DEPARTEMENT TOEGEPASTE ECONOMISCHE WETENSCHAPPEN

ONDERZOEKSRAPPORT NR 9706

THE POWER OF STORE BRANDS: INTRINSIC LOYALTY AND CONQUESTING POWER

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D/1997/2376/06

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The authors are indebted to GfK Foodscan for providing the data used in this study, and to the Flemish Science Foundation (F.W.O. Vlaanderen) for financial support under grant No. G.0145.97. They also acknowledge the research support of Inge Geyskens, Martin Mellens and Lucile Rameckers.

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Abstract

An important evolution in the retailing industry is the growing success of store brands. Still, their level of penetration varies widely across countries and industries. We provide an operational measure to quantify the power of store brands along two dimensions: the intrinsic loyalty of their customer base, and their conquesting power to attract potential switchers. Based on their position along these two dimensions, we classify store and national brands as "giants, "misers", "fighters" or "artisans". We use the proposed operationalization to evaluate the absolute and relative strength of Albert Heijn, the leading Dutch store brand, in 19 product categories.

1. INTRODUCTION

In his influential book *Managing Brand Equity*, Aaker (1991) starts by quoting Larry Light, a prominent advertising official. Light argued that "The marketing battle will be a battle of brands, a competition for brand dominance..... It will be more important to own markets than to own factories. The only way to own markets is to own market dominant brands." (p. ix). Light apparently referred to the battle between manufacturers' national brands, which is also the main thrust of Aaker's book. However, increasingly, in many industries this almost exclusive focus on national brands is misplaced. In many markets, private labels or store brands have become a dominant feature. Retailers often "own" their local markets and they do so by developing their own brands. An "extreme" example is the large British chain Marks & Spencer, which sells all products, from socks and soaps to roast chicken and cashmere pullovers under its own St. Michael label. No brand is immune to the threat of store brands, as Coca Cola learned in Great Britain where Sainbury's Cola, launched in April 1994 and priced 28% below Coca Cola, won 15% of the British cola market in merely two years (Quelch and Harding 1996). In other countries like Canada, Switzerland and France, retailer brands already claim more than 20% of the flavored soft-drink market (Corstjens and Corstjens 1995).

Store brands are becoming ever more important in the Western world. This is due to a set of interrelated factors: increased concentration in retailing enables retail chains to develop their own brands (Messinger and Narasimhan 1995), consumers attach less importance to established brand names (Morgenson 1991), and consumers' attitude toward store brands has become much more positive (Steenkamp 1997), because the quality of store brands has dramatically improved over the last 10-15 years (Karolefski 1990), among others. Moreover, large retail chains have advertising budgets of tens of millions of dollars. For example, the Dutch supermarket chain Albert Heijn is one of the largest advertisers in the Netherlands. Marks & Spencer, Sainsbury, The Gap, Ikea, Victoria's Secret, and Albert Heijn are just a few examples of retail chains that have been able to build strong store equity.

In spite of the emergence and growing importance of store brands, most conceptual and empirical research still focuses on national brands. In this paper, we try to partially

rectify this relative neglect of store brands in the strategic marketing literature. We analyze the market power of store brands vis-a-vis national brands in more detail, and provide an operational measure of store-brand power that can be used to identify strengths and weaknesses in the store brand's market position (1) *within* a product category, and (2) *across* a portfolio of product categories in which the store brand is used. In the paper, we focus on store brands in the grocery-retailing industry, where private labels are especially prominent (Messinger and Narasimhan 1995).

We first provide a brief review of the relative market position of store brands in various countries and product categories. Next, we describe an approach to operationalize the market power of store brands, based on the loyalty of its customer base and the brand's ability to attract switching consumers. This measure is derived from widely available household purchase data. Then, we present a case study in which we use the proposed measure to analyze the power of the store brand of the largest Dutch supermarket chain, Albert Heijn. We analyze the position of its store brand ("AH Huismerk") in 19 product categories. Finally, we provide conclusions and strategic implications for retailers and manufacturers.

2. THE MARKET POSITION OF STORE BRANDS

A major factor in the emergence of store brands is the rapidly increasing concentration in the retail sector, particularly grocery retailing, that can be observed in many Western countries. In smaller European countries, like Sweden or the Netherlands, the three largest chains already account for more than 60% of total grocery sales, while this percentage is around 40% for larger European countries such as Great Britain, France, and Germany. Only in the US, Japan, and Southern Europe is this concentration below 20%. Note though that in many individual states of the US, the level of concentration is comparable to that of individual EU countries (Heijbroek et al. 1995).

This increased concentration in retailing allows supermarket chains to develop their own brands. Figure 1 shows the market share of store brands in the grocery retailing industry across a number of industrialized countries. In Great Britain, the market share of store brands is approaching 40%, and it is even above 50% for the leading grocery

retailer, Sainsbury (*AGB/Europanel* 1992). Store brands also have a substantial market share in many other countries. Only in Southern Europe are private labels still less important.

--- Figure 1 about here ---

The market share in Europe of private labels has increased substantially over the last 15 years. For example, private label shares in 1980 (1992) in France, Great Britain, and Spain were 11% (17%), 22% (37%), and 2% (8%). One reason for this growth in market share is that retail chains are increasingly extending the range of products sold under store brands from mass-consumption basic products (oils, jams, pastry products, etc.) to more sophisticated products (sauces, diet products, cosmetics, breakfast cereals, etc.). A manager at the French supermarket chain Carrefour put it as follows: "We launched our first Carrefour products on the basic markets... We are now attacking more sophisticated markets.... If we want to promote the Carrefour label, and by this means, add value to the Carrefour chain, we must attack new sectors, cutting-edge markets, the strongly marketed sectors." (*AGB/Europanel* 1992, p. 190).

Interestingly, in the US, the private-label share in 1992 is less than 1% higher than it was in 1971. Hoch (1996) argues that this striking difference may be due to European countries having smaller national markets with fewer strong national competitors and less economies of scale in production and marketing, a higher level of retail concentration, and the devotion of more managerial attention to store brands.

Carrying a store brand in a particular product category means that the retailer has to perform a number of marketing tasks that are normally performed by the manufacturer, such as branding, packaging, inventory, promotions, and advertising. Nevertheless, private labels can be very profitable as the gross margin on store brands is higher than on national brands (e.g., 20-30% in the US; Hoch and Banerji 1993). Le Roch, head of the French supermarket chain Intermarché explains: "National brands are now sold with nil or even negative margins. We must therefore limit their market share by putting forward our own labels." (*AGB/Europanel* 1992, p. 187). Store brands also strengthen the retailer's position vis-a-vis manufacturers. They were often introduced as "best-value" products, but increasingly, retail chains have improved their quality in order to raise the image of the

chain, and to encourage consumer loyalty to the chain rather than to national brands. As it was put by one British retail manager: "Customers' loyalty is a fundamental reason for having own labels. If you have a nucleus of products which customers see as having a quality image, there is an inevitable dynamic created." A manager of the French chain Paridoc argued that "Our private labels are an indispensable part of our range on offer," while an Euromarché manager stated that private labels is "what consumers want; it makes them loyal to the chain" (*AGB/Europanel* 1992, p. 181, 187).

Customer loyalty to store brands is only possible if they have a favorable image. Research in the five largest EU countries indicates that this is indeed the case. Many consumers feel that store brands have about the same quality as national brands and inspire as much confidence, while they are cheaper (see Steenkamp 1997 for details). Quality is a major factor in consumer purchase decisions (Hoch 1996, Steenkamp 1989). Store brands have succeeded in substantially narrowing the perceived quality gap, and thus, a major reason to buy a higher-priced national brand has been eliminated. These findings do not bode well for national brands which have traditionally been sold on the basis of high and constant quality that one can trust.

However, the penetration of private labels varies not only across countries, but also across product categories. In the US, private labels account for only less than 5% of supermarket sales of health and beauty aids, as opposed to over 20% in the refrigerated foods section (Hoch and Banerji 1993). In Great Britain, the market share of store brands is less than 10% for dog and cat food, but above 50% in such categories as hard cheese, kitchen rolls, cleaning cloths, fruit juices, and frozen vegetables. Private labels account for about 40% of total sales in France in such categories as toilet tissues, kitchen rolls, and green peas versus less than 10% for beer, heavy duty detergents, and shampoo (*AGB/Europanel* 1992). In the Netherlands, the three major private-label brands capture a much larger share in the coffee, green-peas, and apple-sauce categories (>20%) than in the margarine and sanitary-towel markets (< 10%). These differences in penetration level have been linked to the private label's perceived quality (Hoch and Banerji 1993), the industry's innovativeness (Corstjens and Corstjens 1995), the extent of price competition between the national brands in the category (Raju et al. 1995), the size of the category and

its profit margins (Hoch and Banerji 1993), and to the relative emphasis on advertising versus sales promotions (Steenkamp 1997), among others.

3. OPERATIONALIZING THE POWER OF STORE BRANDS

3.1. Intrinsic loyalty versus conquesting power

Given the significance of store brands for retailers and manufacturers alike, it becomes important to have a managerially meaningful measure of store-brand power. Retailers can use it to assess the power of their own brand *within* a particular category vis-a-vis other (national and private label) brands, as well as *across* categories to identify possible weaknesses in their portfolio of product categories in which they offer their private label. Manufacturers can use this information to plan competitive actions to thwart the growing strength of store brands in the product categories in which they are active. Previous studies (e.g., Hoch and Banerji 1993; Corstjens and Corstjens 1995, Raju et al. 1995) have mainly considered the number of private labels in a product category and the store brands' market share as relevant performance measures. A large market share, however, can be driven by two conceptually very different factors: the existing customers can be loyal to the brand, or the brand can be successful in attracting customers who are willing to switch brands.

In this paper, we operationalize the power of store brands vis-a-vis each other and vis-a-vis national brands along these two dimensions, i.e. the brands' "intrinsic loyalty" and their "conquesting power." The *intrinsic loyalty* of a brand refers to its ability to keep its current customers. A critical issue for the continued success of any retailer or manufacturer is its capability to retain its current customers and make them loyal to its brands. Brand loyalty has consistently been linked to profitability (Aaker 1991). Indeed, the costs of attracting a new customer have been found to be up to six times higher than the costs of retaining old ones (Rosenberg and Czepiel 1983), loyal customers are typically less price sensitive (Krishnamurthi and Raj 1991), and the presence of a loyal customer base provides the firm with valuable time to respond to competitive actions. A large number of loyal customers is a competitive asset for a brand, and has been identified as a major determinant of its power (Aaker 1991).

The second component of a brand's strength is its *conquesting power*. Markets always exhibit a substantial amount of dynamism. Consumers enter or leave the market, brands are eliminated, new brands are introduced, etc. Moreover, all markets have a proportion of consumers that is not loyal to any specific brand, but who can be considered switchers (Colombo and Morrison 1989; Lal and Padmanabhan 1995). Hence, the ability of a store brand to keep a large proportion of its current customers is not enough, because inexorably, this basis will be eroded (see e.g., East and Hammond 1996). For the sustained health and growth of store brands, it is also necessary to continuously attract new customers. The conquesting power of a brand refers to the proportion of the market's non-loyal customers (i.e., that fraction of the market that is not loyal to any of the current players) that one is able to attract in a given time period. The underlying hope is then to eventually convert these non-loyals into loyal customers after they have had a number of satisfying brand experiences.

The two components of brand power can be combined in a 2x2 *Brand-Power Matrix*, yielding four quadrants (see Figures 2 and 5 below): low or high intrinsic loyalty combined with low or high conquesting power. The upper-right-hand quadrant is clearly the most attractive. The brand commands a high degree of brand loyalty among its current customers, and is able to attract many non-loyal switchers as well. A store brand which falls into this category is clearly very powerful, and we label those brands "*Giants*". The lower-left-hand quadrant are the "*Misers*", as they are neither strong on intrinsic loyalty nor on conquesting power. Thus, misers are relatively weak on both accounts. "*Fighters*" combine low intrinsic loyalty with high conquesting power. These brands have to "fight" for customers each time they are shopping, but are successful in doing so. Still, they may have to make frequent use of price reductions or other promotional techniques in their day-to-day business operations to make their brand appealing to the group of potential switchers (see also Lal and Padmanabhan 1995). Indeed, their low score on the loyalty dimension suggests that a large part of their customer base will not "automatically" re-purchase the brand, but rather will re-evaluate all options again on their next purchase occasion. Finally, in the lower-right quadrant are brands that combine high loyalty with low conquesting power. We label these brands "*Artisans*" as they have a loyal following,

but will not attract large groups of new customers. They are relatively static like the artisans or guilds in the Middle Ages.

Giants obviously occupy the most attractive position, while Misers take the least attractive position. Fighters and Artisans are located in between. Which of the latter two is more attractive depends on the strategic goals of the company. If the goal is to create short-run market-share gains, Fighters may be more attractive. They capture a larger portion of the switching segment, and will hence often enjoy a larger market share with all its advantages (e.g., Buzzell and Gale 1987). On the other hand, Artisans command a higher degree of brand loyalty. Given the advantages of a loyal following, Artisans may be more profitable in the long run.

The Brand-Power Matrix can be used for several strategic purposes. First, provided the focal store brand is used in multiple categories, it can be used in an *absolute* sense in that its position *across* these different categories can be compared to uncover strengths and weaknesses in the private label's total offering or product portfolio, using absolute cutoff values for loyalty and conquesting power. Second, the Brand-Power Matrix can be used in a *relative* sense in that the relative performance of the focal store brand is plotted vis-a-vis other brands *within* the same category.

3.2. Measurement of the components of store-brand power

We use the model of Colombo and Morrison (1989) to measure the two components of store-brand power. This model is well established in the marketing literature (see e.g., Bayus 1992, Dekimpe et al. 1996, Kannan and Sanchez 1994), its parameter estimates have clear managerial interpretations, it is robust, and the data requirements are few. The input to the model is a switching matrix whose elements (i,j) represent the proportion of consumers that bought brand i on one purchase occasion but switched to brand j on the next occasion. The element (i,j) therefore gives the conditional probability that brand j is purchased, given that i was bought the previous time. The key underlying assumption of the model is that there are two kinds of consumers:

- people who are intrinsically loyal, and stay with the same brand, and
- potential switchers, who on every purchase occasion choose between all

brands according to a zero-order process.

All potential switchers are assumed to have the same probability to buy a specific brand, but this probability may differ across brands. The proportion of loyal buyers and the potential switchers' choice probabilities are linked to the elements of the observed switching matrix through:

$$\begin{aligned} p_{ii} &= \alpha_i + (1 - \alpha_i)\ \pi_i\ , \\ p_{ij} &= (1 - \alpha_i)\ \pi_j \qquad\qquad i \neq j \end{aligned} \tag{1}$$

where p_{ij} is an element of the switching matrix, π_i the proportion of potential switchers buying brand *i*, and α_i the proportion of the current buyers of brand *i* who is intrinsically loyal. The first equation states that the (conditional) probability to repurchase brand *i* depends on (1) the proportion of loyals (α_i), and (2) the proportion (π_i) of the potential switchers [$(1-\alpha_i)$] who decided to re-purchase brand *i* after all. The second equation shows how the conditional probability p_{ij} equals the proportion (π_j) of the potential switchers [$(1-\alpha_i)$] which chooses brand *j*. Clearly, every actual switcher is a potential switcher, but not every repeat purchase comes from a loyal customer. α_i and π_i are estimated for each store brand or national brand that is included in the switching matrix. Note that although α_i and π_i can both vary between 0 and 100, there is no simple relation between the two because they refer to a different base. The former refers to the proportion of the current buyers of a particular brand that is intrinsically loyal, while the latter refers to the proportion of the total number of switchers in the market that will buy your brand. α_i will in general be larger than π_i, but this has no intrinsic meaning as they refer to different bases. We refer the interested reader to the original Colombo and Morrison article for mathematical details. In terms of our two dimensions of store brand *i*'s power, it is clear that α_i measures its intrinsic loyalty, while π_i is a measure of the brand's conquesting power.

4. CASE STUDY: THE MARKET POWER OF ALBERT HEIJN'S STORE BRAND

We will use our procedure to analyze the power of Albert Heijn's store brand ("AH Huismerk"). Albert Heijn is the "flagship" of the Royal Ahold concern. In a recent Corporate Image Barometer study among Dutch decision makers, Albert Heijn/Ahold rated

highest of all major Dutch companies (Adformatie 1996). Royal Ahold also owns BiLo, Stop & Shop, Edwards, Giant, Tops, and Finast in the US, and a variety of supermarket chains in a number of other countries. It plans to open 200-1,000 supermarket outlets in the Far East in the next five years (Perspekt 1996, Vriens 1996).

Albert Heijn is the largest grocery retail chain in the Netherlands with a market share in 1996 of 27.9% (Perspekt 1996), and is widely perceived to be the most innovative Dutch grocery retailer. It has pursued a conscious strategy of developing and promoting its own store brand in a large number of product categories. It also promotes its store brand in its print and television advertising.

4.1. Data description

Panel data describing the purchase histories in 1994 of approximately 4,000 Dutch households in 19 different product categories were provided by GfK Foodscan, which is part of the pan-european market-research agency GfK. All product categories were frequently-purchased grocery products, covering a variety of food/beverage (e.g., margarine, beer), personal-hygiene (e.g. sanitary towels) and pet-food (e.g., dry cat food, canned cat food) products. In each product category, multiple brands were available, including Albert Heijn's (AH) store brand, other store brands as well as national brands. For each category, the intrinsic loyalty (α_i) and conquesting power (π_i) of the three largest national brands and of the store brand for three major retail chains (AH, Edah, and C1000) were estimated. Moreover, we added an "others" category to the switching matrix to accommodate the purchases of smaller brands. This was done to avoid biased parameter estimates (Colombo and Morrison 1989).

A switching matrix was constructed for each product category, using all purchases the panelists made in 1994. When a given household made multiple purchases in the same category on the same day, it was impossible to empirically determine the purchase order. In those instances, the purchases were placed in a random order (cf. Harlam and Lodish 1995). Thus, separate estimates of the intrinsic loyalty and conquesting power for six brands (3 national brands and 3 store brands) were obtained for each of these 19 product categories.

The GfK panel data also allowed us to compute some market characteristics. The level of concentration was computed as the sum of the market share of the three largest brands (Dekimpe et al. 1996). Information on prices at which the various brands were bought was also available. For each category, we determined the average purchase price of the AH store brand and the average price of the three leading national brands over the considered one-year period, the latter weighted by their market shares. One minus the ratio of these two prices represents the average price discount at which the AH brand is sold (Hoch and Banerji 1993).

Two variables that might prove useful in explaining differences in brand power were not available in the GfK data, viz., consumer involvement with the product category, and consumers' quality perceptions of the various brands in each category (Aaker 1991, Assael 1995, Steenkamp 1989). To obtain a measure of these variables, we used a survey in which consumers were asked to rate their involvement with up to seven categories, as well as the quality perception of the AH brand and of the three leading national brands in each category. The consumer needed to be a user of the category in order to provide ratings. Order of categories and brands were randomized. The total sample consisted of 100 randomly-selected consumers living in a medium-sized town in the Netherlands. Data were collected in personal interviews using computer-aided questionnaires. Product-category involvement was measured with the following three 7-point bipolar items (Zaichkowsky 1985, Steenkamp and Wedel 1991): not at all important/very important, does not matter to me/matters a lot to me, and does not interest me at all/interests me a lot. The reliability of the involvement measure was a high .88. Consumers' judgment of the perceived quality of the brands were measured on two 7-point scale bipolar items: bad/good quality and unattractive/attractive (Steenkamp 1989). The two-item measure of perceived quality was highly reliable (α = .89). For both measures, direction of the poles was randomized to reduce yea-saying effects. Individual ratings concerning category involvement and brand-quality perceptions were averaged over the appropriate items to arrive at product-involvement and perceived-quality ratings. A similar procedure was recently used by Narasimhan et al. (1996) to supplement their data set with data that were not available from published secondary sources.

In sum, in our analyses we will explore the role of two consumer characteristics, viz., product-category involvement and perceived quality of the brand, as well as two market characteristics, viz., level of concentration in the category and percentage price discount as possible factors that may explain variations in brand power.

The presentation of the results is as follows. First, we compare the position of the AH store brand across all 19 product categories in an *absolute* sense (i.e., regardless of how other brands are doing in these categories), and explore why AH does better in some categories than in others. Such an analysis is important as it provides an overview of the strength of AH in absolute terms. After all, regardless of the performance of its competitors, Albert Heijn/Royal Ahold primarily derives its strength from its own marketing and financial performance (it does not really help if the competitor does lousy too, although it provides some consolation!). Next, we shift our focus from an *absolute* to a *relative* setting by explicitly considering the competitive environment. We compare the strength of the AH store brand on both intrinsic loyalty and conquesting power to the position of leading national brands. We examine the effects of some key variables that may drive the observed differences in loyalty and conquesting power between AH and these national brands, using the pooled data set (i.e., pooled across product categories).

