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Enhancing Customer Loyalty with Private Label Brands – Factors Influencing Success in the Health and Beauty Retail Industry

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Declaration of Authenticity

Herewith I declare that the research of the presented Master Thesis is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree program.

Munich, August 2015 Signature

Abstract

The purpose of this thesis is to give advice on how to develop Private Label Brand strategies that will create and enhance customer loyalty in the Health and Beauty Retail industry.

The primary research was conducted by a combination of quantitative and qualitative research methods. In order to give the reader an overall impression of the topic and to support the findings, desk research was conducted by using different secondary sources, such as economic journals, books and industry reports.

By analyzing the data from the survey that was distributed via several channels to 186 participants, different hypotheses were tested. Firstly, it was discovered, that there are significant differences between product categories in the likelihood of customers to purchase a Private Label product. Moreover, gender-related differences in customer loyalty were tested, leading to the result that men are more Health & Beauty brand loyal then women whereas women are slightly more loyal towards a certain Health & Beauty retailer than men. Furthermore, it can be concluded that people who are loyal to a retailer are more likely to buy Private Label products and vice versa, people who are frequently buying Private Label products, are more loyal towards a certain Health & Beauty retailer. Concerning the demographic variable of age, the results show that there is no correlation in the willingness to purchase Private Labels in the Health & Beauty section between different age groups. Additionally, the effect of income on Private Label purchasing behavior was tested and the test led to the conclusion that there is no significant difference between income groups. In general, women are more likely to purchase Health & Beauty Private Labels than men and men are less able to differentiate Private Labels from national brands. Moreover, an important finding is that people who are mainly purchasing national brands do so because it is their habit, not because they perceive the quality or image of Private Label products to be bad. The last new insight which was gained through the primary research is that the amount of monthly spending on Health & Beauty products in general, is not correlated to the fact whether a person is buying Private Labels or not.

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Introduction

The Private Label Manufacturers Association defines Private Label products to be all merchandise sold under a retailer's brand, which may either be the retailer's name itself or a brand name that this retailer chain exclusively uses in its stores (PLMA, 2013). Years ago, these products have been called generics but this is no longer true. Nowadays, Private Labels are full-fledged brands like any other. Thus, Private Label Brands have become an important part of the retail industry, as they help retailers to increase store traffic and customer loyalty by offering exclusive lines under labels not found in competing stores (Richardson, Jain and Dick, 1996). Additionally, Private Labels increase the negotiating leverage with national brand manufacturers and provide higher retail margins (Ailawadi, Pauwels and Steenkamp, 2008). In comparison with national brands, the gross margins can be about 5% to 50% higher (Silverstein and Hirschohn, 1994). Retail-branding strategies typically involve three big components, the store brand, the manufacturer's brands and the own Private Label Brand (Dawson, 2006). Moreover, Private Labels can be categorized into three distinct classes, namely economy, standard and premium Private Labels (ter Braak, Geyskens, Dekimpe, 2014). For consumers, the attraction of Private Labels usually has been the offer of comparable quality with national brands but at prices 10-40% lower (Halstead and Ward, 1995). The Health & Beauty market is one of the fastest growing in the fast moving consumer goods industry. Due to its diversity and possibility for companies to create innovations on a frequent basis, the product selection is extensive. Even though there are many players active in the market, big FMCG companies like Unilever, Henkel and Procter & Gamble are dominating the supply side (Euromonitor, 2013). However, recently the big companies are more and more threatened by Health & Beauty retailer's own brands.

The goal of the following thesis is to elaborate on the importance of Private Label brand strategies for retailers in the Health & Beauty industry and to investigate their impact on customer loyalty. It is organized as follows. Firstly, the research methodology and approach will be stressed. Thereby the problem statement will be introduced and the process of gathering primary and secondary data will be explained. Afterwards, the secondary research section will elaborate on the recent development of Private Labels, the typical Private Label customer, the Health & Beauty Industry and previous findings on Private Labels and customer loyalty. Subsequently, the section of primary research follows, where the hypotheses that will be derived from the desk research will be introduced and tested with various statistical methods. Next, the findings will be used in the part of managerial implications, giving recommendations for Health & Beauty retailers on how to implement or improve a PrivateLabel strategy with regard to the relevant categories, product attributes, marketing communications and distribution. Additionally, one sub-section will stress the risks associated with the development of Private Labels and another one, the possible defense techniques for national brand managers whose brands are increasingly threatened by Private Labels. Afterwards, a conclusion will be drawn and limitations of the research will be clarified.

1. Private Labels and Customer Loyalty

Secondary research will be used to develop a deep understanding of the importance of Private Label Brands for the Health & Beauty retail industry. Firstly, the development of Private Label Brands over the past years is revealed. In the second part of the literature review, the different consumer types, purchasing Private Labels, are examined. Thirdly, the Health & Beauty retail industry in Europe is analyzed and a “state of the art” example, the German drugstore chain dm is examined in depth. Moreover, recent theories and academic research on the connection between Private Brands and customer loyalty are analyzed. While going through the most popular data bases, like Ebsco Host, keywords connected to relevant topics were used to narrow down the selection of academic articles, yielding mainly articles from journals connected to Marketing, Retail and Brand Management were relevant for the secondary research. Additionally, several industry specific online newspapers and platforms were consulted for an update on the latest trends.

1.1. The Development of Private Label Brands

In the 1970s, Private Label products firstly appeared as so-called “generic” products (Neidell et al. 1984). Back then, supermarkets displayed these products in plain packages, sold them at a much lower price than the competing national branded products and gave them no marketing support whatsoever. Moreover, the quality fit to the extremely low price of the product, being extremely low compared to the competing products from national brands. All these factors led to the fact that Private Label products could only claim 1% of total grocery sales during the first few years since their introduction (Burck, 1979). After several years of fluctuating sales, retailers began to grasp the importance of Private Labels in the early 1990s (Mathews, 1992). The large profit margins attracted many players of the FMCG market and through improvements in the quality sales increased rapidly. The success of FMCG Private Labels caught the attention of retailers from other industries and thus the first clothing and home-care Private Labels were launched during the late 1990s (Boyle, 2003). Retailers nowadays improve the quality, variety and marketing support of their own Private Label Brands on a frequent basis, resulting in the fact that 58% of the British population reported to use Private Labels in 2009 (Evening Times, 2009). The classical opinion from the 1990s, stating that the original competitive advantage of low cost/high margins must absolutely be retained in order for a Private Label to succeed, has been outdated for a long time (Halstead et al., 1995). Back then experts recommended that the only thing Private Label manufacturers should seek to improve is the price/value advantage they have over national brands.

Just before the financial crisis, Private Labels experienced their biggest growth ever since their establishment. In the United States for example, the sales of FMCG Private Labels grew by 12% whereas the GDP only grew by 3% in 2008 (Euromonitor, 2015). In the following year, the recession hit the U.S. with the GDP falling nearly one entire percentage point, while Private Label growth almost stagnated. Compared to FMCG companies that experienced falling sales throughout the entire year makes it look less severe. Recently, the market shares of premium Private Labels have been growing faster, even though the number of categories is relatively small compared to the ones for economy and standard Private Labels (Dobson and Chakraborty, 2009). The reason why the number of categories is smaller than for the other two tiers is simple. Premium Private Labels are presenting direct competition for national brands manufacturers and as their products are remaining to define a retailer to a large extend, retailers carefully decide on when to pick up a fight with these suppliers. Recent literature in general emphasizes that the heavy investment in the quality of Private Labels has brought national brands and Private Labels much closer together and thus contributed to the market shares (Nies and Nutter, 2012).

A further indication for the relevance of Private Labels in the retail industry is the Private Label Manufacturer Association (PLMA), which is a non-profit organization that was founded in 1979 with the goal to promote Private Labels globally (PLMA, 2015). Since its establishment the association was able to convince more than 3.500 companies, ranging from small, family owned business to multinational corporations to become members. Each year, the association organizes a fair in Amsterdam where leading Private Label service providers and retailers exhibit their work. Moreover, managers can participate in seminars, exchange their thoughts and visit some of the 4.000 booths (PLMA, 2015).

1.2. Private Label Customers – Who are they?

To better understand who Private Label customers are, it is helpful to classify them into different groups based on the degree of usage. Ailawadi et al. (2008) organized the consumers from their sample into three distinct groups, low Private Label buyers, purchasing less than 20% of products from Private Label brands of the Dutch supermarket chain Albert Heijn, medium (20%-60%) and high (>60%) Private Label buyers. In their research the authors found that low PL buyers show a significantly high level of brand loyalty towards national brands and are very quality conscious. Surprisingly, this group of customers additionally shops at hard discounters (Aldi, Lidl) for very inexpensive Private Label products in certain categories, in which they perceive the quality to be less important (e.g. toilet paper).

Glynn and Chen tested several hypotheses on demographics in their research on which consumer factors are moderating Private Label brand success (2009). By looking at the results of the tests, a typical Private Label customer can be defined, even though some limitations are left due to the sample size and the fact that the research was conducted seven years ago. As a consequence of many different opinions and previous findings, the authors tested whether age has an influence on the likelihood of people to buy Private Label products. Even though there are many existing hypotheses why either young or old people are more frequently engaging in a Private Label purchase, Glynns and Chens discoveries did not find a correlation between the two variables and thus rejected their hypothesis that buying proneness of Private Labels is determined by age. Moreover, the authors were interested in the relationship between household income and size, education qualifications and the acceptance of Private Label products. All three hypotheses concerning these variables were supported, leading to the conclusion that the variables “more household income” and “more formal education” make consumers less prone to buying Private Labels. Moreover, the household size plays a significant role, with larger households being more prone to buying Private Label Brands.

While literature is often defining Private Label customers by looking at demographics and clustering people accordingly, the expert interview with the Private Label product manufacturer “Your own brand” leads to a different conclusion. According to the CEO Joachim Fetzer, the typical Private Label customer no longer exists. Throughout all social layers, people are shopping at discounters and drug stores and in all of these baskets Private Label products can be found. Whereas some retailers are still counting on the “cheap” Private Labels (Rewe; “ja!” and Metro: “Tip”), Private Labels from drugstores are already regarded as quality brands. