dairy categories. Recognising this, Tesco Korea has invested heavily in its own delivery system. Accordingly, Tesco Korea can carry frozen and chilled food products. This involves a complete distribution system from warehousing and distribution centres, to store delivery systems. This degree of control which comes from direct management, is a key component in Tesco Korea's strategy for retailer brand development. Distributing products into each store and taking them back into the distribution centres are completely the responsibility of Tesco. After delivery to distribution centres, suppliers do not take any responsibility for products.

Likewise, for the effective distribution into stores, Tesco Korea internally established the SCM (Supply Chain Management) team a few years ago. This team organises the whole delivery program including a backload operation of suppliers' product to Tesco Korea distribution centres. As Tesco has built its own distribution system, it makes it possible for Tesco to trade with producers offering high product quality but having poor delivery systems. Except for some product categories like

dairy products, one manager stated that more than 80 percent of the FMCG should go through the Tesco Distribution Centres. From the distribution point of view, there is no difference between branded and retailer brand products. Tesco brands are treated in the same way, being delivered, on average, twice per day during weekdays and more than three times during weekends, with small frequency variations, depending on the category characteristics.

The consequence for the cost of distribution is also of note. Basically, suppliers would expect to pay a few percents of the buying price, as a distribution cost, to an outsourced delivery service provider, regardless of brand ownership. A manager stressed that the delivery costs were determined by product characteristics, sales volume and selling price levels. For Tesco brand suppliers, there is no preferential treatment in the delivery cost negotiation.

5.11 Clearance plan for failed products

Buyers do not always succeed in developing and selling Tesco own brand products. It is, thus, essential to make preparations for failed products to minimize potential losses. In the interviews with Tesco managers, the researcher found that Tesco is less interested in a clearance plan of failed products, because of an internal clearance program which follows the new product introduction. After the buyers supply a new retailer brand to the stores, the product sales trends are automatically monitored by the marketing team and stores and then, if its performance is poorer than expected, the failed products have to enter a clearance plan.

If a product is finally determined as a failure, Tesco gives buyers around 8 weeks to clear it. With progressively sharp price reductions, the buyers actively promote them in all stores, and finally, the remainder of them are disposed of by Tesco,

without returning them to suppliers. Although this appears to have been normal trading practice in the past, it is technically illegal. With regard to returns, there is recently no retailer doing this, because of the enhanced supervision of the government.

III. Selling

5.12 Sales stage

As the final practical stage to confirm whether the development has met expectations or not, the researcher will discuss the sales-related activities. As mentioned earlier, there can legally be no financial support from Tesco brand producers. Although Tesco stores manage the retailer brand according to the company policy, it is necessary to note how Tesco is involved in the sales stage in terms of both the headquarters' policy and store administration.

Before examining the buyer's roles in sales activities, there is a need to analyse the responsibility structure between headquarters and the stores. The basic duty of Tesco buyers is concerned with product procurement. In a sense, the buyer's duty and responsibility is to provide the products required by the stores to the central distribution centres, then the general sales activity is taken over completely by store staff, based on the following company policies: shelf display; use of the promotion areas; returns policy; ordering; keeping the stock level including buffer inventory; clearance; specific promotion; in-store advertising, and price reductions.

In terms of in-store handling, it was found that Tesco brands are thought of as a means of achieving the store targets for sales volume and profits. Nevertheless, store personnel stressed that they cannot help being more interested in the popular products, which help them to accomplish their sales targets, even though Tesco brands belong

to Tesco Korea. It is, therefore, worthwhile investigating whether differences exist between national and retailer brands from a point of view of sales management. Rather than relying on the views of headquarters staff, the researcher contacted and spoke directly to store sales personnel, including a regional manager.

5.12.1 Ordering and replenishment

Like branded products, retailer brands are replenished by store personnel. To facilitate this, Tesco Korea operates an automatic ordering system, which means that the sales personnel do not have to carry an ordering list. As noted earlier, the number of product facings on the shelves is determined in principle by the headquarters at the development stage. After two months of a new product introduction, the number of facings of a product is reduced or increased, depending on performance, on the instruction of headquarters.

Before new products are distributed, shelf allocation and ordering units are decided at the headquarters. The reason why the researcher notes the shelf allocation here is because it is closely related to the decision about the ordering units. The more the shelf space, the more the ordering units. After that, based on both the first two months' performance and the stores' requirements, the CI (Customer Insight) team and the SCM (Supply Chain Management) team enter into an adjustment process which considers the buyers' category administration policy. During this process, the researcher found that the headquarters controls around 90 percent of the shelf space, whilst giving stores the remainder to adapt to the local environment and reflect different local customer needs.

Whilst buyers tend to lead the whole sales process at the introduction stage of Tesco brand products, after around two months its process management is handed

over to stores and other headquarters' teams. Consequently, performance in the initial sales stage plays an important role in adjusting in the size of ordering units and the number of product facings.

5.12.2 Producer staff

In the Korean retailing industry, allocating producer staff to retailers' stores is a conventional marketing policy for suppliers, with the aim of promoting their own products in the stores. It should be noted that the fact that manufacturers send their own staff into retailers is legal, and further the staff have to abide by the retailers' working conditions. According to suppliers, this is still an important marketing tool to effectively compete with other manufacturers. In addition, as this is an invisible commercial convention, other national brands prefer to send their own sales staff to the retailers to acquire a beneficial position for their display place, and will offer this during business meetings with retailers.

This issue of producer staff does not, however, apply to retailer brand sales activity, because requiring manufacturers' or suppliers' staff to work in retail stores is not only an illegal trading practice, but also increases unit cost. The management of the retailer brand shelves, unlike the branded products managed by the producers' staff, is carried out completely by store personnel under the shelf allocation policy.

During research in the store observation phase, however, the researcher found that Tesco Korea operates its own brand promoters analogous to manufacturer staff, with aim of promoting Tesco brand products. With respect to this, Tesco staff commented as follows:

“We recruited some staff as promoters for Tesco brands. The promoter takes a responsibility for managing Tesco brands in stores. Indeed, this promoter operation is in its infancy. Depending on its result later, we'll decide whether to expand that.” (Tesco manager and Sales Assistant Manager)

Given that Tesco Korea places the promoters in only a few stores, it might be expected that Tesco brands are at a relative disadvantage, compared with the leading brand in these stores.

5.13 Upgrading or clearance

After buyers distribute retailer brand products to the central distribution centres, it is unwise to say that the buyers' duty is finished in relation to the retailer brand development program. As noted earlier, the buyers analyse retailer brand sales trends to actively respond to any changing market demands. According to the interviews, in a similar way to national brand products, a retailer brand experiences a product lifecycle from the market introduction stage to the decline or stability stage. When entering the final stage, it has been observed that there are two things that Tesco buyers do to overcome this stage, with the aim of maintaining growth.

The first is to upgrade the existing product version, in terms of a variety of dimensions, especially quality, packaging design, and price reductions. Otherwise, it is to initiate development of a new improved product (as perceived by customers). Managers argued that a series of plans to redesign the product will continuously be repeated with the help of producers monitoring sales performance, although the upgrading process is relatively rare. Among the retailer brand development processes noted in the previous sections, a few procedures associated with the reintroduction will optionally be adopted by the buyers again. Rather than ceasing to sell product, as they enter the decline stage, they also stated that, through the upgrading period, launching a new improved version of a product is a way to attract and retain the existing or new customers, because of the own brand awareness. With regard to the regular upgrading period, the managers stressed that this depended on the

characteristics of product categories and customer reactions. There is no regular period limitation.

On the other hand, a decision to completely get rid of an existing retailer brand with or without reintroduction through an upgrading process, is sometimes made. When selling out dead stocks from stores and distribution centres or the producer's factory, there are a few problems. The opinion of the manager interviewed was that, compared to clearing the dead stocks of products, the disposal of stocks of subsidiary materials such as raw materials, packaging, labels, wrapping papers, containers, which cannot be used in the production of the producer's own brand product, is a much more difficult task, because Tesco must bear all the expense of disposing of them. In cases where a producer is trading with Tesco with other products, one supplier emphasized that the supplier might sometimes take on the full disposal responsibility, without laying the burden on Tesco, because of the fear of a trading conflict and in the interests of maintaining good customer relations.

When selling the dead stock of Tesco's brand products, it was confirmed that Tesco adopts the clearance program, as mentioned earlier, even though a loss is to be expected. As an excellent example, Tesco offers "buy one get one free" and further sharp price reductions. In addition, the disposal expense of the subsidiary materials results in a profit decrease or even deficit. As one supplier argued, the fact that Tesco must dispose of unsold Tesco brand products and unused subsidiary materials, might be a serious burden for retailer brand developers. This clearance process will certainly be one of the tasks Tesco buyers want to avoid.

Frequently, Tesco and producers agree that the clearance process of failed products, dead stocks, or even the subsidiary materials can be an unpleasant business for the both parties, whilst the upgrading process is a good signal for future success.

During this clearance process, there could be seen to be a conflict between Tesco and the producer over the disposal costs. However, in order to minimize this kind of controversial trading dispute, Tesco specifies the relative responsibilities in the contract note, when making a contract with a producer,

5.14 Conclusion

From the initial item proposal process to the upgrading or clearance process over three stages, the researcher examined the whole of the Tesco Korea retailer brand program, through in-depth interviews with Tesco Korea and its suppliers, the examination of company documentation, and direct store observations.

In terms of the personnel policy, Tesco Korea regards sales experience as an important standard, when appointing a buyer. Without the selling experience, Tesco staff cannot become buyers. Likewise, to develop Tesco brands, Tesco Korea does not operate a dedicated buying department. Buyers purchase the general merchandise and simultaneously develop retailer brands. This is one of the biggest differences between Tesco Korea and local Korean retailers. In addition, the role of the Global Sourcing Team has become more important in terms of both supplying Tesco UK brands and providing overseas information for the buyers.

The researcher also found that the objectives set for the retailer brands of Tesco Korea have diversified from an increase of store traffic by using lower prices, to product assortment supplemented with Tesco Korea brands. The introduction of retailer brands in new product categories means that Tesco is seen as a pioneer or a challenger in the Korean retailer brand market.

Most importantly, it is evident that the retailer brand program of Tesco Korea has been influenced by Tesco UK. Therefore, Tesco Korea has made a considerable

effort to increase its retailer brand share to achieve as high a retailer brand share as Tesco UK. As part of these efforts, it has been established, through the field work, that Tesco Korea has developed and is marketing three different brand forms: (1) the domestic Tesco Korea brand developed by local buyers, (2) the overseas Tesco Korea brand developed by local buyers along with an import supplier and (3) the Tesco UK brand imported by the Global Sourcing Team and managed by local buyers. Furthermore, the overall quality of these products has been managed by the Quality Management Team.

CHAPTER SIX

Comparative Analysis

6. Introduction

Although the world's two largest retailers, Wal-Mart and Carrefour, withdrew from Korea in 2006, Tesco Korea has stayed and become one of the most successful foreign retailers in the market. It is, furthermore, interesting that Tesco Korea although in second place in terms of sales volume, has taken the lead in the retailer brand market with 22.8 % of sales in the first half of 2008 (Table 4.1). In this chapter, the researcher focuses on identifying differences between the approaches of Tesco Korea and local retailers to the development and handling of retailer brands to further understand Tesco's success in this area.

This chapter is based on data or information acquired from documentation, the researcher's experience in retailer brand development with a local retailer, interviews with local retailers and observations. Common features of the domestic retailers' approach to retailer brands will be discussed, analyzed and finally compared with Tesco Korea. The chapter will be structured as in chapter five and the comparison will be conducted for each stage: item decision; production; and selling.

6.1 Retailer brand introduction by local retailers

Before Tesco UK expanded into Korea in 1999, retailer brands were given relatively less attention by large discount stores or hypermarkets compared to supermarkets. Even when the researcher worked as a retailer brand developer from 1994 to 1997 for the leading supermarket, Haitai (which was merged with E-Land), the major retailers were in the initial process stage of retailer brand introduction.

Considering the first discount store (E-Mart) developed by Shinsegae in 1993, which was like a warehouse outlet, it was too short term to actively introduce a retailer brand program. As a result, it was internally difficult to accumulate development know-how. Commenting on introduction of retailer brand programs by the major local retailers, suppliers described it as the following:

“Well, as you know, own brand development of large retailers was after 2000. Probably, I think major retailers like E-Mart, Tesco, Lotte Mart actively and competitively introduced them from 2003 or 2004. Before that, although there were retailer brands, it is very different from the current retailer brand. Recently, many market leaders have participated in the retailer brand program like us.” (LG)

“Until the beginning of 2000s, the retailer brand market was obviously led by the supermarket format. However, now it is not by the supermarket any more. The major retailers have taken the market lead. Most local retailers have benchmarked them. It’s true.” (Lotte Wellga)

Consequently, rather than focusing on the retailer brands of supermarkets, it would be wiser to look at the major local retailers in order to characterize the common features of the local retailer brand programs. Cho (2001) found that before supermarkets took the lead in retailer brands in the grocery sector, the department store format had actively been involved in own brand development, in the clothing sector in particular, because of strategic alliances with Japanese department store retailers.

The rapid increase in the number of discount stores or hypermarkets (Table 6.1) leads to a price war around 2003. The way to maintain existing customers and take customers away from the competition by using only manufacturer brands reached a ceiling. Retailers needed a new innovative method, as pointed out by a supplier and a member of E-Mart staff:

“It is still very hard to keep the same price over the major retailers. In the past, when most retailers competed against each other with only the national

brands, one of the most difficult tasks was to make retailers not to reduce our prices. Sales leaflets with unexpected lower prices used to make me upset. Consequently, they started to aggressively introduce their own brands to avoid some pressures from some market leaders.” (LG)

“E-Mart sold retailer brands long time ago. However, they didn’t get attention from the headquarters as much as now. Currently, E-Mart brands have become one of the most important product ranges.”
(E-Mart store personnel)

As indicated in the above quotes, the retailer brand market was led by the supermarket format until 2000 at least, but it is currently being led by the major discount or hypermarket format retailers. Due to the short history of the discount or hypermarket format, it is difficult to chronologically classify retailer brand evolution in Korea. During this brief period, the local major retailers have developed from the second to the fourth generation brand products, as classified by Laaksonen and Reynolds (1994). Surprisingly, Korean retailing only saw generics in Hanwha supermarkets, although many domestic retailers developed retailer brands with a cheaper price point than the national brands. The researcher will, nevertheless, discuss the evolution of the retailer brand from the initial introduction stage to the current stage.

Table 6.1 Number of discount stores or hypermarkets

Year	1996	1998	2000	2002	2004	2006
Number	30	82	159	230	276	342
Increase		+52	+77	+71	+46	+66

Source: Adapted from Chain Store Association and Korea, Federation of Small and Medium Business

6.1.1 Initial introduction stage

One of the most striking distinctions in the introduction stage is that with the exception of the department stores, most retailers concentrated on developing their own brands only in the finished product category and with only one brand name, like E-Plus (E-Mart), Wiselect (Lotte Mart), Hanaro (Hanaro Club), Hambakusum (GS), Pick & Save (Haitai), Good & Cheap (Hanwha), and Home-plus (Tesco Korea), regardless of their retailing formats. The expansion of product categories started to be seen in the next stage with from a more finished goods to produce, which used to be sold without brand names.

Retailer brands, secondly, emphasized lower price, rather than quality. As a pioneering retailer brand in the grocery market, the “Good & Cheap” brand, as implied by the name, is very similar to generics. The “E-Plus” brand, as the initial brand in the hypermarket sector, also emphasized a lower price. These brand names disappeared during the next stage, because of the efforts of retailers to improve customers’ perceptions that the retailer bands were only cheaper.

“You can’t find the retailer brand names developed in the past any more. Retailers changed their original brand names into new ones. As you know probably, the new brand names have been modernized. They don’t deliver cheaper images any more. One of their brand name characteristics is that the brand name is in English, not in Korean, except for a few retailers.”
(E-Mart store personnel)

Thirdly, owing to a lack of retailing know-how, buyers relied on suppliers when developing retailer brands. Information associated with the second stage, production, was acquired through suppliers. Also, the researcher had to depend on suppliers, because retailers did not accumulate the development skill of the retailer brand. This situation was common amongst all grocery retailers at this time.

Finally, most retailers did not operate a dedicated department to develop and manage the retailer brand. When it comes to organizational charts, retailers began developing retailer brands without any obvious management systems, such as quality management, clearance program, producer selection guide, and supplier supervision. Many problems such as unfair trading and the infringement of labelling standards were caused by the absence of a management system. Many retailers were fined by the Fair Trade Commission, because of unfair trading. This still happens. As an example, according to The Law Times (2008), Lotte Mart was fined recently, because of unfair trading when the company returned unsold own brand products to suppliers, with the aim of saving clearance costs.

6.1.2 Revolution stage

As a phase characterised by the development of retailer brands with new perspectives, the retailers interviewed made considerable efforts to restructure their retailer brand programs. Unlike in the initial stage, there were many striking changes, such as the establishment of a sophisticated development department, the renaming of brands, brand extension, brand expansion to produce, overseas retailer brand product development, emphasis on packaging design, quality control reinforcement, a strategic approach to the retailer brand, diversification of product sourcing and so on. These changes represented a revolution stage in retailer brand development. A few representative examples will be mentioned here.

Retailers internally emphasized the importance of the retailer brand more than in the previous stage. Consequently, dedicated development teams for retailer brands were established, which were separated from the buying department:

“Recently, E-Mart built a special team to develop the retailer brand within the organization. These team roles used to be played under the buying

department. Now, the new team take a control of everything concerned with E-Mart Brand” (E-Mart buyer)

“General buyers don’t develop any retailer brand product any more. We established the new team only for our brand products. Its aim is to effectively and efficiently introduce our new brand products. In addition, to help this team, we built the marketing team.” (Hanro-Club manager)

Supermarket retailers like Hanwha and Haitai, have also established dedicated development teams. Based on these new teams or departments, the retailers revised their retailer brand programs. Lotte Mart has, furthermore, had an affiliation with an American consulting company, Daymon to actively develop its own brand. It is, thus, necessary to look at the role of this organization within the company. As well as development activity, the team staff devised the overall retailer brand strategy, including the shelf allocation guidelines, advertising, pricing methods and the like. After completion, the retailer brand-related policy was delivered to every member of staff from headquarters to the stores.

An outstanding feature was that retailers rebuilt their own brand programs. There were brand name changes and a redesign of packaging. Retailers simultaneously introduced a few brand types according to quality levels or specific characteristics and extended the range from finished goods to produce and even clothing.

“We have developed around 10 brand names since 2003. Our previous products were quite simple and unattractive. However, recent products have been very sophisticated and had good quality. There is a massive improvement.” (Lotte-Mart manager)

“E-Mart Fresh is a representative brand of the produce category. This brand is very popular in stores. The E-Plus brand covered broad product categories and introduced in the initial retailer brand development stage has disappeared.” (E-Mart store personnel)

In this stage, the retailers also concentrated on improving image and quality levels, managing the whole process of development and selling with well-established organizations. As an example, the retailers turned their attention to overseas markets to procure better products with competitive prices for their customers. Through the telephone interviews with E-Mart and Lotte Mart, the researcher found that they ran overseas offices to source general or retailer brand products. This was an innovative stage.

6.1.3 Current stage

The present stage is an era of retailer brand competition. Furthermore, retailers have made an effort to introduce new concepts of retailer brand development or operation. According to one of the Korean newspapers, Hankyoreh (04.03.2008), the three major retailers, E-Mart, Tesco Korea and Lotte Mart engaged in a retailer brand war, drastically reducing their prices as well as introducing new retailer brand types. As an example, Lotte Mart has introduced the MPB (Manufacturing Private Brand) concept in which Lotte Mart co-operates with small and medium sized companies to develop Lotte brand products, as part of a strategy to show the public that Lotte Mart tries to improve outdated, undesirable, trading practices and to make customers favour Lotte Mart.

In addition, a win-win relationship between retailers and suppliers has appeared, compared to the past when the major retailers used to put a lot of pressure on suppliers to follow unilateral trading terms and conditions. This atmosphere is well expressed in the below quotes.

“E-Mart doesn’t do any illegal trading practice. We declared six years ago not to break the fair trading laws.” (E-Mart buyer)

“We changed. We don’t require our suppliers to take back our brand products any more.” (Hanaro-Club manager)

“Last year, we were fined because of the unfair trading that we returned dead stocks to a producer. Basically, we know it illegal. It is hard to clear out the failed stocks. Nevertheless, we are trying to improve this issue.” (Lotte Mart)

Retailer brand development know-how and selling management skills have been advanced, with the know-how accumulation coming from experience. The import of retailer brands developed by the domestic retailers in overseas markets is a good example.

In the following sections, the researcher will discuss the common characteristics of Korean local retailers and compare them with Tesco Korea, according to the order of the retailer brand development and handling process, established in chapter five.

I. Item Decision Processes

As the first stage in developing a retailer brand product, the common characteristics of domestic retailers during the period from item suggestion to the final development decision will be explored. Although this process is slightly different depending on each retailer, there are many common features associated with this stage of the process.

The well-established retailer brand development teams of E-Mart, Hanaro-Club, Lotte Mart, as well as Hanwha, have allowed buyers to concentrate on the development activity of retailer brands, free from the general merchandising works of the manufacturer brands. Most retailers want this team to specialise in the retailer

brand program. The overall item suggestion procedure is, thus, commonly implemented under the authority and responsibility of such a team.

6.2 Item suggestion

Regarding the question of who suggests potential retailer brand items, the local retailers interviewed stressed that the items developed were decided by the development team staff, even though buyers got new ideas thanks to information offered by suppliers and colleagues. To control the item suggestion routes, most retailers empower the buyers to manage the whole process, as the following quotes demonstrate:

“Well, there is no particular, limited rule to propose potential retailer brand items internally or externally. Whoever is interested in it can propose them through e-mail or other routes. However, the important thing is that items proposed by anyone must be considered by buyers to proceed to the next step.”
(Hanaro Club)

“Until recent years, general buyers developed our brand products. Currently, its development activity is decided by the development team staff, of course, including authority of item suggestions.” (E-Mart)

It is important here to note that no one interviewed allowed their customers to participate in the development process.

6.2.1 Item suggestion criteria

According to the interviews, there are a large number of elements which buyers consider when selecting items as a retailer brand. During the interviews, the researcher found that most selection criteria were very similar to standard success factors such as price competitiveness, sales volume and so on.

The first factor considered by development staff is the market size of each potential item within their own stores. Interviewees consistently and strongly emphasized that retailers do not want to risk failure, because the clearance cost has to be borne by the retailers. As a part of reducing risk, buyers tend to choose a product category with a large sales volume for their own brands. In line with this trend, the introduction of retailer brands into the produce category has been accelerated:

“It is too dangerous to develop unpopular product categories with small turnover as our brand. We can’t return the failed product to suppliers. Its clearance cost is enormous. This cost will cannibalize profits generated by our successful brand products. In order to increase sales performance of our brands, we are looking at the produce categories with higher sales volume and stock turnover rate.” (Lotte Mart)

More interestingly, when buyers search for potential items, they get ideas from competitors. This is associated with the first factor of risk reduction. In other words, any product category successfully being sold by their rivals or in a different retail format is likely to be proposed as a retailer brand. Retailer brand expansion into the clothing sector is a good example of the influence of a different retailing institution (department store), whilst the produce introduction of Lotte Mart and E-Mart brands is affected by Tesco Korea. Indeed, when the researcher researched for new ideas to report potential items to my boss, he used to go to most of the retailing formats, even the conventional market. After Haitai started to lead the retailer brand market, most developers used to come to our stores to check which items were successful. A successful item in a rival’s stores was, of course, suggested without doubt.

“Well, to be honest with you, we didn’t realize that we can sell produce like rice, meat, fruit, and vegetable with our brand. As buyers went to competitors’ stores, they thought it a good idea. Finally, we have aggressively introduced them as our brand.” (Hanaro Club)

If a product category shows a lower turnover, but has no dominant market leading brand and has an appropriate sales volume, buyers are also interested in suggesting that category. As evidence, some produce and finished good categories have been monopolized by retailer brands at the expense of small- and medium-suppliers. It was found that product categories with a large turnover and without national brands are favoured by buyers, and finally proposed as potential items. In my experience, the pickled radish product, with a quite big market size and no leading brand was an excellent example, and further, most retailers benchmarked this item. The radish product has since been extended from the simple pickled radish to value-added products by the retailers. This means that some product categories have been pioneered by retailers, rather than manufacturers:

“Recently, there is an increasing number of new product categories led by retailer brands. Some product categories with no national brand have been advanced by our brands. This trend will certainly be continued.” (E-Mart)

In addition, in rare cases, a retailer has introduced some market leading brands that the producer is going to withdraw from the market. For example, some E-Mart brand products like the laundry detergent of LG and the fabric conditioner of Pigeon. This is only seen in E-Mart, because of the strongest buying power in the Korean market. When the researcher examines the producer selection process, these cases will be mentioned again.

Given the above factors mentioned by the interviewees, it is unwise to say that the local Korean retailers are significantly involved in developing innovative retailer brand products or have used their own brand development as a marketing tool to supplement their existing product ranges. One of the most common features is a desire to reduce the risk of product failure.

6.3 Marketability investigation

Although buyers are involved in the marketability research process through looking for new retailer brand items to develop, it was found that the items listed are examined thoroughly to check whether they are competitive compared to national brands, or to assess the likelihood of success and if they would make a contribution to the existing product assortment. Through a variety of information sources like the E-POS system, traders, trading press, and the Internet, the domestic retailers implement this part of the development activity.

6.3.1 Information system

Each of the retailers interviewed operates a well-established information system. Since the first introduction of an E-POS system in Haitai in 1993, penetration has extended to the convenience as well as discount retailing format. With respect to the advantages of the current information system, a few respondents noted the following:

“We control everything through our information system, of course, including the product flow management. Our POS system is in part connected with the human resource management program, that is, the assessment of an employee’s performance. Without this system, we can’t manage anything.”
(Lotte Mart)

“Thanks to the information system, we can collect whatever we want. Even, when we teach store personnel how to display products, we send the video file through our system. In the past, we couldn’t imagine that.” (E-Mart)

As implied by the above quotes, the researcher found that buyers rely heavily on their information system. During the examination of marketability, the buyers gain basic information, such as sales volume, the degree of profit creation of each brand, price competitiveness, customer reactions and so on.

6.3.2 Suppliers

As an important information source, buyers keep good relationships with their suppliers. Unlike the E-POS system limited to internal information, it was found that suppliers play a paramount role in encouraging buyers to collect external product-related information, such as trading trends or customer reactions as researched by producers, market forecasts and so on.

In the course of the interviews, the researcher found that the shorter the buyer's experience of retailer brand or purchases of general merchandise, the more the buyers relied on the information given by suppliers. In other words, the degree to which the buyers trust the supplier's information is proportional to the product knowledge accumulated by experience. The major domestic retailers interviewed have not operated a department dedicated to collecting external information to help the development team staff, except for Lotte Mart who has outsourced external information management to Daymon, the America-based consulting company. E-Mart and Hanaro Club are not involved with any third party providing retailers with external customer or supplier information. What is important here is that the marketability investigation process is done by the buyers, as indicated by the below quote:

“Let me see! Hanaro Mart hasn't got involved in any consulting company. The buyers should research the marketability for themselves with help of their suppliers. The supplier is a very important source” (Hanaro Club)

On the other hand, in the interview with a Lotte Mart manager, the researcher found that Lotte Mart relied considerably on Daymon to analyze the marketability of any suggested item through the strategically alliance formed in 2003.

“We have outsourced everything relating to the retailer brand development to Daymon. Within Lotte Mart, there is the dedicated private brand team with it.

Lotte staff plays a role in connecting Lotte Mart with Daymon. Currently, one consultant of Daymon is working with us.”(Lotte Mart)

It should be noted that suppliers are used as an important information source for buyers and have provided a great deal of information for retailers.

“During the trading meeting with buyers, we are talking about diverse product information. Even when they are going to develop the retailer brand among our product categories, we are sharing the development-related information each other.” (LG)

6.3.3 Market investigation

An analysis of whether the suggested items will sell well or not is widely accepted as a basic process of retailer brand development among the retailers interviewed. In order to have confidence in the proposed items, the buyers go directly out to competitors’ stores or traditional markets to research their potential. Likewise, the buyers purchase sample products and further collect producer-related information.

One of the most popular market research methods for buyers, emphasized by the interviewees, is to look into their competitors’ own brand development activity. Some interviewees stressed that looking at not only what kind of products are displayed on the competitors’ store shelves, but also how fast the stock turnover is, is the best way to reduce development risk and to easily get permission from top management. As a consequence, if any retailer succeeds in developing and selling an item, that item is suddenly copied by all the retailers adopting a retailer brand program. There is a good personal example of the success of a retailer brand: a cooking oil product developed by the researcher, which encouraged other retailers to launch their own brands in the same product category.

“We don’t hesitate to start to develop successful items in competitors as our brand, because they are demonstrated. The competitor investigation like E-Mart, Tesco Korea is encouraged by the company.” (Hanaro Club)

6.4 Final decision process

The final stage before starting development is to get approval from top management for the potential item list. It is, thus, essential to explore how the final development decision process happens within organizations.

In the early days of retailer brand development in supermarkets, the final decisions were made by the team manager, without reporting to the top management. However, with the increasing importance of retailer brands, the decision-making process has become more sophisticated than in the past when the reporting process to start developing a retailer brand was simpler than that for the introduction of a national brand, moving from a one- or two-tier report system to two- or three-tier system, especially since the development teams were established.

“Recently, the top managements have been much more interested in our brand introduction than 2 or 3 years ago. Some years ago, the report process to get the development permission used to be simple and ritual. Now is very different. The top class emphasises our brand more than the national brands.
(Lotte Mart)

The decision-making process, thus, requires more time, compared to the early days. The development team staff interviewed have to officially report potential items to the team manager, a director and CEO to get the final approval for development. Regarding the background to the transition process of the reporting system, one of the interviewees stressed that it results from the enhanced supervision of the Fair Trading Office. In terms of trading practices in the past, when retailer brand products were cleared out of stores because of poor performance, all the withdrawal costs were borne by producers, in spite of an illegal trading activity. Accordingly, small- and medium-sized businesses have made complaints against the government and then the government has vigorously supervised the trading practice between retailers and suppliers.

As a result, when making a decision of whether a potential item is developed as a retailer brand or not, it was found that retailers saw risk avoidance as one of the most influential factors. The risk of failure required a complicated reporting system, and demanded that the retailers made a clearance budget, clarifying links of authority and responsibility between buyers, managers, directors and the CEO.

For this reason, the introduction of innovative product categories as a retailer brand seems to be more difficult than it would have been in the past.

6.5 First stage comparison: local Korean retailers vs Tesco Korea

In this section, the researcher will look at the differences found during the first stage (the item decision process) between Tesco Korea and local Korean retailers, rather than mentioning the common features between them (Figure 6.1). In relation to the organizational characteristics, Tesco has not established a specific retailer brand development team, in contrast to the local retailers. Consequently, Tesco Korea might seem to be less specialized in developing own brands, although its retailer brand market share shows the highest figure in Korea.

In terms of the types of retailer brands, Tesco Korea has imported the Tesco UK brand products, through the Global sourcing Team. On the other hand, there are no local retailers that directly import retailer brand products developed by foreign retailers in overseas markets. However, they have started to import retailer brands developed for themselves in overseas markets, with the help of Korean domestic suppliers. Considering that the local Korean retailers benchmark competitors, this trend will continue, and become a more important product sourcing method than at present.

During the item suggestion stage, the local retailers are more likely to rely on suppliers for new product ideas than Tesco Korea, where the process is led to a great extent by buyers. As noted in chapter five, there are no product areas that suppliers can propose to retailers, because most categories have already been developed as a retailer brand. The Tesco buyers search for new product ideas by themselves to supplement the existing product assortment and introduce product categories with new concepts.

Surprisingly, the researcher found that for item suggestion criteria, Tesco Korea started to introduce innovative product categories under its own brand, unlike the local retailers who focused on popular product categories to secure success. This might explain why Tesco Korea is leading in the Korean retailer brand market. Compared to local retail operators looking for guaranteed success, Tesco Korea has expanded its business into new innovative categories. The introduction of the Tesco brand into the produce category is a good example. As a result, this new trend has stimulated competitors to imitate the retailer brand development of Tesco Korea.

More interestingly, Tesco UK has helped Tesco Korea to collect market information relating to the marketability investigation activity. Particularly, the Global Sourcing Team of Tesco Korea plays an important role in transferring product- and producer-related information from all over the world to Tesco Korea through meeting regularly or irregularly Tesco Korea's buyers. The domestic retailers without these world-wide networks, on the other hand, are likely to collect such information through limited sources in the home market, although Lotte Mart has outsourced this process. Thus, Tesco Korea is superior to the local retailers, in terms of information gathering, because of Tesco UK.

In making the final decision of whether a retailer develops the suggested items, there is a considerable difference between Tesco Korea and the local retailers. Tesco Korea regularly holds the Product Development Committee to discuss the future development direction and marketability of each suggested item. If the Committee does not agree to the suggested item, they cannot be developed as a retailer brand. In contrast, the domestic retailers have made a short decision-making process, which means that development permission is received through a phased reporting system from buyer to director, without any development team meeting.

Consequently, it was found that Tesco UK has considerable influence over certain elements of this item decision process of Tesco Korea, and that Tesco Korea has developed own brand products through a different development process with the local retailers who tend to follow or benchmark their own competitors.

Figure 6.1 First stage comparisons

Component	Tesco Korea	Local Korean retailers
Development Team	No	Yes
Development Form	(1) Domestic brand developed by Tesco Korea (2) Overseas brand developed by Tesco Korea (3) Import of Tesco UK brand	(1) Domestic brand developed by local retailers (2) Overseas brand developed by local retailers
Item Suggestion	(1) Mainly led by buyers (2) Occasionally from suppliers	(1) Development Team staff or buyers (2) Quite often by suppliers
Item Selection Criteria	(1) Product sales volume (2) Product turnover rate (3) Whether competitors sell and success or failure (4) Whether supplements product range (5) Innovative products	(1) Product sales volume (2) Whether competitors sell (3) Whether leading brands exist and success or failure (4) Product market when leading brands withdraw (5) Avoid product categories with failure risk (6) Less development of innovative categories
Marketability Investigation	(1) E-Pos system (2) Suppliers (3) Market investigation (4) Help of Tesco UK, through the Global Sourcing Team	(1) E-Pos system (2) Suppliers (3) Market investigation
Final Decision	Should be passed through the Product Development Committee consisting of a director and managers	No Product Development Committee Buyers should report to managers, directors and CEO

II. The Production Stage

Following the official development approval, buyers turn their attention to the next stage: production of the retailer brand. It should be remembered that as they enter this stage, the buyers have acquired a large amount of information relating to the product, producers, and customer reactions, through the first stage of the development activity. This information will, however, be re-checked during the production stage.

Prior to examination of the production process, it is necessary to look at how retailers select an appropriate supplier. The remaining sections will discuss design development, product specification creation, pricing, promotion plan, distribution system, clearance plan and so on.

6.6 Producer selection

Except for E-Mart, whose retailer brands have been provided, particularly in the non-food sector, by national brand manufacturers, most retailers including Tesco Korea have contact with small- and medium-sized producers. Even though the domestic retailers want their own brands to be supplied by national brand manufacturers and furthermore many of these manufacturers want to supply the retailer brands, this is practically infeasible. With respect to the importance placed upon supplier selection, one of interviewees noted:

“E-Mart is the strongest retailer in Korea. Many national brands have currently supplied a variety of our brands. It brings many advantages. This saves our costs like marketing expenditure. We have used their own brand with E-Mart brand to attract our customers with the national brands’ agreement. The best choice is to trade with the market leading brands. If so, it means more than half of success before distribution into stores.” (E-Mart)

6.6.1 Producer selection criteria

Although the retailer brands of most of the retailers interviewed have been provided by many different suppliers, the retailers have, in fact, not had clear producer selection criteria. When the researcher asked about whether the retailers carry out a producer assessment program, all the respondents replied that there was no strict selection standard created by the company. There are, however, a few factors that buyers take into account: primarily quality and price.

Firstly, buyers emphasized the quality management level offered by potential suppliers. Recently, this issue has become more important than ever before, because retailer brands are more exposed to, and monitored by, the media, compared to the past when news reporters were not interested in the retailer brand development context. In order to avoid negative news associated with customer claims of lower quality, retailers place quality as the most important element when selecting a producer.

If retailers are satisfied with the quality level of suppliers, the next most important issue is their price competitiveness against national brands. What is interesting is that before retailer brands become a social issue, price was much more important to retailers than quality, as indicated by the quote below.

“Our brands developed in the introduction stage of retailer brands were price-orientated. Pricing lower than national brands was the top priority. Rather than pursuing quality brand, we were only interested in lowering prices. Now, if so, we are going to be out of business.” (Lotte Mart)

Quality and price are considered as the most important supplier selection criteria by E-Mart, Lotte Mart, and Hanaro Club. No additional factors were identified by the local retailers.

Domestic retailers do not carry any standardized form to choose or supervise suppliers. Despite the number one retailer in Korea, E-Mart relies on individual buyer perceptions to select suppliers without recourse to a sophisticated manual, although quality assessment has been outsourced by one of the Shinsegae companies. Similarly, Lotte Mart has outsourced the supplier assessment process to Daymon.

Given the above findings from the interviews, the supplier selection process is led by an individual buyer's attitude towards potential suppliers, rather than being based on guidelines proposed by the company. This seems, therefore, to be a less transparent system than in the case of Tesco Korea. Even though the interviewees stressed two factors; quality and product cost, these are not formalised within the organization.

6.6.2 Producer assessment program

During the supplier selection period, local retailers are likely to rely on the buyers' intuition, in the absence of the producer selection guidelines. Given this approach, not surprisingly, the producer management activity is also dependant on staff attitudes towards suppliers or the intuition of buyers. As local Korean retailers do not carry any guidelines to choose or evaluate suppliers, there are no specific producer assessment programs. In many cases, the producer evaluation activity was omitted or ignored by the local retailers.

What is interesting at this stage is the E-Mart case, who emphasized the importance of a good choice of suppliers. As mentioned earlier, E-Mart brands have been provided by many national brands leaders. With regard to the reason why E-Mart has done this, staff noted:

“We can trust national brands. The selection of the best supplier like national brand suppliers saves our management cost. We don't have to worry about

quality maintenance. They don't let me down at all, because of their well-established management system. However, small-and medium-sized suppliers require much attention to quality management.” (E-Mart)

Consequently, in the absence of a formal producer assessment system to choose a suitable supplier, experience, intuition and knowledge of buyers are used to select retailer brand suppliers. This is a common characteristic of domestic retailers.

6.7 Design development process

“I can't say that Lotte brand products developed before 2003 were the real retailer brand. They were terrible. However, the current retailer brands are polished products with elegant package design.” (Lotte Mart)

As implied in the above quote, the packaging appearance during the initial introduction stage was very old-fashioned. The establishment of dedicated design teams within the retailers has been a recent trend, compared to the initial stage when the design development activity was, for the most part, led by suppliers. With the increasing importance of retailer brands, local retailers started to realise that as well as quality improvement, package design improvements were needed to attract customers and compete with competitors.

In my experience, when the supermarket retailers led the retailer brand market, no one realized that design development was important. All retailers did about design development was to confirm packaging design samples developed and delivered by the selected suppliers. Even, the brand logo was initially created by a supplier, in the case of Haitai, although it was recreated by Haitai in 1994. This was the normal trend throughout the retail sector by the time of the revolution stage.

What needs to be examined next is the design development-related cost. As a consequence of the initial approach to packaging, retailers did not have a budget for design development costs, as costs were wholly borne by suppliers. This was

considered as the standard trading practice by both suppliers and retailers, although it was illegal.

6.7.1 Packaging design development

Most local retailers have now established a dedicated design team to fully manage the visual retailer brand image, regardless of who develops the packaging design: retailers, design agency, or suppliers. In other words, although the suppliers and the design company may develop the packaging, the final confirmation is made by the retailer's design team. Major retailers like Lotte Mart and E-Mart have hired in-house package designers responsible for developing retailer brand packaging, while Hanaro Club have outsourced it to the design agency, as the supermarket retailers did. It was, however, found that the retailer designers of the former companies have actually ordered the design agencies to develop new packaging and tightly managed the whole development process, based on co-operation with buyers, rather than designing new retailer brand products themselves. As a result, every package design must have approval from the retailer before the new product is launched. This leadership change from supplier to retailer is in contrast with past design development process. It means that retailers not only have had more interest in, but also pay much more attention to, the retailer brand than ever before.

By being directly involved in design development, the researcher found that retailers can build a constant, unified brand image and further enable their customers to perceive the current retailer brands much more favourably than in the past. According to brand types, retailers have delivered different brand concepts as well as different brand images to their customers. This can be confirmed through store

observations. Likewise, retailers have paid the same attention to developing product containers, such as bottles, trays, and boxes, as to label or packaging design

6.7.2 Design development cost

Despite the changing attitudes of retailers towards the retailer brand program, the design development cost is still passed to the suppliers as before. This cost tends to be added to the product unit cost or is ignored under mutual agreement.

“We don’t pay design development cost. Basically, its spending responsibility is for suppliers. However, its cost is sometimes considered as the product cost.” (E-Mart)

Regarding design costs, all retailers interviewed took the same attitude as E-Mart. There was no difference among them.

In summary, with the increasing importance of the retailer brand, there has been a big change over the packaging design development stage of the process.

6.8 Product specification development

As the E-Mart manager noted, E-Mart does not have any manufacturing knowledge so it is difficult for retailers to develop and accumulate knowledge in this area. This is normal in Korea, although this issue is one of the most important development activities. Whether retailers can create a product specification is closely related to the quality level decision and product cost control, and might influence the negotiation process with suppliers.

As with E-Mart, however, the rest of the retailers interviewed are not involved in creating product specifications. With respect to this question, the respondents mentioned the product cost statement which examines the cost structure consisting of direct cost and overhead. Generating a detailed product specification as manufacturers

do would be impossible because of lack of know-how. The role of buyers is, therefore, not to develop a product specification, but to check the cost statement provided by suppliers. Based on the data provided by suppliers, the buyers start to discuss product quality degrees as well as product costs, as indicated by the following quotes:

“As you know, we can’t independently create the product specification. Well, the paper we consider might be closed to the cost structure analysis. It is not the original product specification.” (Hanaro Club)

“We can’t produce the product specification. In addition, we don’t operate any team related to it. All we can do is to rely on suppliers.” (Lotte Mart)

There is no domestic Korean retailer who internally operates a quality development-related team or creates new product quality specification to differentiate products from manufacturer brands. In a sense, the product quality of the retailer brands distributed is for the most part developed by suppliers. However, there are occasionally cases when buyers get directly involved in changing the product quality level to reduce or increase the product cost.

Given that domestic retailers do not have the ability to create or systematically manage product specifications, the quality of retailer brands may eventually become a big social issue. For example, on 13th February 2009, E-Mart withdrew its own brand milk, provided by a national brand, because customers claimed that its taste was different from that of national brand milk (KyungHyang Newspaper, 2009). E-Mart accepted that the supplier made the quality between the national and retailer brand different, because of lower product costs.

Separate from the product specification issue, there is a need to look at the quality management system, that is, how retailers monitor their brand products. According to the interviews, although the degree to which retailers are involved in

product quality management activity is different, depending on each retailer's policy, all retailers operate a quality monitoring system of some form in their own way. In relation to this issue, E-Mart has not only employed a Shinsegae subsidiary, the Institute for Quality Research, but also established an internal quality management team to regularly check the quality levels of their retailer brands, while Lotte Mart has internally operated a quality management team as did Haitai supermarket. Nevertheless, whether the quality of the retailer brand products is better than the national brands or is a credible alternative has constantly been a social issue:

“Customers have become more demanding. Of course, lots of media and the Customer Association are regularly monitoring the retailer brand quality. Accordingly, many quality problems are revealed by them, although we try to thoroughly monitor our products all the time.” (E-Mart)

6.9 Pricing

Ironically, before a retailer brand product is developed, prices have already been determined to some extent by buyers. The retail price range of new products has already been formed in their minds through the market research activity undertaken in the first stage. This means that after the buyers consider the retail price, the margin, and the potential product cost, they are prone to the next development processes. As an example, the buyers search for, negotiate, and decide on suppliers with the potential product cost taken into account. While doing so, if the suppliers can accept the suggested product cost, the trading negotiation will be finished. This is demonstrated by the following quotes:

“In fact, the retail price as well as product cost is determined before starting to develop new products. Intuitively, we know to what extent the product that will be developed should be priced lower than the national brands. So, we need to keep the potential retail price and product cost. If not so, we need to stop the development.” (E-Mart)

“Rather than quality, retailers pursue only the price competitiveness. The retailers sometimes require the lowest cost the suppliers can’t produce. It’s incredible.” (LG)

Although the domestic retailers interviewed have already completed more than half of the pricing process at the first stage, it is necessary to look at which factors influence the pricing of retailer brand products.

6.9.1 Product cost decisions

In order to price the retailer brand products and achieve enough profit, the product cost negotiation is an important development activity. How domestic retailers undergo this process thus needs to be examined.

Even though buyers examine or analyze the cost structure statement provided by suppliers, the retailers in the end tend to put pressure on suppliers, particularly small- and medium-sized producers, to accept the initial product cost considered during the marketability research stage. This process is seen as part of the power battle between the retailers and suppliers. For manufacturers in a weak position in the market, the retailers’ pressure is stronger than for the leading brands. Consequently, the cost decision process might be regarded as being less based on quality and cost analysis, but rather based on the retail price and margin.

“Without enough margins, we don’t start to develop our brands. Profit is the top priority. You should understand why we’re interested in it. It is profit.” (Lotte Mart)

6.9.2 National brand price

For the domestic retailers, the researcher found that the price of the national brand was thought of as the reference point for buyers. During the interviews with domestic retailers, the researcher felt that without national brands, the buyers might

not be able to price their products. Based on the national brand price, the buyers consider the product margins they should achieve and this determines the retail prices. Accordingly, the retailers commonly believe that the national brand price strongly influences the retailer brand pricing activity.

Not surprisingly, the profit rate of the retailer brand should be higher than that of the national brand, while the retailer brand price should be considerably lower than others. This is, however, not an easy task. Retailers have experienced difficulty in lowering the retailer brand price relative to the national brand. To overcome this difficulty and further to avoid the price war between the national and retailer brands, retailers have developed a few different brand types by quality levels, as noted by the following quote:

“Before we introduced a few quality brand types, we sold only one brand focused on the price difference against the leading brands. As you know, there is a critical situation. The introduction of a few brands leads us to avoid the price competition.” (E-Mart)

6.9.3 Competitors’ brand price

With the introduction of different retailer brand types, there is a change from price competition to competition avoidance. Compared with the past when the local Korean retailers maintained only the one brand type, orientated towards lower price, the quality–orientated brand development discourages them from competing on the lowest price. For fast moving consumer goods, the retailers interviewed, including Tesco Korea, have commonly had more than three brand types by quality (lower, medium and higher quality).

The retailer brand price of competitors is also still used as a reference point to price own brand products, although its influence is weaker than that of the national brand, as noted by the following quotes:

“Indeed, the introduction of quality brands helps to avoid price competition. However, it’s still an important factor when pricing our products.”
(Hanaro Club)

“We can’t ignore E-Mart and Tesco Korea. We always keep an eye on their price changes.” (Lotte Mart)

“We’re trying to achieve the price competitiveness against our rivals like Tesco Korea.” (E-Mart)

In pricing retailer brand products of similar quality to competitors, interviewees stressed that competitors’ prices have to be taken into account.

6.9.4 Margin achievement

As previously stated, as well as price, the profit margin for each item seems to be potentially determined through the market research activity of the item decision process. Each retailer interviewed has a profit policy against the national brands. As examples, the profit margin of Lotte Mart brand products should be approximately 2.5 % higher than the national brand (including a variety of allowances) and for E-Mart the figure is 5 %.

With these margin guidelines, retailers tend to calculate the product cost and price. It should also be noted that retailers cannot legally demand any allowances from the retailer brand suppliers. The profit rate decision is made by reference to the national brand price, rather than being based on the product quality and cost analysis.

6.10 Promotion plan

Regarding retailer brand promotion, the local retailers interviewed have carried out clear promotion policy in their own way. Unlike in the initial phase when retailer brands were used to reduce prices to attract customers, the retailers have

generally prevented buyers from cutting prices, except for the failed products for clearance. From the interviews with retailers, one of the most widely accepted promotion methods for own brands is favourable space allocation against the manufacturer brands. In addition, some interviewees added public relations to the promotion plan. This section will, thus, discuss these two things.

6.10.1 Space allocation

In the course of the interviews about shelf allocation, it was found that the golden zone of shelves was allocated to the retailer brands to stimulate customer purchase. This was also confirmed through store observations. In my working experience, favourable shelf space was one of the important ways to generate allowances from suppliers. Although retailers have become aware of its value, as was the case with Tesco Korea, they have placed their own brands on the best shelves against the national brands.

Likewise, retailers have actively displayed their retailer brands in the promotion areas as well as the end caps with a product explanation. While retailer brands were located on anywhere in the past, currently retailer brands are displayed in the best areas, where customers most frequently pass. This shows that the retailers have changed their mind: moving from a passive to an active attitude towards the retailer brand programs.

“Our brands should be displayed in the best places in every store. We don’t advertise it. The best display is the best promotion.” (Lotte Mart)

“E-Mart brands must in principle be located in the golden zone” (E-Mart)

6.10.2 Advertising

It was found that no retailer advertises its retailer brands in media. Whenever they hold discount events, on the other hand, some retailer brands tend to be placed in the sales leaflets. As a result of avoiding paid advertising methods, they focus on public relations to increase the exposures of the retailer brand to customers. This has competitively occurred among retailers. There seems to be a public relation battle among retailers including Tesco Korea.

“Whenever we launch new products, new strategies, and new brands, we send information relating to our brands to news reporter and journalists.”
(Tesco PR Team Manager)

6.11 Distribution

Not surprisingly, there is no difference between the retailer and national brand distribution systems. However, there are many trading conflicts between suppliers producing retailer brands and the retailers, because of the higher distribution cost required by the retailers. This is why LG, the supplier producing non-food products for the E-Mart retailer brand, still delivers directly to each store.

“Retailers tend to require higher delivery commission than we expect.” (LG)

Unlike Tesco Korea who outsources to the delivery provider, the local Korean retailers have directly operated distribution systems, which are considered as a source of profit. For this reason, the retailers put pressure on suppliers to spend more on delivery cost. Depending on the supplier size or power in the market, the cost required by the retailers is very different, and ranges from a minimum 2.5 % to a maximum 12 % of the product cost.

The delivery cost negotiation tends to be carried on the personal bias of buyers, rather than via guidelines created by the company. Among those suppliers interviewed, it was found that suppliers were unhappy with the local retailers.

6.12 Clearance plan

During the interviews, the phrase “clearance program” was very unfamiliar to both suppliers and retailers. This means that local retailers have not established a clearance program for failed products. Without a clearance manual, the retailers have to deal with them. Legally, failed products cannot be returned to producers. Currently, the retailers interviewed clear them out through sharp price reductions or throw them away. A phased price reduction is one of the most favoured clearance methods used by the local retailers.

The reason why domestic retailers have not yet built this program might be due to traditional trading practices in which products used to be returned to suppliers some years ago. In my experience, the return used to be accepted by both retailers and suppliers without doubt. Recently, the local retailers started to become aware of fair trading. As noted earlier, Lotte Mart was fined for an illegal return to the supplier by the court, and is frequently exposed by media.

6.13 Second stage comparison

In selecting and evaluating suppliers, there are a number of differences between Tesco Korea and the local retailers. As seen in Figure 6.2, Tesco Korea mentioned a variety of producer selection criteria and operated the same producer assessment program provided by Tesco UK. This producer selection process is seen as more complicated, and more sophisticated than that of the domestic retail

operators, who simply emphasized quality and price competitiveness. With regard to producer choice, Tesco UK advised and strongly influenced Tesco Korea to carefully choose suppliers. By regularly assessing existing suppliers of the retailer brand, Tesco Korea enhances its supplier supervision.

The design development activity of Tesco Korea, with its own design centre, is similar to that of local competitors. What is interesting here is that when outsourcing the design work, Tesco Korea contracted three agencies, according to brand types, in order to maximize consistent image of each brand, compared to the local retailers who basically develop relationship with only one design company. However, both Tesco Korea and the domestic retailers offset the packaging development costs by product costs.

An important issue is whether retailers are able to create a product specification. It was confirmed that nobody has the ability to generate it, although Tesco Korea has established the Quality Management Team with technical managers monitoring suppliers and checking the quality of Tesco Korea brands, unlike the local operators who more commonly outsource the quality management process.

The retailers interviewed, including Tesco Korea, have differently priced brand types based on quality levels. What is interesting is that the domestic retailers are more likely to competitively price their retailer brand products lower than their own competitors, while Tesco Korea puts less emphasis on competitors' prices. In the same vein, the local operators regard both the retail and buying price of national brands as the reference point when pricing and negotiating the retailer brand product cost, rather than relying on the cost structure and quality analysis which in contrast are considered as being very important by Tesco Korea. Despite the efforts of the

domestic retailers to lead the retailer brand market by using competitive prices, Tesco Korea continues to dominate the Korean retailer brand market.

Unlike the above development activities, there is no striking difference in the promotion plan between Tesco Korea and the local Korean operators. Compared to the past when retailers used to use price reduction as a promotion tool, all the retailers interviewed no longer reduce prices to promote the retailer brand. Likewise, the promotion costs spent by suppliers in the past are, for the most part, borne by the retailers. For this activity what is interesting is that the retailers have competitively focused on public relations, together with in-store advertising.

Tesco Korea introduced the concept of outsourcing delivery into the retail sector, while the local retailers have traditionally operated their own distribution systems keeping their own lorries and delivery centres. Furthermore, Tesco Korea has, for the first time, established the SCM (Supply Chain Management) concept as well as the backload system in the Korean retail industry. By introducing this new distribution concept, the trading conflicts frequently occurring between retailers and suppliers when negotiating the distribution commission against product costs are removed. Negotiation is no longer a duty of buyers. The domestic retailers have, on the other hand, continuously been involved in the negotiation process. Tesco Korea does not see the distribution system as a source of revenue, which is different from the local operators.

Failed retailer brand products must be cleared by retailers, because of the “no return” regulations. Tesco Korea has their own clearance program manual devised by Tesco UK, which regularises how long new retailer products should be monitored to decide whether they are successful or not; how to reduce the price of failed products; and finally how to remove them from stores, distribution centres and suppliers.

However, the home retailers do not carry the same program as Tesco Korea, but empower buyers to arbitrarily clear them out.

Figure 6.2 Second stage comparisons

Component	Tesco Korea	Local Korean retailers
Producer Selection	<ul style="list-style-type: none"> (1) Producer assessment program provided by Tesco UK (2) Quality maintenance (3) Product cost (4) Future growth (5) Trading relationship (6) Delivery ability (7) Raw material procurement ability (8) Supply of retailer brands to competitors (9) Disciplinary punishment (10) Financial structure (11) Company reputation 	<ul style="list-style-type: none"> (1) No producer assessment program (2) Quality maintenance (3) Price competitiveness against national brands
Design Development	<ul style="list-style-type: none"> (1) Design development centre (2) Packaging is outsourced for each brand type (3) Depending on brand types, three design agencies are contracted (4) Design development cost is offset by product cost (5) Co-operation with buyers 	<ul style="list-style-type: none"> (1) Outsourcing design development, except for Lotte (2) Design development cost is offset by product cost or ignored (3) Co-operation with buyers and development team staff
Product Specification Development	<ul style="list-style-type: none"> (1) No product specification creation (2) Quality Management Team operation (3) Strict producer supervision by technical managers 	<ul style="list-style-type: none"> (1) No product specification creation (2) Outsourcing quality management

Component	Tesco Korea	Local Korean retailers
Pricing	<ul style="list-style-type: none"> (1)Differently priced according to brand types (2)Thorough cost structure analysis (3)Relative pricing against national brands (4)Competitors' brand price is less important 	<ul style="list-style-type: none"> (1)Differently priced according to brand types (2)National brand is used as the reference point to price and negotiate product cost (3)Pricing lower than competitors' brand
Promotion Plan	<ul style="list-style-type: none"> (1)Favourable space allocation, including end caps and promotion area (2)No price reduction (3)Enhanced public relations (4)Promotion cost spend by Tesco Korea (5)In-store advertising, in-house magazine and sales event leaflet 	<ul style="list-style-type: none"> (1)Favourable space allocation, including end caps and promotion area (2)No price reduction (3)Enhanced public relations (4)Promotion cost spend by retailers (5)In-store advertising
Distribution	<ul style="list-style-type: none"> (1)Outsourcing (2)Backload system (3)No conflict between Tesco Korea and suppliers (4)Introduction of SCM concept 	<ul style="list-style-type: none"> (1)Retailers or suppliers directly deliver products to each store (2)Many conflicts between retailers and suppliers
Clearance Plan	<ul style="list-style-type: none"> (1)Clearance program devised by Tesco UK (2)By manual, phased price reduction and removal (3)No returns to suppliers 	<ul style="list-style-type: none"> (1)No clearance program (2)Buyer decides clearance time and methods (3)Price reduction and disuse (3)No returns to suppliers

III. Selling

6.14 Sales stage

After the second stage in the development process, the products are delivered to each distribution centre and finally arrive at the outlets. It is, thus, necessary to look at how they are managed by store personnel and buyers, and whether there is any difference between the national and retailer brands, in terms of the handling process.

6.14.1 Ordering and replenishment

Thanks to information technology, the trend is that ordering process has electronically and automatically been done between stores and suppliers, regardless of brand type classification. Basically, the sales activity follows the manual created by the headquarters of the retailers. In effect, the handling process of products is centralized with the help of technology.

The ordering and replenishment process for retailer brands is the same as for national brands. There is no preference given by sales personnel to the retailer brand.

Retailers run pilot stores, like Tesco Korea, to test their own brand products before expansion over the whole store network:

“Lotte Mart operates several pilot stores. Most products before being sold in every store should pass the pilot stores. It’s a policy. Honestly, it’s merely a formality.”
(Lotte Mart)

6.14.2 Producer staff in Store

As mentioned in chapter five, sending supplier staff into retail stores is normal. Except for staff representatives of the national brands in stores, the researcher could not find anyone who represented the retailer brand suppliers. E-Mart, who sources its own brands from leading brand manufacturers is an exception, because staff of the suppliers

providing both the national and retailer brand manage the retailer brand at the same time. On the other hand, the small- and medium-sized producers supplying only E-Mart brand do not send their own staff to stores:

“Our staff has particularly managed E-Mart brand. However, if we don’t provide our market leading brands for E-Mart, we do also not send our staff.” (LG)

Local retailers also do not post special staff in stores to internally manage or promote their own brands against the national brands.

6.15 Upgrading or clearance

The upgrading process of existing retailer brand products is irregularly done by buyers. However, it is guided by the personal bias of the buyer, rather than by any official company manual.

“The upgrading process is up to individual buyers. They’re looking at the sales performance and decide whether its process is needed. After the existing products are completely cleared out, the new products are distributed.”
(E-Mart)

“There is no the upgrading policy. It’s done by buyers.” (Hanaro Club)

Likewise, the clearance process for products with poor sales performance is the same as in the previous section.

6.16 Third stage comparison

In the third stage (selling the retailer brand products), the researcher found Tesco Korea and the local retailers to be similar in many ways (Figure 6.3). Basically, retailer brands are treated in the same way as national brands in stores, determined by the headquarters’ policy. Ordering is electronically managed, and replenishment frequently occurs during every day opening hours.

As noted earlier, no retailer can require producer staff from retailer brand suppliers, because of the Fair Trading Law. Instead of producer staff, however, Tesco Korea has hired Tesco staff to promote its own brand in stores. This is not only a distinctive feature, but also an innovative idea in the selling stage.

There is also a little difference in shelf space allocation. While the local retailer buyers directly control most shelf space, Tesco Korea gives stores autonomy to control around 10 % of the shelf space to adapt to local customer requirements.

In relation to the upgrading process, none of the retailers interviewed carry this out via a manual. Any existing product upgrade is up to the personal bias of the buyers. Tesco Korea has, however, applied a clearance program to discontinued products, in contrast to the domestic operators who wholly empower their buyers to clear out discontinued products.

Figure 6.3 Third stage comparisons

Tesco Korea	Local Korean retailers
(1)About 90 % of shelf spaces controlled by buyers and 10 % by store	(1)No producer staff
(2)No staff of retailer brand producer	(2)No upgrading program
(3)Tesco retailer brand promoters	(3)Clearance is up to buyers
(4)No upgrading program	
(5)Discontinued products follow clearance program	

Through comparison of each stage in the retailer brand development process, the researcher found that some elements of the process were significantly influenced by Tesco UK. It is, therefore, essential to investigate further the extent of knowledge transfer from the UK to Korea.

6.17 Conclusion

Through a comparative analysis, this chapter illustrated how different the retailer brand development and handling process of Tesco Korea is from that of local Korean retailers. Both the item suggestion and selling stages of Tesco Korea are less differentiated from those of the local Korean retailers, compared to the production stage. This was due to the fact that both stages were easily imitated by the local Korean retailers, given that the retailer brand developers of the local retailers frequently visit Tesco Korea stores to gain retailer brand development- and handling-related information.

It would, on the other hand, be difficult for domestic retailers to imitate the second stage (production) of Tesco Korea, due to the difficulty of collecting production-related information, although this information will ultimately be revealed by ex-Tesco Korea staff transferring to other local retailers.

With the help of Tesco UK, therefore, it might be said that the development knowledge or skills of Tesco Korea are more sophisticated than those of the local retailers, and they have led the Korean retailer brand market, becoming the competitive benchmark for other retailers, reflected in the current high market share of the Tesco Korea brand.

CHAPTER SEVEN

Knowledge Transfer

7. Introduction

As discussed in previous chapters, there is much evidence to suggest that Tesco UK has transferred its own retailing know-how, relating to retailer brand development and handling processes to Tesco Korea, in co-operation with the Global Sourcing Team of Tesco Korea. In addition, the degree of influence of Tesco UK on Tesco Korea has become stronger over time. For example, Tesco UK has put pressure on Tesco Korea to import more Tesco UK brand products.

It is, therefore, necessary to illustrate the knowledge transfer process delivered by Tesco UK, based on the interview results. Before foreign retailers entered the Korean market, it is, also, worth noting how domestic retailers accumulated retailing know-how. This perspective helps to explain why domestic retailers have shown a passive attitude towards retailer brand programs in the past, before discount or hypermarket retailers had appeared, and when price competition in the marketplace was not an issue.

This chapter consists of a brief literature review of retail internationalization concerned with the knowledge shift from the home market to the host market, an examination of how local retailers developed their own retailing know-how is then followed by the findings from the fieldwork on Tesco Korea and finally the conclusions.

7.1 Literature review

Many authors have paid attention to retail internationalisation, as multiple

retailers have expanded their own business to foreign markets. Based on a large volume of retail internationalization literature, research topics are divided into the following categories:

- (1) The retail internationalization process (e.g. Dawson, 1994; Alexander and Myers, 2000; Jackson and Sparks, 2005)
- (2) The motives for retail internationalization (e.g. Williams, 1992)
- (3) Market entry modes (e.g. Kerin and Varaiya, 1985; Treadgold, 1988; Eroglu, 1992; Doherty, 1999; Palmer and Owens, 2006)
- (4) Success or failure factors (e.g. Burt et al., 2002; Burt et. al., 2003; Pederzoli, 2006; Davis and Burt, 2007; Etgar and Rachman-Moore, 2007)
- (5) Knowledge transfer (e.g. Kacker, 1988; Hurt and Hurt, 2005).
- (6) International learning (e.g. Wrigley and Currah, 2003; Palmer, 2005)
- (7) Store image transfer (e.g. Burt and Carralero-Encinas, 2000; Burt and Mavrommatis, 2006)

There is, however, little interest in the transfer of retail know-how associated with retailer brand programs. The researcher will, nonetheless, explore the relationship between the retailer brand development and handling processes, and the retailing know-how shift processes, on the assumption that a retailer brand program might be transferred as a part of retail internationalization activities. In this respect, Kacker (1988) argued that retail internationalization processes were progressed, irrespective of the various international market entry modes which retailers adopt, categorising retailing knowledge into two groups. One group consists of managerial dimensions, including (1) retailing concepts and philosophy, (2) policies/strategies, (3) systems, and (4) controls from a managerial perspective. The other consists of technical dimensions, including (1) location site selection, (2) layout and atmospherics, (3) market communication, (4) check-out systems,

(5) catalogue production, and (6) credit appraisal. Even though Kacker researched the degree of international retailing know-how transfer to the host market according to different market expansion methods, he concluded that knowledge transfer processes were evident, regardless of an entry mode. Given that Tesco UK adopted a joint venture entry mode to Korea in 1999, it is important to explore the relationship between general market entry models and the international flow of retailing knowledge.

7.1.1 Market entry modes

As Dawson (1994) pointed out, how well the retailing management skills developed and accumulated in the home market can be shifted to host markets is closely related to the different types of foreign market entry methods.

There are many different market expansion methods to foreign markets, such as internal expansion, mergers or takeovers, franchising, joint-ventures, non-controlling and, purchase at auction of previously state owned stores (Dawson, 1994). The researcher focuses on three options; direct investment, joint-venture, and franchising in this section. This is examined by Kacker (1988), consistent with Treadgold (1988), who categorized entry modes into three groups; high cost/high control (e.g. acquisition), medium cost/medium control (e.g. joint-venture), and low cost/low control (e.g. franchising).

Indeed, multiple retailers adopt different entry modes to expand to foreign markets in their own way, as pointed out by McGoldrick (1995), who stated that each market entry mode depends on the levels of costs and risks that have to be accepted by retailers. Even though it is important to identify the strengths and weakness of each entry mode, based on existing retailing international literature, the researcher will discuss the relationship between expansion methods and the knowledge transfer processes.

7.1.1.1 Direct investment

While this market entry mode, through mergers and acquisitions in an overseas market, is a high cost option, it provides higher level of control to retailers; that is, retailers in the home market can transfer their own retailing knowledge to the host market directly (Dawson, 1994). In addition, Kacker (1985) found that retailing know-how exchange between the home market and overseas markets was an unplanned result of adopting this direct investment entry mode. In other words, with higher control, retailers might be easily able to transfer their own accumulated retailing management skills to the home market.

As a consequence, in order to directly deliver retailing knowledge and settle down in an overseas market, it can be argued that this mode is a relatively easier way to achieve this than the other two modes. As pointed out by Kacker (1985), direct investment in foreign markets might result in knowledge transfer to overseas markets.

7.1.1.2 Joint venture

As this market entry mode requires the retailers to search for, and join with, an appropriate business partner in foreign markets, the degree of control of the internationalising retailer is considerably reduced. Nevertheless, according to Burt et al. (2004), this mode was used as a popular entry method for European retailers. It is, therefore, necessary to identify why this method is preferred by retailers and further, how that reasoning is linked with the knowledge transfer process.

With regard to why a joint venture method is popular, there are many reasons. Through the business agreement with a partner in an overseas market, retailers can gain an opportunity to learn entrepreneurial techniques, to acquire existing retail units, and to increase opportunities for site acquisition, sharing entry costs with a partner (Dawson and Henley, 1999). In addition, this is a way to establish a retail brand and store image in host

markets (Burt and Sparks, 2002). Furthermore, this market expansion mode facilitates the sharing of retailing management information, as demonstrated by Kacker (1988).

Although forming a joint venture results in weaker control of the foreign market, it has become apparent that, like the direct investment mode, this entry mode can completely deliver retailing knowledge outside the home market. This is, however, not always the case, because the degree of knowledge shift can differ depending on the management contracts between both parties.

7.1.1.3 Franchising

The entry method of franchising can be the best way to rapidly expand the business area with financial flexibility (Dawson, 1994). This is consistent with Eroglu (1992), who highlighted that the franchising method involves less risk than the above two entry modes in financial terms. The franchisee in an overseas market can take advantage of retailing ideas and skills developed by the franchisor, under a mutual contract.

Unlike the direct investment method, the degree of retailing know-how transferred to the host market is similar to that in a joint venture mode. In terms of host market control, this model might be weak, as pointed out by Treadgold (1988). Despite the relationship between market expansion methods and the knowledge transfer process, there is no direct discussion of retailer brand programs in existing literature. It should, however, be noted that entry modes can directly influence the knowledge transfer process (Sternquist, 1998; Clarke-Hill et al., 1998). This means that the retailer brand programs found in the host market are comparatively affected by different entry methods.

On the other hand, it is essential to turn attention to identifying the relationship between the expansion of foreign retailers and the changes of host markets. It would be

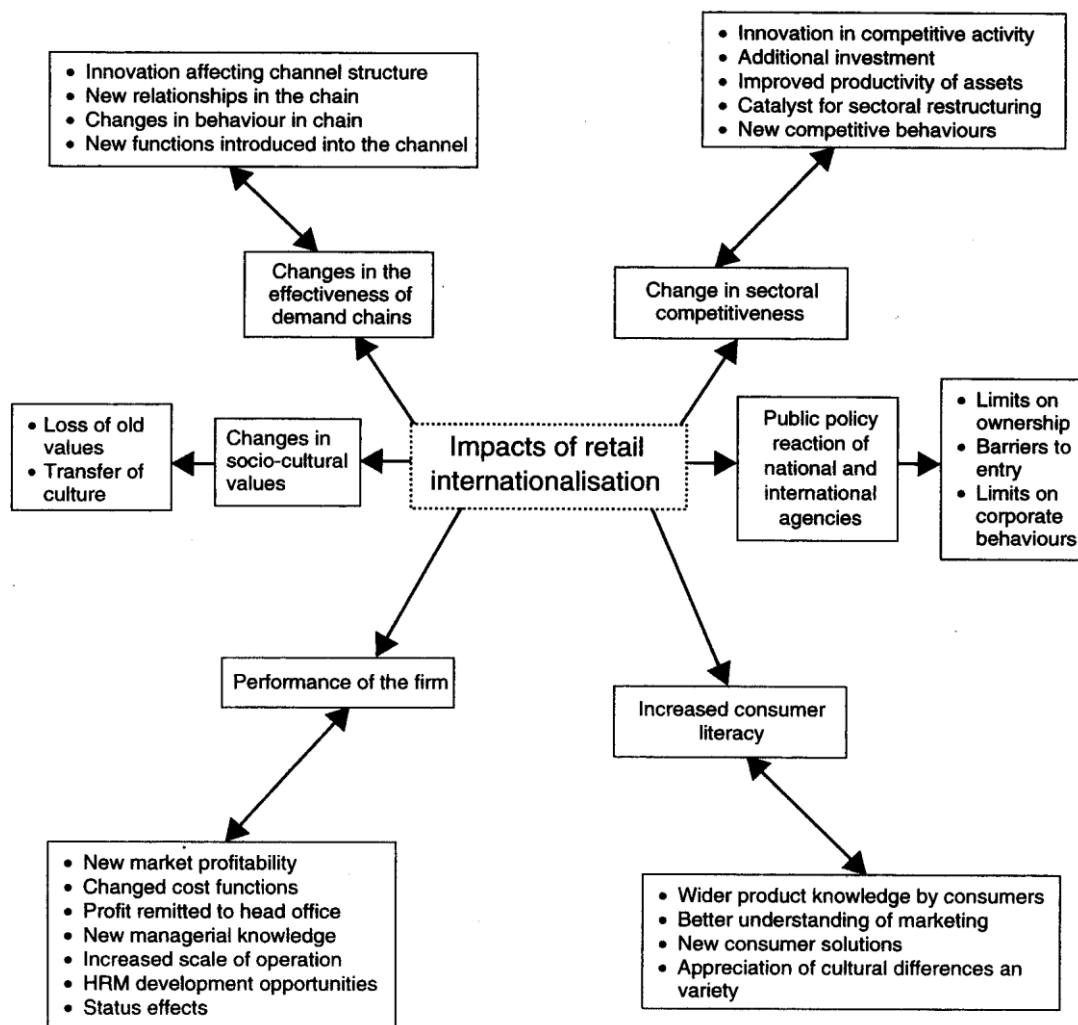
expected that local retailers were affected by the foreign retailers, directly or indirectly, in terms of knowledge accumulation.

7.1.2 Changes of host markets by retail internationalization

Irrespective of market entry type, it should be noted that foreign retailers have influenced the retailing environment of host markets. For example, a degree of competition between the foreign and local retailers has appeared. Without the entry of the foreign retailers, this situation would not have occurred in the host country.

Associated with the influence of foreign retailers on the host market, Dawson (2003) stated that there were six potential impacts on host markets: (1) demand chains, (2) sectoral competitiveness, (3) socio-cultural values, (4) public policy reactions, (5) increased consumer literacy, and (6) performance of the firm (Figure 7.1). It is particularly necessary to pay attention to the final type of impacts. The delivery of new managerial retailing knowledge of the foreign retailers to overseas markets has an impact on the performance of local retailers. This is consistent with Palmer and Quinn (2005), who proposed that local retailers learn retailing know-how by monitoring their foreign competitors internationalising within the host market. This monitoring leads to the “copying” or adoption of similar approaches to retailing, which forms part of the second type of impact – sectoral competitiveness.

Figure 7.1 Types of impact of retail Internationalisation in host country



Source : Dawson (2003).

In the same vein, Coe (2004) found that, in terms of the developmental impacts of transnational retailing, foreign retailers had influenced on the following aspects of retailing in host markets: (1) competitive structure between domestic and foreign retailers, (2) competitive structure between foreign retailers, (3) local supply chains in terms of buying skills, (4) domestic suppliers in terms of global sourcing of foreign retailers, (5) sociocultural changes, (6) regulatory frameworks, and (7) internationalisation process, and strategy and investment decision of foreign retailers, from a variety of perspectives

(domestic and foreign retailers, consumers, and suppliers). First of all, foreign retailers are likely to impact on the purchasing behaviour of domestic retailers.

Consequently, through retail internationalization processes, the host market is influenced and further, the retail knowledge of foreign retailers is transferred to the host market as it is monitored and imitated by local retailers.

7.1.3 Knowledge transfer mechanisms

In order to illuminate the knowledge transfer process of Tesco UK to Korea, the kinds of transfer methods used by foreign retailers should also be examined. How to convey knowledge to the host countries is one of the most important issues in knowledge transfer.

Concerned about the forms of international transfer, Coe (2004) proposed a distinction between the formalized modes and less formal modes. The former includes trade associations and the latter the movement of individual entrepreneurs and managers. Management consultants and service providers are suggested as a third transfer method. On the other hand, categorising knowledge into both explicit knowledge and tacit knowledge, Lahti and Beyerlein (2000) stated that the former can be transferred through materials such as system manuals, archives, database and groupware technology, whilst the latter can be transferred through personnel movement and the collaboration of individuals. Given the characteristics of tacit knowledge, Doherty (1999) emphasized that it is most likely transferred by people. As evidence, Tesco employed personnel to transfer their international experience to the UK (Palmer, 2005). Regular company communication, meetings, personal contacts, job training models, operational manuals, expert-system software and job rotation are regarded as examples to convey knowledge from company to company (Lahti and Beyerlein, 2000). Similarly, Coe (2004) stated that international knowledge transfer processes are accelerated by both the introduction of information technology networks and social interaction via training courses, the formation of “best-practice team”, and

management transfers, while Kacker (1988) mentioned that the international retailing know-how might flow into host markets through informal methods via personal observation and discussions during overseas visits or participation in a variety type of programs, like meeting, seminars or training programs.

7.2 Knowledge accumulation of local Korean retailers

For domestic retailers the operational know-how of retailer brands is accumulated internally or through benchmarking other countries' programs through strategic alliances with foreign retailers (Table 7.1). As seen in the table below, major local retailers were influenced primarily by Japanese or American retailers who mainly operated department stores or supermarkets, and which show a low retailer brand share, compared to European retailers.

Table 7.1 Korean retailers' strategic alliances with foreign retailers

Retailer	Foreign Retailer	Country	Year of Agreement	Retailing formats
Lotte (Lotte Mart)	Daiei	Japan	1988	Department, Supermarket
	Takashimaya	Japan	1988	Convenience store
	Seibu	Japan	1988	Hypermarket
Shinsegae (E-Mart)	Mitsukoshi	Japan	1982-86	Department
	Price Costco	USA	1994	Hypermarket
	Seibu	Japan	1989-92	Supermarket
New Core (E-Land)	Sams Club	USA	1996	Department, Hypermarket Supermarket
Hanwha	Seiyu	Japan	1988	Department, Supermarket
LG (GS)	Matsuya	Japan	1995	Department, Supermarket Convenience store

Source: Adapted from Lee and Kim (1996)

7.3 Knowledge transfer of the retailer brand program of Tesco UK

Compared to local Korean retailers who relied on foreign retailers in advanced countries to gain sophisticated retailing skills, it is worth noting how Tesco UK has transferred its own retailing know-how to Tesco Korea.

As noted in the previous chapter, the researcher found that Tesco Korea has been influenced by the UK parent in the organisation and implementation of the retailer brand program. This influence can be explained by the degree to which Tesco UK has affected the development processes of both domestic and overseas Tesco brand products. However, Tesco's UK knowledge might occasionally be unfit for the Korean market because it has been accumulated in a different business environment with different trading terms, conditions and trading practices.

The extent to which the UK-based Tesco plays the role of “mentor” in Tesco Korea's retailer brand product development is one of the core aims of this research. If Tesco UK had helped Tesco Korea to enhance its retailer brand program but this had resulted in a lower retailer brand market share, it could be said that the home market's know-how does not work well in Korea, or that the knowledge transfer process has not been implemented well. Alternatively, one might also argue that the Korean retail market has inherent characteristics which are different from the UK.

7.3.1 Global Sourcing Team

The Global Sourcing Team, which was established with the initial aim of importing Tesco UK brands a few years ago, operates as a bridge between Tesco UK and Tesco Korea. This team signals a reinforcement of the UK influence.

It is demonstrated throughout the field work that this team was used as a catalyst to internationalise the retailer brand development processes and management processes from

the UK Tesco perspective. In other words, the UK know-how associated with Tesco retailer brands gradually prevails throughout Tesco Korea, primarily through the use of this department as an information sharing vehicle.

7.3.2 International exchange between UK and Korea

When looking at knowledge transfer, it is necessary to identify what kind of process the UK operation goes through to transfer its own know-how to Korea. Rather than simply confirming that retailing skills move from one nation to another nation, how this communication between Tesco in the home market and Tesco Korea occurs should be given attention, because the communication system between both parties might explain the transfer process. When there is a poor communication system, it is less likely that the UK knowledge will be passed effectively into Korea. As revealed by the interviews with Tesco Korea, up to a few years ago, the UK was not involved in the Tesco Korea brand development.

“Since Tesco UK merged the previous company called “Samsung Plaza”, Tesco headquarters has gradually expanded its own influence into Korea over the whole work area. Indeed, in the initial acquisition stage, the headquarters was not involved in any retailer brand development process. The development activity was implemented under our autonomy. Over the last few years, recently, chances to have access to Tesco UK-related information associated with Tesco own brand development have increased through keeping in touch with Tesco UK directly or indirectly. The Global Sourcing Team internally plays as a good bridge between two nations.” (Tesco Manager)

It was found that the major change agent in developing Tesco brands was the establishment of the Global Sourcing Team. Tesco staff within the Global Sourcing Team provide not only Tesco UK own brands, but also development-related information. Through internal meetings between this team and developers of Tesco Korea, UK know-how has flowed into Korea.

While the above interaction is observed at the practitioner level, the researcher should additionally examine links between Korea and the UK in the senior management level. Tesco Korea's CEO regularly attends international meetings attended by Tesco's different national CEOs. This meeting is used as a way to share a range of administrative information, as well as to hear about corporate strategy and policy. Retailer brand issues, like brand strategy and performance, are included in these meetings. Information or policy changes acquired through regular or irregular meetings of senior management becomes the administration policy of Tesco Korea, and this then flows down from top management to lower levels such as developers and store personnel.

While the latter case is related to macro-level news on the direction of the overall retailer brand program, the former is more closely related to how Tesco brand products are developed in practice. Unlike in the initial stages of the acquisition, Tesco UK has recently gradually increased its influence in the brand development activity of Tesco Korea through various communication channels.

7.3.2.1 Information sharing

As the number of UK brand products increases within Tesco Korea, it is natural that Tesco Korea needs more help from the import department (the Global Sourcing Team staff) to obtain product information, because local buyers take complete responsibility for selling from the headquarters perspective, although selling is ultimately managed by the stores. In a sense, the buyers must keep in touch with stores to provide proper product information to store managers and store personnel. Above all things, the import staff are those most frequently exposed to communications with the Tesco UK buying policy, which means that they have indirect experience of overseas retailing know-how, as well as knowledge concerning the retailer brand development and handling process. The only way that local

buyers can gain overseas market or product information requires their cooperation. This cooperative relationship between the two parties is, therefore, well-established even though there are sometimes departmental conflicts, like whether to stop importing some products because of a poor sales performance, or how to clear out failed products:

“Honestly, all I know about Tesco UK brand products is that its market share is considerably higher than Korea. I’m not sure it might be over 50 per cent. I have never participated in any training course that Tesco UK aims at transferring the development know-how to Korea. Furthermore, there is no training course like that. Whenever we need more information, we should meet, or call to, the Global Sourcing staff. That’s all. So, departmental co-operation is very important. Sometimes, we have a little conflict between the buying department and the Global Sourcing Team staff.” (Tesco Korea Manager)

As indicated in the above quote, Tesco Korea buyers can gather useful information from the Global Sourcing Team. What is apparent is that the Global Sourcing Team within Tesco Korea has been used as a bridge to convey retail know-how from the UK to Korea. The Global Sourcing Team does not simply import UK products developed by Tesco UK, but also propagates UK retailing skills within Tesco Korea. The researcher found, through interviews, that this trend has become stronger in recent years, considering the increasing sales volume of Tesco UK brand.

7.3.2.2 Information classification

“We have gained a variety of information related to not only Tesco UK brand products but also generally the retailing sector of the UK. During the meeting with the Global Sourcing Team, they told us lots of information from trivial to high-quality information affecting directly the development process. In selecting and managing producers, the guidelines developed by Tesco UK experience are highly evaluated. It is very useful.” (Tesco Korea Manager)

Based on the interview results, the researcher will classify the information received into groups, according to the development process of the retailer brand, as defined in

chapter five, including very general miscellaneous, information that is not directly related to the development activity.

Firstly, concerned with the first stage (the item decision process), the Global Sourcing staff propose potential items for import from the overseas market to buyers. They commonly provide the following information: (1) popular items in foreign markets, (2) new product introduction, (3) consumption trends, (4) sales trends, and so on. As the buyers gain diverse information, not all of this can be utilized in practice. There was, however, no mention by the interviewees of a know-how transfer in relation to the item decision know-how activity. At this stage, what Tesco UK has done is simply to provide information.

“Even though we can collect whatever we want, using all information is very limited, in fact, because there is a difference between two markets.”
(Tesco Korea Manager)

However, in the second stage (production), Tesco UK is more directly involved in the retailer brand program of Tesco Korea, directly transferring a part of the development skills. With regard to production information, the UK has provided Korea with as the following advantages: (1) overseas producer lists; (2) commodity prices, or raw material prices; (3) factory inspection guidelines; (4) promotion skills; (5) packaging design development co-operation etc. One illustration that Tesco UK transferred a part of its retailing know-how to Korea is that producer selection criteria are available over the world. Likewise, if Tesco Korea wants to make a contract with a producer trading with any Tesco international operation throughout the globe, the producer selection activity should be omitted, because the producers have already passed through Tesco’s internal inspection guidelines provided by the UK headquarters.

The third stage (selling) is less related to knowledge transfer than the previous two stages. Nonetheless, the clearance program introduced for failed products is an example of influence from the UK. In the selling stage, it is easier to find differences between the two

nations, like frequent prices reductions, active end cap displays, and promoter staff, rather than similarities.

Finally, separate from the practical retailing know-how transfer, Tesco Korea also gains more general information, which is less directly related to the retailer brand development and handling process, from Tesco UK. As a result of attending the international meeting, as mentioned earlier, Tesco Korea gains a variety of future-orientated information like brand strategy, store image unification policy, and so on.

Through such information sharing, it is evident that Tesco Korea has improved the Tesco retailer brand development and handling process by establishing the Global Sourcing Team within the organization. In the same vein, the team role has become more and more important than ever before.

“Through the Global Sourcing Team, we will continuously increase the sales volume of the UK brands. This is the company policy from the top management. And then, the team’s roles will be enhanced internally because of the UK Tesco’s influence expansion.” (Tesco Korea Manager)

7.3.3 Different influence level by brand forms

Despite the fact that Tesco UK has transferred its own retailing skills into Korea, it was found through the field work that the three Tesco brand forms have been influenced differently. According to the degree to which the Global Sourcing Team has something to do with the retailer brand development process, it should be noted how much each brand form is differently related to the knowledge shift.

“By brand types, well, the degree of the UK intervention should be evaluated, because when we develop our own products in Korea, the UK entrusts the product development decision process to buyers, providing some guidelines to be followed. On the other hand, regarding the Tesco UK brands, all we can do are only to sell them after import.” (Tesco Korea Manager)

7.3.3.1 Domestic (Korean produced) Tesco brand

Briefly speaking, with regard to the level of influence of the UK, this brand form has the least retailing know-how transfer. The retailer brands of the past, before the UK started to intervene in the development process, resulted from the local Tesco Korea know-how, accumulated in the domestic market. There has recently been, however, a strengthening co-operative relationships between the two countries. In other words, as Tesco UK has attempted to transfer its knowledge or products into Korea, the number of examples of knowledge transfer from Tesco UK has steadily increased in many different elements of the development process. As representative evidence, there is the common use of the package design logo developed by the UK and the factory inspection check list. Throughout the store observations, the researcher found that Tesco buyers have used the symbol or mark of Tesco UK for the domestic own brand. As an example, the brand image of the Tesco Value brand in the UK is transferred directly as the mark of the Tesco Alltle brand of Tesco Korea. Similarly, the Quality Management Team has adopted the producer assessment standards developed by Tesco UK, when selecting producers of Tesco Korea brands.

Given that this kind of symptom increases, it is unwise to say that the domestic produced retailer brand will be less influenced by the UK in the future. Consequently, although this brand form is under less pressure from Tesco UK than the other forms, the development process of the Tesco Korea domestic brand has become more and more similar to the UK, through the transmission of retailing skills.

7.3.3.2 Overseas produced Tesco brand

It is necessary to look at the relationship between the import agency, the Tesco Korea buyers, and the Global Sourcing Team. In principle, the role of the import company

is to supply overseas Tesco brand products. The difference between the domestic retailer brand and the overseas retailer brand forms is whether a producer is based overseas. The latter is produced in the overseas market and imported by the agency, while the former is produced in Korea. The overseas products are developed by both the Tesco Korea buyers and the import agency, with little help from the Global Sourcing Team. In terms of import, however, this is very similar to Tesco UK brands.

During the item decision process, the import agency suggests potential items to Tesco Korea and provides diverse information for buyers. Before explaining the role of the agency, one should remember that this company also deals with the Tesco UK brand imports, which means that Tesco Korea is outsourcing the import work. This company has, thus, lots of Tesco UK-related information and furthermore has kept a good relationship with both the Global Sourcing Team and the Korea buyers, as indicated in the next quote:

“We have supplied a huge number of products. Probably, we have provided more than 3,000 SKUs. Of course, Tesco is one of the important clients for us. Think about our relationship. This company have traded with Tesco since the introduction of the retailer brand program. While doing business with Tesco Korea, we have experienced a lot of things concerned with Tesco brands and met a large number of buyers. We are actively sharing information for the mutual interest.” (Lotte Wellga)

This agency is treated as one of the company’s most important suppliers. Also, Lotte Wellga functions as an intermediary between Tesco Korea and overseas producers, and organizes business activity as a buyer for the overseas producers. In contrast, Tesco buyers are involved in developing domestic Tesco brands. It is very difficult for the buyers to directly contact overseas producers due to linguistic problems or invest their working time as a result of high workloads. At this stage, the import company provides potential items, producer lists, sales trends for each item, and data on future marketability and so on, in order for the buyers to make the right decision related to the overseas Tesco brand

development. In this case, the buyers might over-rely on the import agency because of limited information sources.

With regard to the production stage, there are many aspects that the import agent should do with overseas producers just as buyers do with domestic producers, as mentioned in the previous chapter (like producer contact, product cost negotiation, factory inspection, packaging design etc.). What is important at this stage is that this company co-operates fully with the Global Sourcing Team to select the right producer, which must follow the producer selection standards under Tesco Korea's supervision of the Quality Management Team.

“If any overseas producer has already done with business with any international Tesco branch over the world, the producer selection process can be omitted. In this case, the development process can dramatically be reduced, because the producer has already passed through Tesco standards.”

(Lotte Wellga)

After the agent imports overseas produced Tesco brand products and supplies them to Tesco distribution centres, these products are moved to the third stage of selling, like other Tesco brands. It is obvious that producer information is shared internationally.

7.3.3.3 Tesco UK produced brand

In terms of product imports from a foreign market, the Tesco UK brand looks like an overseas Tesco brand. Regarding the degree to which Tesco UK is involved in the retailer brand program of Tesco Korea, however, the Tesco UK brand products should be treated as an export form by the UK. Except for the selling stage, the previous two stages are managed by Tesco UK.

Briefly, development is carried out by the UK and selling by Korea. This is confirmed by store observations as a part of the field work. From the interviews, the researcher found that the UK has a very strong desire to increase the market share of Tesco

UK brands in Korea. In accordance with this aim, the interviewees argued that Tesco Korea has dramatically increased the number of Tesco UK brands, and frequently sent the Global Sourcing Team staff to the UK to pick out import items.

“We have paid much attention to increase the number of Tesco UK brand products by the company policy. The Global Sourcing Team staff is very as busy as buyer. This brand sales volume can absolutely not be decreased. Continuously, sales performance will go up.” (Tesco Manager)

From the UK Tesco’s perspective, this can be seen as the internationalization of its own retailer brand. The Global Sourcing Team hands over the imported products to general buyers. At this point, except for the selling management process, there is nothing Tesco buyers do to import the UK brands. Similarly, through the import process, the retailer brand development is finished. At this stage, it should be noted that this product needs to be named in Korean, owing to government regulation, and passes through customs. After the Global Sourcing Team discusses what items are suitable for Korean customers with buyers, the Global Sourcing Team staff orders Lotte Wellga to import the items agreed with the buyers. The import agent completely covers the import-related work, attaches Korean labels to the products, and supplies the products to Tesco Korea distribution centres. Consequently, the difference between overseas produced brands and Tesco UK produced brands is explained as the following:

“In importing different two brands, there is no big difference. However, the import of the UK brands is considerably simpler than overseas products, because all we have to do is just to attach new Korean labels reflecting regulation.” (Lotte Wellga)

Surprisingly, there were also cases where Tesco Korea exports domestically produced brands to other countries, although the frequency was very rare. Currently, Tesco Korea does not get involved in such export activity.

Through the process of buyers discussing Tesco UK brand products with the Global Sourcing staff, UK retailing knowledge is transferred to Korea.

7.4 Conclusion

Tesco Korea has made a considerable effort to increase its retailer brand share under pressure from Tesco UK, who requires Korea to achieve a high retailer brand share as in the UK. As seen in the case where Tesco Korea has increased the import of Tesco UK brand products, the UK-based Tesco has influenced the retailer brand program distributed in Korea, both directly and indirectly, in terms of knowledge transfer process. To respond to the UK requirement of a higher retailer brand market share, therefore, Tesco Korea has developed “easier product categories” as Tesco brand, like fresh produce, which have a lower risk of failure, and increased the share of UK imports.

Within the retailer brand development process, it was found that the producer selection process elements are based on complete knowledge transfer, regardless of the types of retailer brands. Likewise, the import of finished products from the UK might play a role in bridging the gap between Tesco UK and Tesco Korea from a buyer’s perspective, and further as a part of knowledge transfer processes, considering that the selling-related information developed and generated by Tesco UK should be shared to maximize selling performance between the two countries.

As a consequence, when Tesco Korea develops and manages its own brand, the knowledge transfer process concerned with the internationalization of retailing, led by Tesco UK, can be observed more and more frequently.

CHAPTER EIGHT

Conclusion

8. Introduction

This final chapter provides a summary and explains the contribution made by the thesis. The limitations of the research are discussed and recommendations made for future research.

8.1 Meeting the aim and objectives

The research aim is to *explore how different the development and handling process of retailer brand is in Tesco Korea, compared to that of local Korean retailers*. In order to identify why Tesco Korea shows a higher retailer brand share than local Korean operators, the researcher examined how Tesco Korea has differentiated itself from competitors, in respect of retailer brand program. Rather than approaching this issue from the customer perspective, the researcher assumed that the development and handling process differed between Tesco Korea and local retailers and this resulted in a higher market share. As a result, it is demonstrated that Tesco Korea has indeed its own distinctive characteristics, compared to competitors and that these characteristics contribute to a higher retailer brand share. From the first stage of retailer brand development (item decision processes) to the third stage (selling), Tesco Korea shows that its retailer brand development process is more sophisticated than that of the domestic retailers. It is, however, unwise to say that each element of the Tesco Korea process is always superior to that of the local retailers, because some parts of development and handling processes of Tesco Korea are similar to those of its competitors.

With the above research aim mentioned, there are two research objectives.

One is *to explore the different characteristics of Tesco Korea and local Korean retailers, in terms of the retailer brand development process and practice management.* According to three development phases, the researcher examined the differences and similarities between them. What is significant here is that the domestic retailers have benchmarked themselves against the retailer brand program of Tesco Korea. This suggests that Tesco Korea is viewed as the market leader in this area.

The other is *to investigate the retailing know-how transfer process from the UK into Korea.* This objective is based on the premise that with the help of Tesco UK, Tesco Korea has adopted a specific approach to retailer brand development, which has led to a higher retailer brand share. Likewise, on the assumption that without a knowledge transfer process from Tesco UK, the retailer brand might not have become so competitive in the Korean market, so how the UK has delivered its retailer brand development know-how to Korea was explored.

Accordingly, it is necessary in this chapter to summarize the study results derived from a variety of research techniques, such as: face-to-face; and telephone in-depth interviews; observations; and company documentations; to demonstrate whether the researcher satisfies the investigation aim and objectives. Here, the key findings are briefly explained by three important stages in the retailer brand development process: the item decision stage; the production stage; and the selling stage.

8.1.1 First stage: the item decision stage

Tesco Korea is characterised as an innovative retailer in developing retailer brands. As evidence, Tesco Korea has introduced new product categories not previously distributed in the market as retailer brand products, establishing a risk-taking capacity. In contrast, local Korean operators are prone to avoid such product categories associated with a higher

failure risk. The local retailers have developed the product categories which are popular and which competitors have already demonstrated as successful categories for retailer brands. Compared to the domestic retailers, Tesco Korea has a Product Development Committee, which discusses the marketability of suggested items and makes the key development decisions. This Committee seems to take a risk in developing the retailer brands. While the local Korean retailers minimise development risk, Tesco Korea has actively expanded its own brand into undeveloped product categories. The success of Tesco Korea in the undeveloped product areas signals to the local Korean retailers that they can safely develop those new product categories being sold by Tesco Korea. This means that Tesco Korea is seen as the market leader and innovator in the Korean retailer brand market in the first stage, and local retailers assume the role of “followers”.

The import of Tesco UK brand products is also a challenge in Korean retailing. With the co-operation of Tesco UK, this import activity makes a considerable contribution to retailing know-how transfer from the UK to Korea, through the Global Sourcing Team and interactions within Tesco Korea.

8.1.2 Second stage: the production stage

There are many differences between Tesco Korea and the local Korean retailers at the second stage: the production of retailer brands. The researcher found that the help of the UK operation is significant at this stage. Likewise, it is relatively more difficult for competitors to imitate the development knowledge of Tesco Korea than the first and third stage of the processes, because of confidential nature of the company. In this stage, know-how is not exposed to the outside world. For the competitors, the opportunity to gain this production-related information is limited. For this reason, many differences have resulted from the above characteristics. In other words, it might take more time to follow or copy the

production stage know-how of Tesco Korea than the development item decision and the selling skill improvement processes, which are more visible to competitors.

The research confirmed that Tesco UK has become closely involved in the retailer brand program of Tesco Korea. It is important that Tesco UK has shared all relevant information about the retailer brand development process with the overseas Tesco branches. For instance, before selecting a foreign producer, Tesco Korea is able to gain information with ease, if one of the Tesco international branches has already developed a relationship with it. Furthermore, when Tesco Korea makes a contract with an overseas producer, which has produced Tesco brand products, the producer inspection activity will be omitted and the producer selection process will be reduced. This means that the producer selection guidelines of Tesco UK are shared by every Tesco branch. On the other hand, when local retailers start to develop retailer brand products with overseas producers, they will need more time and larger budgets to experience and accumulate development knowledge than Tesco Korea. In addition, the local Korean retailers tend to rely on suppliers for information, which seems to be caused by a lack of the development know-how, as noted earlier. In contrast, cost saving advantages of time and budget result from the co-operative relationship between Tesco Korea and Tesco UK. Given that Tesco UK has encouraged Tesco Korea to effectively implement a retailer brand program, their management works closely to the managerial dimension concept of Kacker (1988), such as: producer selection criteria; producer evaluation process; quality management; introduction of SCM; and clearance program. These elements are more likely to be standardised by Tesco UK than those activities in the selling stage.

This stage demonstrated that the UK has transferred its own retailing knowledge associated with retailer brand development and handling to Korea. Without this process, the retailer brand program of Tesco Korea might have been similar to that of the local Korean

retailers and therefore, shown a lower market share for own brands. What is important is that the knowledge transfer process of Tesco UK is not yet finished, but furthermore, has a wider national impact by stimulating the local retail operators to take part in the retailer brand development. A few interviewees pointed out that Tesco Korea is a good example to imitate for their own retailer brand programs.

8.1.3 Third stage: the selling stage

Selling is the nearest stage to customers within the retailer brand operation. In this respect, Tesco Korea is considered to have become localized in the Korean retail market (Coe and Lee, 2006; Suh and Howard, 2009), compared to the two world's largest retailers: Wal-Mart and Carrefour. With regard to selling, it is easier to find similarities, than differences, between Tesco Korea and domestic Korean retailers.

Nevertheless, the fact that Tesco Korea has employed promoters who specially manage retailer brand ranges in stores is a creative idea. This is not observed in the stores of Tesco UK. One of the local retailers plans to hire retailer brand promoters to compete with Tesco Korea, according to field interviews. Again, a local retailer seems to be following Tesco Korea's policy concerned with the selling stage.

Regarding the relationship between the selling stage and knowledge transfer, it was not easy to gather evidence of how Tesco UK transferred its retailing know-how to Korea, with the exception of the clearance program, because of the implementation of a localisation policy by Tesco in the Korean market. Accordingly, most selling management practices are similar to those of local retailers.

8.1.4 Tesco Korea and the impact upon retailer brands in Korea

In addition to the specified aim and objectives, the research has also revealed insight into the impact of Tesco Korea on retail based development in the markets.

Whilst there is no literature identifying the degree to which Tesco Korea influences the Korean retail market, some authors have researched Tesco Korea as a case study, focusing on why Tesco Korea is successful in Korea (e.g. Coe and Lee, 2006; Suh and Howard, 2009). With the acquisition of the Carrefour stores in 2008, Tesco Korea is positioned in second place in the market, and has further reduced the sales volume gap with E-Mart. As confirmed by this field work, local Korean retailers regard Tesco Korea as one of their strongest rivals, as well as a subject to benchmark.

From the wider point of view of the retail internationalisation process of Tesco UK, Tesco Korea is one branch of Tesco's internationalisation strategy. Tesco Korea has shown advanced retailing knowledge with reference to retailer brand development and handling practices in Korea. As a result, Tesco Korea has achieved a higher retailer brand share than the domestic Korean retailers. The active introduction of the retailer brand by Tesco Korea attracted not only the local retailers' interest, but also opened a new era of the retailer brand battle in Korea.

As explained in chapter six, the first introduction of retailer brands in Korea was in the clothing sector via department stores, thanks to an alliance with a foreign retailer. In the fast moving consumer good sector, the first retailer brands appeared in a supermarket retailer, Hanwha, as a generic brand. In the mid 1990s, Haitai, the leading supermarket institution introduced a new packaging concept emulating to national brand products and followed a different pricing concept from that of Hanwha. This action stimulated the local supermarket retailers to rebuild their own brand programs, and attracted the interest of discount retailers. At the same time, the department stores began to develop retailer brand

grocery products. During the mid 1990s, Haitai supermarket led the retailer brand market, and was benchmarked by others, before Tesco expanded to Korea. After market liberalization in 1996, with the increasing number of discount or hypermarket stores, retailer brand market leadership shifted from the supermarket retailers to the discount stores, such as Tesco Korea, E-Mart, Lotte Mart, Hanaro Club, and E-Land.

Through interviews with local Korean retailers, the researcher found that one of the most important issues that they consider when introducing an own brand program, is to avoid or reduce potential risk. Because of a lack of retailer brand development skills, it seems that they do not have enough confidence to challenge with new concepts or introduce innovative new product categories. Rather than challenging or developing new retailing knowledge, domestic Korean retailers tend to imitate the pioneer's policy, as part of a strategy to reduce risk. The lack of knowledge of the local retailers, thus, might result in strategic alliances with advanced retailers of the world in the past. One should, however, remember that such alliances might have nothing to do with the current retailer brand operation. Risk avoidance seems to be a considerable barrier for local retailers to enhance or develop retailer brand programs, even though they have shown significant interest in introducing their own brands.

The lack of creativity to develop new skills or knowledge of retailer brands is closely related to risk avoidance. It was difficult to discover evidence of creativity amongst domestic retail operators. The researcher concluded that the domestic retailers focus more on imitating or copying competitors' retailer brand programs than developing their own innovative know-how. It should, however, be noted that imitation is not always an obstacle to developing the retailer brand skills. Considering the apparent correlation between risk avoidance and creativity in developing the retailer brand products, encouraging creativity might make a contribution to new knowledge development.

One of the recent buying trends in Korea is to diversify product sourcing as illustrated by Tesco Korea which has speeded up the import of Tesco UK brand products. Local Korean retailers have also turned their attention to overseas retailer brand development, as “exotic” product imports provide customers with a better shopping experience. The wine promotion of “buy one get one free” of Tesco Korea is a good example of a campaign which stimulates the local Korean operators to import wine products. Likewise, it was interesting to note that Tesco Korea promoted wines with Tesco UK brands imported from overseas markets. In respect, E-Mart has strongly promoted imported wines, in response to Tesco Korea’s wine promotion.

From these observations, one might conclude that Tesco Korea has stimulated interest in retailer brand development; highlighted the risk avoidance and associated “skill gap” of the local retailers, and drawn attention to the possibilities of import, as a component of retailer brand programs.

8.2 Contribution to knowledge

The first contribution is to investigate the gap in retailer brand market share between an “advanced” foreign retailer and local Korean retailers, from the retailer brand development and handling perspective. In examining retailer brand share differences, the relationship between the knowledge of retailer brand development and a higher retailer brand share is often ignored. The retailer brand-related literature of the academic world tends to focus on the results or performance of retailer brands, rather than identifying the process flows of the retailer brand development process, and the implications of these. The researcher adopted a different approach to explain the reasons for the differences in retailer brand share. The author speculated that the different development processes of retailers in the market are related to the different market shares of retailer brands, and illustrated the

development process from the item decision to the selling stage. In spite of a large volume of retailer brand literature, there is little research exploring the development and handling process of the retailer brand. When Beldona and WYsong (2007) categorized existing retailing literature into groups, the development process of the retailer brand itself was not included as a research field. Although Francis (2006) researched the development flow, based on both technical and packaging development sub-processes, with the exception of selling stage, the above relationship between the development process and share differences is not illustrated. An examination of the development process of retailer brands is within the scope of this research. However, this research aims ultimately to compare Tesco Korea with the local Korean retailers, in terms of the development flow of their brand products. The extent to which Tesco UK has been involved in Tesco Korea through retailer brand development process was explored through a comparison and examination of the different development processes for retailer brands. It was revealed that the more sophisticated, polished retailer brand development knowledge of Tesco Korea boosts retailer brand share in the market. Accordingly, in respect of research in retailing, this approach studying the work flows of retailers to explore the retailer brand context, broadens the contemporary retailing research scope and might help us to understand retailer brand development.

The second contribution is to confirm the knowledge transfer process researched by other authors. Although there is much literature on retail internationalization, the relationship between the retail internalization process, knowledge transfer, and the different retailer brand shares is not examined. When retailers with a higher retailer brand share expand into markets with no or lower retailer brand share, how these retailers influence other retailers or other nations' retailer brand market is given less attention. As a result of the active overseas expansion of retailers, there are a large number of retail internationalization papers. Similarly, the international knowledge transfer process of

retailing from one nation to another, by retail internationalization activity, attracts authors' interest. Kacker (1988) pointed out that mass-merchandizing knowledge moved gradually to other countries through joint-ventures, an entry mode for expansion into international markets. The researcher confirmed that the retailing know-how associated with developing retailer brands, generated and accumulated by Tesco UK has, in part, been transferred to Korea. This research also identified how Tesco UK has moved its own knowledge, associated with the retailer brand program, to Korea, although some authors (e.g. Coe and Lee, 2006; Suh and Howard, 2009) argued that Tesco Korea is localized in the Korean market, unlike Wal-Mart and Carrefour, who allocated marketing resources to develop their own brands and adopted a globalization strategy before withdrawal from Korea. When it comes to evidence of the knowledge transfer of international retailers, this research supports Kacker's (1988) view. The examination of the relationships between knowledge transfer processes and practical work flows can be seen as a good example to explain a part of the retail international processes. The retailing know-how transferred by Tesco UK has also influenced the retailer brand programs of local Korean retailers, that is, there has been a significant knowledge shift in the Korean retailer brand market. This is consistent with Dawson (2004) and Palmer and Quinn (2005), who noted that changes in retail markets where foreign retailers expand their own business are controlled by the degree of retailing knowledge transfer. In this respect, this research suggests a new research point: that when international retailers carrying a higher retailer brand share go to foreign markets with a lower retailer brand share, enhanced, sophisticated, retailer brand skills tend to be learnt by other retailers and generally influence the wider retailer brand market.

The third contribution is the examination of the characteristics of local Korean retailer brands through in-depth interviews, observations, and documentation. Investigation of the common features of the retailer brand strategies of local Korean retailers will help

academics and practitioners to understand Korean retailing, particularly Korean retailer brands. In other words, the researcher provides a profile of the Korean retailer brand history. The researcher historically characterized the Korean retailer brand evolution processes as one of two stages: the initial introduction stage and the revolution stage, based on common features extracted from data and information gathered. During the period from the first emergence of a retailer brand product, developed by a department store, to the current retailer brands, the pioneering retail formats are illustrated. For academics who research Korean retailing and who are concerned about retailer brands, this research provides an overall outline of the Korean retailer brand history for the first time. Also, for foreign retailers who wish to enter the Korean market, and local Korean retailers who wish to start to develop their own brands, this will be helpful to retailing policy development and understanding the Korean retailing business. In addition, this investigation of the development process of retailer brands might be used as a practical manual. For the local retailers interviewed, this research would make a contribution to the improvement of their retailer brand program's operation.

The fourth contribution is to explore how an international retailer, with a higher retailer brand share, introduces its own brand program in a foreign market and influences the retailer brand programs of competitors. After the retailer brand program of the foreign retailer is implemented, how the local retailers respond to it has not attracted retail academics' attention. Before the withdrawal of Wal-Mart and Carrefour from Korea in 2006, the retailer brand program was widely accepted by both foreign and local retailers. Nevertheless, there was no literature explaining the above issue in the Korean academic world. Through field interviews with retailers, the researcher found that the Local Korean retailers have made an effort to emulate to the retailer brand development and handling process of their competitors, including international retailers. This means that the

international retailers with the higher retailer brand share and “know-how” have obviously influenced the Korean retailer brand market directly or indirectly. As a catalyst in the Korean market, the entry of advanced international retailers played the role of stimulating the domestic retail operators to take part more actively in developing their own brands than before, and illustrates increased retailer brand penetration. However, these changes might also be explained by an intensified retail business environment. Even though fierce competition is, thus, seen as a direct reason, it is true that there is the presence of foreign retailers, who are more experienced in developing retailer brands in their home markets than the local Korean retailers. This aspect should be evaluated positively. Also, the foreign retailers have been benchmarked by the local Korean retailers, in terms of the retailer brand program improvement. Given these influences, the future Korean retailer brand market size will increase for a while. Although this research is limited to the Korean market and would therefore be difficult to generalize a conclusion, efforts to identify the above relationships are a significant contribution to retail study.

8.3 The implications of the study

There are two dimensions to discuss the implications of this research. The first insight is from a theoretical dimension and the other from a practical dimension.

Theoretically, in ascertaining a retailer brand share gap between the UK and Korea, this research began with the assumption that retailer brand development know-how or knowledge is closely related to the difference in retailer brand shares. In explaining the reasons why such market share differences occurred between the two countries, the researcher eliminated external factors such as different shopping culture, consumer perceptions, and product characteristics. On the other hand, the researcher viewed the retailer brand market share difference as being caused by the degree to which retailers have

the ability to develop better retailer brand products or retailer brand programs. In summary, the development ability of each retailer or nation affects retailer brand market share.

There is no doubt that a sophisticated retailer brand program is more able to attract customers' interest and further achieve better performances than a poor program. However, the retail academic world seems to pay less attention to this point. From the retailers' perspective, many authors have made considerable effort to theoretically analyze the extent to which some actions taken by retailers make contributions to retailers in financial terms. Research (e.g. Martell, 1986; Bultez and Naert, 1988; Dreze et al., 1994; Baltas, 1999) of to what extent better shelf allocation of retailer brands than national brands contributes to profit achievement is a good example of a measure of the handling process effectiveness of the retailer brand. The relationship between better shelf display and retailer brand share differences, in the same vein, has been investigated to date. In the author's practical experience, the more the retailer brands get the better shelf space, the greater their sales performance. Accordingly, such strategic display space management is related to the causes of the retailer brand share difference.

Rather than focusing on analyzing customers' perceptions to explain the retailer brand share difference between Tesco Korea and local Korean retailers, it would be conceptually interesting to examine how differently they develop and manage their own brand products. The view that differences in retailer brand share is caused only by different customers' perceptions, different demographic, and social economic factors should be reconsidered, taking into account the different retailer brand development and handling management processes of each retailer or each country. Otherwise, the assumption is that the retailer is simply passive, and has no influence on consumer perceptions. The customers' perception of the retailer brand results from the retailer brand programs. While retailers develop their own brands, how they reflect customers' opinions might also directly

influence customers' perceptions. Accordingly, in order to examine the formation process of the customers' perceptions, it is essential to look at the retailer brand programs themselves.

Ignoring the different knowledge levels about retailer brands, as explaining the retailer brand share difference between Tesco Korea and domestic Korean retailers, is theoretically an irrational argument. Before analyzing Tesco Korea' customers and the domestic Korean retailers' customers, the respective own brand programs should be investigated, in order to identify reasons for the difference in retailer brand share.

In this respect, this research has a significant theoretical implication. When authors research retailer brand share differences, the investigation of retailer brand development and handling processes might be an inevitable starting point.

Practically, there are four implications arising from this research. This research is firstly based on the development process and its structure and furthermore encourages practitioners involved in retailer brand programs, such as policy makers, developers, top management, and retailer brand suppliers, to generally understand the retailer brand development and handling processes. For retailer brand developers and retailers developing or wishing to develop retailer brands, this research emphasizes that the development of know-how or skills in retailer brands is one of the most important factors influencing own brand shares, and that sophisticated knowledge tends to increase own brand share. Accordingly, with respect to developing the knowledge or skill of the retailer brand, this research can be used as a manual, because the researcher detailed each element of the development process. Likewise, explanations of the development process helps practitioners to better understand each development activity. This study also provides the retailers interviewed with an opportunity to evaluate and improve their own brand programs.

Secondly, local Korean retailers can save time and money in acquiring the retailer brand development and handling knowledge required to compete with rivals. Through a description of the development processes of retailer brands, Korean practitioners can easily collect retailer brand development- and handling-related information, saving time and money to some extent. Considering that local Korean retailers have traditionally accumulated the retailer brand know-how by experience, they can apply this research to their retailer brand strategies, with lower time and budget cost in their own right.

The third implication is to stimulate practitioners to actively develop more sophisticated retailer brand programs and products, including the import of overseas retailer brand products than at present. This research demonstrated that a “better” retailer brand program achieves a higher retailer brand share than a “poor” retailer program. The latter tends to avoid potential risks, simply imitates competitors’ success stories, and adopts loose management system, because of a lack of retailer brand development experience as well as knowledge. As part of their efforts to extend the retailer brand area to overseas products, a few Korean retailers have opened overseas buying offices in foreign markets, with the aim of directly importing products and developing the retailer brand without relying on an import agency. The number of overseas buying offices will, thus, continue to increase in overseas markets.

Finally, unlike the above implications, this research is proposing a future direction for the retailer brand programs of Korean retailers. In order for the retailers to increase their retailer brand market shares, the development of excellent retailer brand knowledge or skills is inevitable. As an example, the introduction of an innovative product category as a retailer brand will, furthermore, necessitate more sophisticated development know-how. Also, more sophisticated retailer brand development knowledge might allow these retailers to grab market leadership. In this respect, this study suggests that retailers need to introduce

innovative development and handling skills in order to survive in an intensified retailer brand competition.

8.4 Limitations

During this research, the researcher met several limitations. Although considerable efforts were made to overcome expected limitations through the adoption of appropriate research techniques, there are still some limitations.

One limitation was related to gaining the relevant information, as described in chapter four. Although the researcher gained access to local retailers and suppliers, to identify the common features of the retailer brand programs of local Korean retailers, the data quality might be relatively lower than that from Tesco Korea. To collect the Tesco Korea-related information, the researcher had in-depth interviews with four managers at the headquarters and three store personnel, while the number of interviewees with other retailers totalled six. In terms of data quality allowing a comparison of Tesco Korea and the local Korean retailers, access to the latter was limited. It was believed that the local Korean retailers would not readily give the author permission for in-depth interviews with their managers, because of confidentiality. Compared to the Tesco Korea information, that for the local Korean retailers is based on fewer interviews. In addition, respondents' position, as well as direct retailer brand experience, could influence data quality. Even though the researcher had interviews with managers in similar in-house positions within the retail organizations to avoid the above risk, their bias could influence their responses. As an example, the respondents commonly described their own development process as being superior to those of competitors. It is likely that the above two factors: access to the local Korean retailers and interviewee bias, as in most research of this type, influence research

validity and reliability, in spite of considerable efforts to overcome these obstacles and to triangulate information by holding interviews with different managers and suppliers.

Secondly, the study uses only data or information collected in Korea. Considering that there needs to create, generate and test a theory, the conclusion that the more sophisticated the retailer brand development know-how or skills, the higher the retailer brand share, based on only the Korean case, might be inappropriate for other foreign markets. Basically, it is difficult to regard other foreign retail market structures or contexts as similar to or the same as the Korean market. Furthermore, the suggestion that when international retailers with a higher retailer brand share enter foreign markets with a lower retailer brand or no presence of retailer brands, they significantly influence the retailer brand programs of local retailers or stimulate the local retailers to actively develop their own brand products, might again be limited to the Korean market. After the withdrawal of Wal-Mart and Carrefour in 2006, this research was conducted from September of 2008 to February 2009. Accordingly, this research has a further limitation to generalizing the findings beyond the Korean context.

Thirdly, the differences between sophisticated and poor retailer brand programs were not defined. As the retailer brand share of Tesco Korea is higher than those of local Korean retailers, the assumption is that the retailer brand development and handling processes of Tesco Korea is superior to those of others in the Korean market. This may not always be true. In other words, there needs to be some criteria to judge the degree to which Tesco Korea is better than others. Some considerations need to be given to how to evaluate retailer brand programs, to demonstrate that Tesco Korea is positioned as the retailer brand market leader. However, because of a lack of definition of “superiority” of the retailer brand program, the research conclusions based on the assumption that the Tesco program is superior, may be questioned.

Time and budget factors also limited the research activity of the author. For fieldwork, the researcher stayed for around one month in Korea to gather the relevant information associated with the retailer brand programs of the top four major retailers operating across South Korea, particularly Tesco Korea, E-Mart, Lotte Mart, and HanaroClub. It was, of course, difficult to ascertain all the information through face-to-face in-depth interviews with suppliers and retailers, because of limited time. Limited interview time, authorised by respondents, not only prevented the author from asking further questions, but also required highly efficient interview skills.

8.5 Future research

As noted in the previous section, there are many theoretical limitations to limit the generalization of the research conclusions as a theory. It is necessary to add future research to this study to supplement, demonstrate, and testify the research conclusions.

The relationship between retailer brand share differences and the entry modes and the decision making strategy of international retailers should be investigated in the future, because entry method and decision-making strategy might influence the retailer brand development and handling process directly or indirectly. As an example, Tesco UK entered Korea by using a joint-venture market entry mode as well as localization decision-making strategy, and has, in part, transferred its retailer brand development knowledge and skills to Tesco Korea, although Tesco Korea is currently seen as a direct-investment form. As noted in chapter five, when Tesco Korea develops domestic retailer brand products, the influence of Tesco UK is lower than in the case of imported Tesco UK brands, that is, the managerial decision making authority is to a great extent delegated to Tesco Korea. The entry mode might affect the degree of knowledge transfer of retailer brand development process, as Tesco UK did. In this research, the retailer brand market share of Tesco Korea is

significantly lower than Tesco UK, although Tesco Korea is owned by Tesco UK. Nevertheless, Tesco Korea has relatively and ironically achieved a higher retailer brand share than local Korean retailers. The relationship between the degree of knowledge transfer and the retailer brand market share needs to be more theoretically examined. Moreover, it is unwise to conclude that international retailers adopting the joint-venture market entry mode and the localization strategy achieve higher retailer brand performances, or that an international retailer with the highest retailer brand share always achieves a greater retailer brand performance in overseas markets, based only on the Tesco case in Korea. Tesco cannot be a representative case for all international retailers. In the case of Tesco, future research should investigate other overseas markets including developed markets such as Japan as well as emerging markets, such as Thailand, Malaysia, China, Turkey, Hungary, Slovakia, Poland, Czech Republic, and Republic of Ireland to confirm whether other Tesco branches have shown a high retailer brand market share. To generalize these research results as a textual theory, more cases such as Wal-Mart, Carrefour, etc. will need to be included in future research.

Secondly, although this research indicates that international retailer with well-established retailer brand development skills also have influence on the retailer brand programs of local retailers and further, take a leading role in the retailer brand market, measuring to what extent and how Tesco Korea is involved in the overall change in the retailer brand development and handling processes of the local Korean retailers was omitted from this research. Researchers will need to look at different markets where many different international retailers compete with each other, to examine whether the above conclusion is valid in such markets. In other markets, the international retailers do not always lead the retailer brand market. To demonstrate or support the above research result, quantification of the degree of influence of Tesco Korea will be needed. If its degree of contribution to the

retailer brand programs of the local Korean retailers was clarified through a quantitative evaluation, the research validity would be increased. And then, if the evaluation system was applied to other markets, the results would help the generalisation of the research conclusions as a wider theory. At this stage, the research conclusion might be applicable to markets in which the retailers are not interested in developing their own brands or where the retailer brand development know-how is poor, rather than in advanced markets.

The third future research area deals with exploring the relationship between the development and handling ability levels of retailer brands, and the perception formation process of customers. It is apparent that the customers have different perceptions about a variety of retailer brands. What is important is the extent to which the customers' perception is built by retailer brand programs led by retailers. How retailers develop their own brand products and make their customers perceive retailer brands, results in the customers' perception. This means that the development and handling processes of the retailers, influences the customers' image or perception about the retailer brand positively or negatively against other brands. Accordingly, the greater the development know-how, the more likely are customers to be favourable to the retailer brands. Research on how the development and handling levels relate to the customers' perception formation process will help retailers to accumulate their own knowledge and further increase retailer brand market share, in turn improving their customers' perceptions.

8.6 Conclusion

This research began with the question of why is the retailer brand share of Tesco Korea higher than those of local Korean retailers? Despite the efforts of the local retailers to increase their retailer brand performance, there was a considerable difference in market share. To search for answers, the researcher examined the development and handling

processes for retailer brands, for both the local Korean retailers and Tesco Korea, rather than focusing on identifying the different perceptions of retail customers.

Through this research, it was found that Tesco Korea with the help or co-operation of Tesco UK, introduced a better retailer brand program than the local domestic retailers. Likewise, Tesco Korea has generally influenced the retailer brand programs operated by the domestic retailers, who have imitated Tesco Korea's retailer brand know-how or skills. As a representative reason as to why Tesco Korea has shown a higher retailer brand share, the researcher concluded that advanced retailer brand development and handling knowledge is an important factor. Furthermore, the different retailer brand knowledge levels of countries, have also affected the retailer brand share differences of countries.

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