4.2. The power of the AH store brand across product categories

Figure 2 shows the power of the AH store brand for 19 different product categories. The four quadrants of the brand-power matrix were created using the median α_i and π_i across all brands and product categories. Intrinsic loyalty of 73% or higher is regarded as high, and intrinsic loyalty lower than 73% is viewed as low. Conquesting power of 7.8% is used as cutoff point to differentiate between the high and low cells. Although these cutoff points are to some extent arbitrary, they are based on the actual competitive performance of the AH brand and its competitors across a large number of product categories. The location of the brands in Figure 2 is determined by the center of a circle whose size is proportional to AH's market share in the category in question.

In four product categories (decaffeinated coffee, regular coffee, chocolate strands, and evaporated milk (coffee cream)), AH is in an enviable position as its own brand rates

highly on both dimensions of brand power. Given these strengths, it is not surprising that on average, the market share of AH in total sales in these categories is 15.1%.

The AH store brand is a Fighter in the following categories: green peas, apple sauce, cornflakes, orange juice, and potato chips. Due to its high conquesting power, AH enjoys a sizable market share in these categories, on average 13.1%. The challenge for AH in these categories is to transform occasional buyers into loyals. High loyalty but low conquesting power is exhibited for low-fat margarine, regular beer, and pantyliners. On average, market share is rather low (5.2%), but those consumers who buy the AH brand tend to be loyal. A major issue for these Artisans is to attract switchers. This will not be easy in these markets as they are dominated by large multinationals (Unilever, Heineken, Procter & Gamble, Kimberly Clark). The AH store brand is a Miser in the following categories: regular margarine, frying margarine, light beer, sanitary towels, muesli, canned cat food, and dry cat food. Few people are loyal to the AH store brand in these categories, and its conquesting power is also low. Given this weak market power, market share is on average a low 3.4%.

--- Figure 2 about here ---

The market shares of AH in the four quadrants suggests that conquesting power is more important in creating market share than intrinsic loyalty. The difference in market share between high- and low-loyalty categories is on average 3.5%, while this difference between high and low conquesting power is on average 10.1%. This observation is supported in a correlational analysis. The market share of the AH store brand in a particular category correlated .95 ($p < .001$) with its conquesting power in that category, and .34 ($p = .077$) with its brand loyalty.[1]

Figure 2 reveals that in the portfolio of product categories studied, the AH store brand has some strong positions (especially in the first quadrant), but also quite some weak positions. Why does AH better in some categories than in others on one or both dimensions? What distinguishes Giants from others? We will consider the role of perceived quality of the AH store brand, product-category involvement, market

[1] All p-values are one-sided.

concentration, and price discount. See Figure 3 for the means for each quadrant.

A key factor accounting for differences in AH's brand power in the various categories is the consumers' differing *perceived quality* of the AH store brand in these categories. As mentioned above, consumer quality perceptions of the AH store brand (as well as of three leading national brands) in each product category were measured in an independent sample of consumers. Consumers' quality perceptions were correlated .73 ($p < .001$) with the conquesting power of the AH store brand in the various product categories. The quality perception of the AH store brand in categories in which it exhibits relatively high conquesting power is higher ($M = 5.12$) than in those categories where its conquesting power is relatively low ($M = 4.45$).

Perceived quality also distinguishes between high and low brand loyalty, although to a much weaker extent. AH's intrinsic loyalty in a category was correlated only .08 with the perceived quality of the AH store band in the category in question. The effect is very weak but in the direction that you might expect: higher quality leads to higher brand loyalty (Aaker 1991). Perceived quality of the AH store brand is on average 4.86 in categories in which it exhibits relatively high loyalty and 4.71 in categories where its brand loyalty is relatively low.

In sum, AH tends to command both a higher loyalty, but especially a higher conquesting power in those categories where its quality is perceived to be higher. The effect is especially strong for Giants. On average, consumers perceive AH's Giants to be of substantially higher quality (mean perceived quality rating of 5.31) than the AH brand in the other categories ($M = 4.62$). Illustrative is the difference between AH decaffeinated coffee (a Giant) and AH regular margarine (a Miser). The former has a perceived quality rating of 5.59, and exhibits high intrinsic loyalty (86.7%) and high conquesting power (19.2%) while the latter has a much lower quality rating of 4.26, and only modest loyalty (61.1%) and conquesting power (5.3%).

The *price-discount* variable revealed an interesting, and at first sight counter-intuitive, relation with conquesting power ($r = -.27$, $p = .13$). A higher price discount was associated with lower conquesting power. The AH store brand sold at an average discount of 12.3% in the high conquesting-power categories, versus an average discount of 24.6%

in the low-conquesting-power categories. The reason is that, as we have seen above, the AH brand in the high-conquesting-power categories are of substantially higher perceived quality. High perceived quality provides consumers with another reason to buy the (store) brand than only price, and perceived quality is an effective barrier against price competition (Buzzell and Gale 1987, Steenkamp 1989). Thus, perceived quality of the brand clearly emerges as a key driver for AH's store-brand power across categories.

The relations with level of concentration and consumer involvement were less clear cut as only one quadrant differed from the others. (Such a situation is not adequately captured in a simple correlation coefficient.) The *level of concentration* was highest for the Misers: M = 69.5% versus 62.9% for the other three categories combined. It is clearly more difficult to build a strong store brand in categories with a high level of concentration, which is in line with recent findings of Dhar and Hoch (1996). Finally, *consumer involvement* with product categories in which AH has Fighters is lower than involvement with the other categories (M = 4.42 versus 4.93). Fighters are categorized by relatively low loyalty and high conquesting power. They are most likely to occur in markets where there are many switchers in the first place. Product categories with many switchers are typically characterized by low consumer involvement (Van Trijp et al. 1996).

--- Figure 3 about here ---

4.3. The market power of AH vis-a-vis the three leading national brands in the category

Hitherto, we considered the *absolute* levels of Albert Heijn's loyalty and conquesting power in each category. Equally important is to analyze Albert Heijn's position *relative* to other brands in a particular category. Such an additional analysis provides an enhanced perspective on the power of the AH store brand in the marketplace. AH may be underutilizing its possibilities, leading to a lower relative performance on either or both dimensions of brand power, or it may be doing better than the national brands, even when in an absolute sense, its performance is not fully satisfactory. We first provide two illustrative examples, pertaining to green peas and frying margarine. Next, we formalize our analysis by considering all categories. We examine the effect of possible market- and

consumer-related factors on differences in relative performance of AH vis-a-vis the average of the top three national brands weighted by their respective market shares, in a given category.

The relative power of the AH store brand: two illustrative examples

Figure 4 (upper panel) shows the position of the AH, Edah, and C1000 store brands as well as of three leading national green-peas brands, viz. Bonduelle, Hak, and Jonker Fris, in terms of their intrinsic loyalty and conquesting power. The areas of the circles are again assigned in proportion to the brand's market share in guilders in each specific category (as such, the absolute sizes of the areas in Figures 4A and 4B are not directly comparable). Although all three national brands as well as AH are Fighters, AH's market power is actually strong vis-a-vis the leading national brands. Its intrinsic loyalty is higher than the intrinsic loyalty of Bonduelle or Hak, while its conquesting power is second only to the market leader, Bonduelle. In line with these observations, AH has the second largest market share. C1000 and Edah are far less successful: although brand loyalty is at about the same level as the other brands, their conquesting power and market share are low.

Compare this situation to the brand power of AH vis-a-vis the other brands in the frying-margarine market (Figure 4, lower panel). The frying margarine market is dominated by two heavily advertised Giants, Croma and Becel. Both are owned by Unilever, and together have captured nearly 80% of the market. In this category, AH is a miser, while the other two store brands fall in the artisan category. The third largest national brand, Sense, is owned by a relatively small company. It is a Fighter brand which cannot match the advertising expenditure of the Unilever brands, and is to a large extent dependent on attracting switchers. In this, it is reasonably successful, but not nearly as effective as Croma, the oldest brand in this category, which appeals to broad strata in Dutch society.

--- Figure 4 about here ---

The relative power of the AH store brand across 19 categories

The above analysis clearly illustrates that the relative competitive position of AH vis-a-vis the other brands differs substantially between categories. We will now extend this analysis to all 19 product categories. To keep the analysis manageable, we compare the relative position of AH on both dimensions of brand power with the average of the top three national brands (weighted by their respective market shares) in a given category. Figure 5 presents the results. From a relative point of view, Albert Heijn's portfolio has two giant performers, viz., green peas and chocolate strands. For these two products, the AH intrinsic loyalty as well as its conquesting power is higher than those of the average of the leading national brands. AH has no Fighters in a relative sense. In the panty liner, muesli, and canned cat-food categories, AH is doing relatively well on loyalty, but lags considerably behind the leading national brands in its ability to attract switching consumers. In the remaining 14 categories, AH scores below the weighted average of the three leading national brands on both dimensions of brand power, although the power gap is small for some categories, such as apple sauce. The gap in brand power between AH and the leading national brands is especially large for frying margarine, light beer, and cornflakes. Interestingly, two of these three product categories are dominated by a large multinational, with widely-recognized marketing capabilities (i.c., Unilever, Kellogg's), while the light beer market is dominated by a brand from a smaller company, Bavaria, which has virtually created this category. This represents a good example of an on-going first-mover advantage.

--- Figure 5 about here ---

What are key factors underlying the differences in relative position between AH and the leading national brands on loyalty and conquesting power? To examine this issue, the difference between the brand loyalty of AH and the weighted average of the three leading national brands (α_{AH}-$\alpha_{Avg.Nat}$), as well as the difference between the conquesting power of AH and the weighted average of the three leading national brands (π_{AH}-$\pi_{Avg.Nat}$), was correlated with the relative quality of the AH brand vis-a-vis the three national brands, market concentration, the price discount at which the AH brand is sold, and consumer involvement with the category.

AH's relative perceived quality as compared to the three leading national brands was related to the difference in conquesting power ($r = -.51$, $p < .01$).[2] The relation with the loyalty gap was in the expected direction, but was weak and not approaching significance ($r = -.11$). Interestingly, AH's Giants exhibited a distinct profile. Their "quality discount" was on average only 8.9% versus 17.1% for the Misers and Artisans combined.

Another key factor is market concentration. The more concentrated the markets are, and hence the more market power leading brands possess, the greater the gap with AH, both on brand loyalty ($r = -.48$, $p < .05$) and on conquesting power ($r = -.76$, $p < .01$). AH's two relative Giants are in categories with low market concentration ($M = 46.9\%$) as compared with an average market concentration for the other categories of 67.5%.

Product-category involvement nor price discount exhibited a substantial correlation with either dimension of relative brand power, but involvement revealed an interaction effect in that the profile of the Giants again exhibited a distinct profile. AH's giants were in relatively low-involvement categories ($M = 4.42$ versus 4.85 for the other categories).

Comparing the relative and absolute power of the AH store brand

A comparison of Figure 2 and 5 clearly illustrates how both analyses (in absolute and relative terms) should be studied together to better appreciate the performance of AH on the loyalty and conquesting dimension. In five product categories, AH is an absolute as well as relative miser: dry cat food, sanitary towels, regular margarine, frying margarine, and light beer. That is, AH scores low on loyalty as well as conquesting power, irrespective of the absolute/relative classification. AH is a true Giant for chocolate strands. In both an absolute and a relative sense, the AH store brand performs very well in its ability to retain its current consumers and to capture a high proportion of the market's switching consumers. Finally, it is an Artisan in both senses for panty liners. For the

[2] The weighted average of the quality ratings of the three leading national brands in the category in question was computed, using market shares as weights. One minus the ratio of the perceived quality rating of the AH store brand and the weighted average of the three leading national brands represents our measure of relative quality of the AH store brand.

other 12 product categories, the relative perspective sheds a different light on AH's brand power than the absolute perspective. The most interesting cases are represented by decaffeinated coffee, regular coffee, and evaporated milk. In an absolute sense, their loyalty and conquesting power is very high; they are true Giants. However, on both dimensions of brand power, they perform less than the weighted average of the three leading national brands. It is doubtful whether AH will actually be able to do much better in these categories, as they are dominated by a single brand (Douwe Egberts for the two coffee categories and Friesche Vlag for evaporated milk, with market shares of 54%, 54%, and 32%, respectively) which is heavily advertised, and which is the "flagship" of the company in question. Hence, strong retaliatory action by these brands may be expected to any move by AH.

5. DISCUSSION

Our findings indicate that the power of a store brand, even for such a powerful retailer as Albert Heijn, varies dramatically across product categories, both in an absolute and a relative sense. In some product categories, AH does very well, whereas in other categories, it struggles on either the loyalty dimension, the conquesting-power dimension, or both. Perceived quality emerged as a prime factor underlying AH's conquesting power. The higher the perceived quality of the AH store brand, both absolute and relative to its competitors, the greater its conquesting power. Further, AH's conquesting power was found to be strongly correlated with its market share. Hence, the implication that improving product quality is a prime way to build market share. This finding is especially interesting as the role of higher perceived quality in attracting switchers has traditionally received less attention in the marketing literature; promotions are often seen as the primary instrument (cf. Lal and Padmanabhan 1995). Our findings indicate that the quality of store brands is also a key to their success in the market place, which confirms trade-press reports (see e.g., *AGB/Europanel* 1992), and is consistent with Hoch and Banerji (1993).

Our analyses also suggest that retailers may want to reconsider whether they should introduce a store brand in categories where, for a variety of reasons, they are not able to match or approach the quality of the national brands. Even a retailer like Albert Heijn

was often not able to build a strong brand nor a large market share in categories where its quality perception was relatively low, although sometimes the AH brand was sold at a steep discount. One example is regular margarine, with a perceived quality rating of 4.26 (versus a weighted average of 5.47 for the three leading national brands), a price discount of almost 30% and a market share of about 3%. Interestingly, the price-discount variable was not found to be a major driving factor of market power: private labels can sometimes be bought primarily for quality reasons, rather than for price reasons. Actually, the price discount for the AH brand was in general less for categories where it had greater conquesting power and market share, because AH was able to offer, according to consumers, high-quality products in these categories. In two categories (apple sauce and coffee), the AH brand was even sold at a higher price than the average of the three national brands. In these respects, the positioning and quality-improvement efforts of AH mirror strategies pursued in Great Britain, probably the most innovative country in terms of private labels. Originally introduced as "best-value" products, store brands in such chains as Asda and Safeway now often occupy "top-of-range" areas of their markets to raise the chains' image and to encourage consumer loyalty. As one British manager explains: "If you have a nucleus of products which customers see as having a quality image, there is an inevitable dynamic created." This strategy has also been adopted by Carrefour in France: "They [Carrefour private label products] always have an edge with the consumer that other labels would not be able to match. This will be, depending on the market, a better quality than the leading brand, a keener price for the same quality, or a new product, sharper, better performing or more practical." (*AGB/Europanel* 1992, pp. 181, 188).

This raises the question what national-brand manufacturers can do against the onslaught of private labels? First, our findings indicate that the single most effective strategy is continuous *product-quality improvement* and product innovation. National brands should continuously innovate to keep the private labels at bay. National-brand manufacturers can be expected to have more insight into consumer needs with respect to their specific product category (after all, a supermarket chain has to spread its attention across numerous categories), and be more knowledgeable about the manufacturing process

and technological changes. This provides a viable basis for quality improvement and innovation. A case in point is the potato-chip market. At first sight, this may not be perceived to be a market with much innovation potential. However, the market leader, Smiths, has introduced a number of quality improvements in the last decade (e.g., crispy chips, extra quality ribbed chips, new packaging), and its perceived quality rating is much higher than AH's (6.23 versus 4.87). Associated with this difference is a big gap in conquesting power (39.8% versus 8.2%) and market share (44.1% versus 7.4%).

Few store brands can afford to pay for the research and development needed to develop really new or improved products, and this could therefore offer a strategic advantage to national brands. However, it should be noted that retail chains increasingly introduce genuine innovations as well. For example, Sainsbury introduced soft drink cans with a revolutionary new way to open them (Floor 1996). One of the aims of Carrefour is to introduce new products that perform better than leading national brands (*AGB/Europanel* 1992), and Albert Heijn is leading the way in environmentally-friendly packaging and production methods.

Second, manufacturers should also invest more heavily in *advertising*. Although we did not have information on advertising spending, previous research indicates that it strengthens brand loyalty (e.g., Aaker 1991). Advertising can be used to build brand associations and to convey the message that quality has improved. Evidence from Great Britain (The Economist 1993) and the US (Hoch and Banerji 1993) suggests that in categories characterized by heavy advertising spending, store brands are less likely to capture a high market share. Manufacturers seem to get this message as the share of ad spending as share of total market spending increased from a low of 53% in 1991 to 56% in 1995.

Third, manufacturers can strengthen their position by exploiting their *international presence*, if applicable. An international brand image can be a source of brand strength. As the international branding consultant Kapferer argues (1992, pp. 212, 222): "Many brands acquire further credibility when they prove to have international appeal. That is why, in 1989, Ariel brought out the first advertising commercial featuring testimony from housewives from different European countries..... When the brand is perceived as being

international, its authority and expertise are automatically accepted." Most retail chains are still regional or national, rather than international, although this too may change in the future. Retail companies like Ikea, Carrefour, Delhaize, Makro, Wal-Mart, Ahold, and Aldi are pursuing international expansion strategies in Europe, the US, Latin America, and Asia. Moreover, many (European) retailers are organized in international buying groups such as ERA (members are Ahold, Argyll, and Casino) or Deuro-Buying (Asda, Carrefour, Makro, Metro). Such buying groups may provide a platform for pan-European store brands.

Finally, manufacturers may decide to "Sleep with the Enemy" (or at least the Rival), by trying to profit from the growing popularity of store brands, and engage in the production of private labels for retailers. More than 50% of all US manufacturers of branded packaged consumer goods including companies like Dole, Borden, Kraft, and Heinz, engage in such private-label production (Quelch and Harding 1996). Other companies like Heineken, Gilette, Mars, and Coca Cola have refused to do so. Private-label production can increase total sales volume and helps to reduce occasional excess production capacity. On the other hand, the profit margin is typically lower, there is cannibalization on own-brand sales, and store-label production can result in additional manufacturing and distribution complexities that add costs, rather than reduce them (Quelch and Harding 1996). This complex interface between cooperation and competition, which Brandenburger and Nalebuff (1996) label co-opetition, needs further research, as it will determine to a large extent the long-run profitabilty, and perhaps even the very survival, of some national brands.

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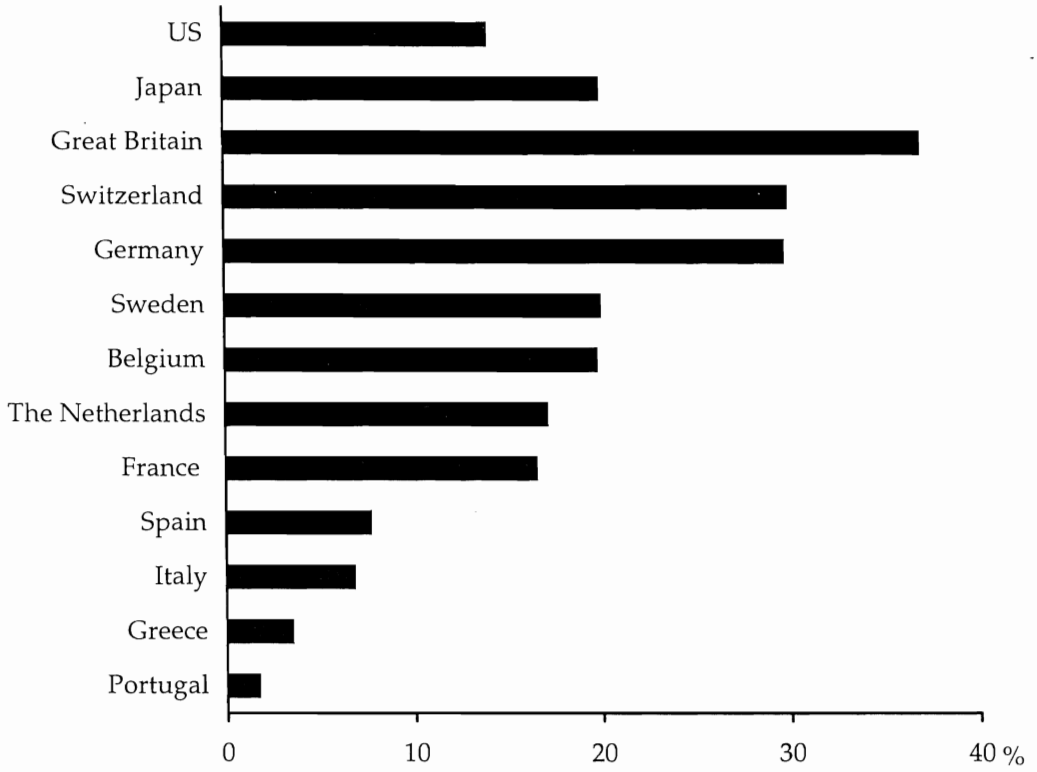
Figure 1. Market Share of Store Brands in Grocery Retailing



Source: Heijbroek et al. (1995)

Figure 2. The Absolute Brand-Power Matrix for the Albert Heijn (AH) Store Brand Across 19 Product Categories

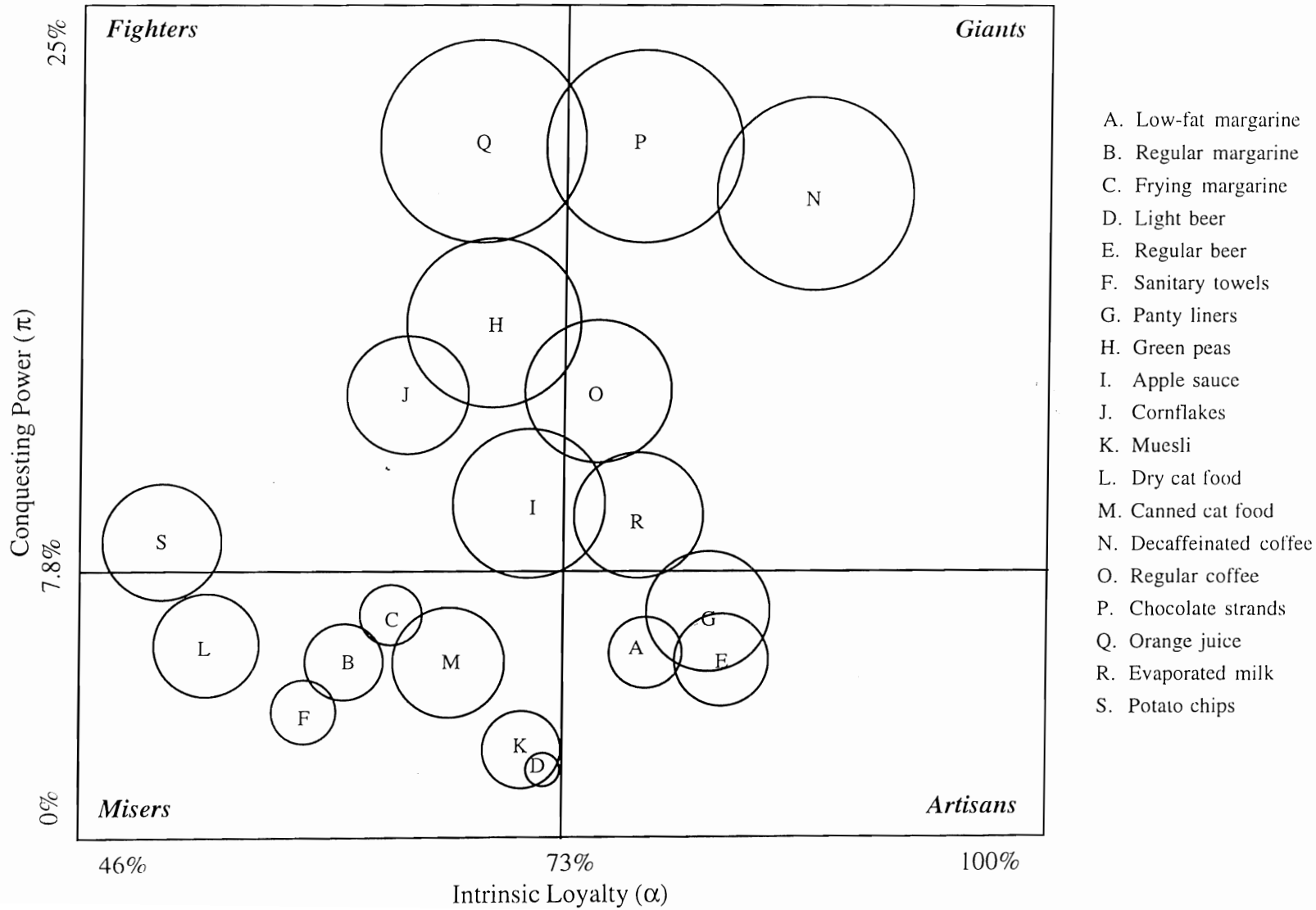


Figure 3. Consumer Perceptions and Market Characteristics of the Albert Heijn (AH) Store Brand across 19 Product Categories

Figure 4A. The Absolute Brand-Power Matrix in the Green-Peas Market

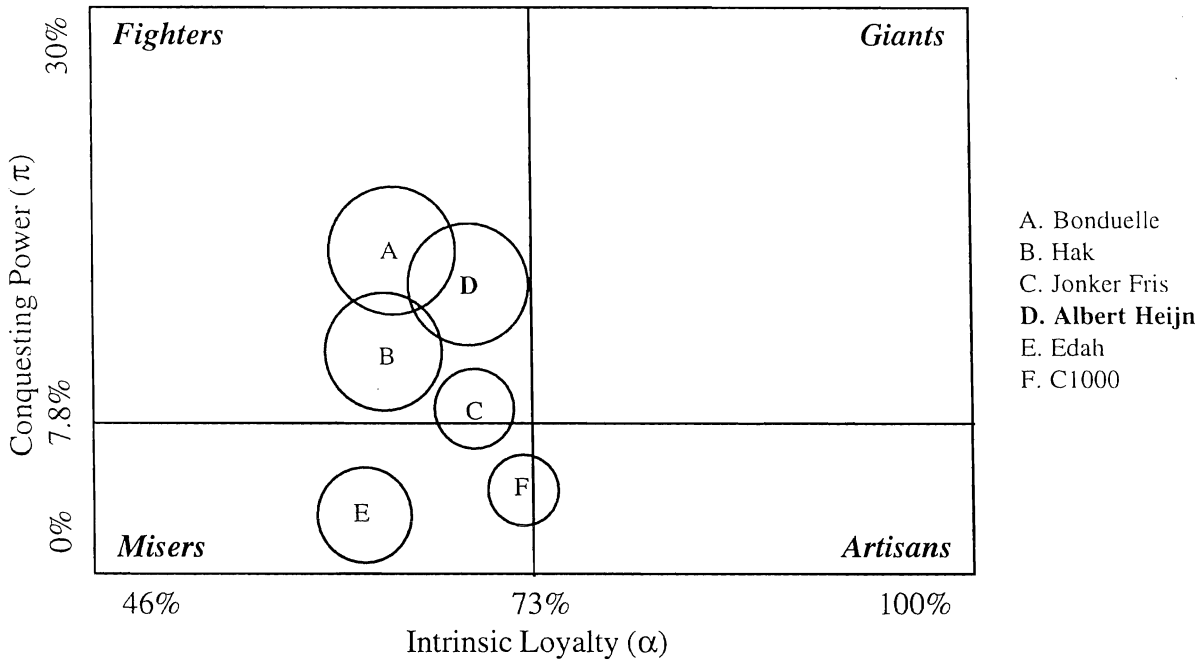


Figure 4B. The Absolute Brand-Power Matrix in the Frying-Margarine Market

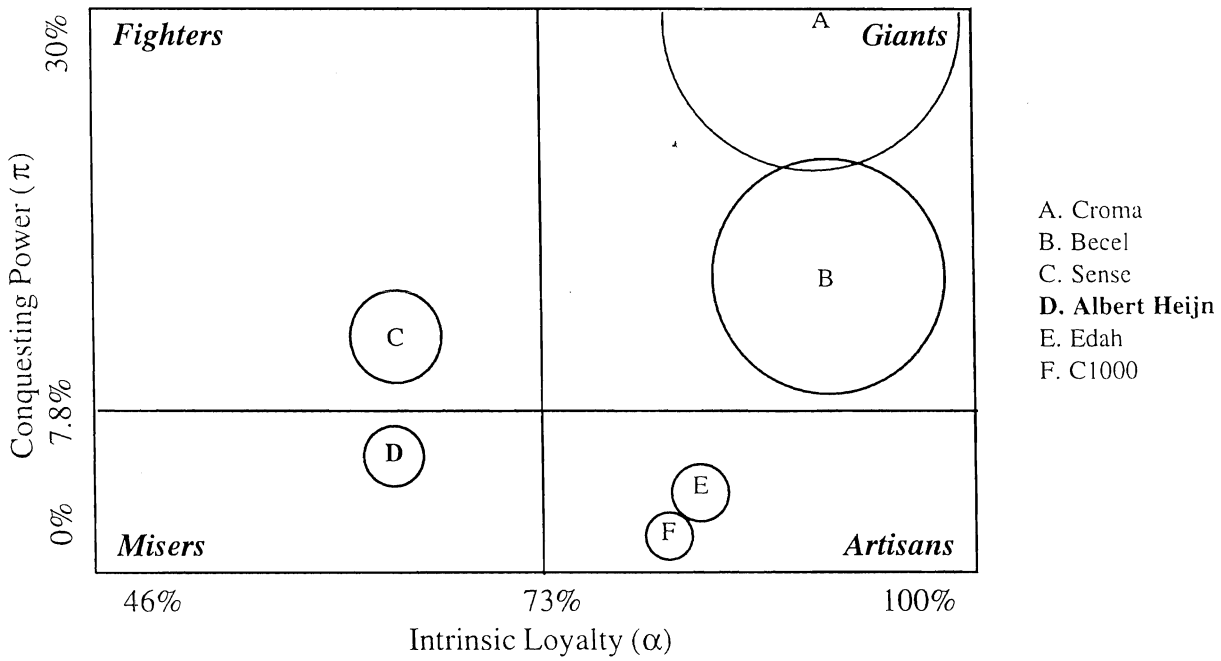
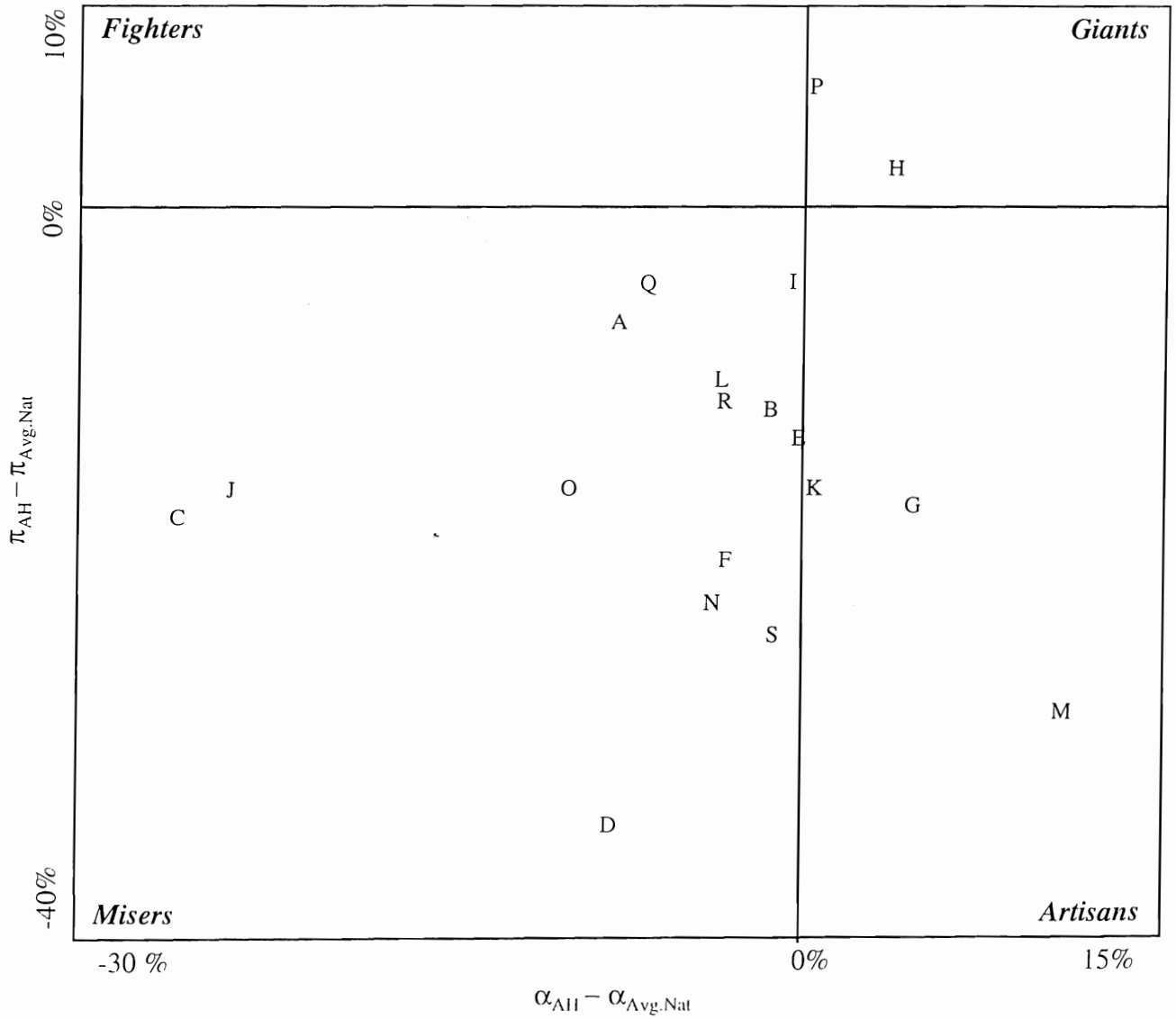


Figure 5. The Relative Brand-Power Matrix: The Position of the Albert Heijn (AH) Store Brand vis-a-vis the Three Leading National Brands in 19 Product Categories



A. Low-fat margarine
B. Regular margarine
C. Frying margarine
D. Light beer
E. Regular beer
F. Sanitary towels
G. Panty liners
H. Green peas
I. Apple sauce
J. Cornflakes
K. Muesli
L. Dry cat food
M. Canned cat food
N. Decaffeinated coffee
O. Regular coffee
P. Chocolate strands
Q. Orange juice
R. Evaporated milk
S. Potato chips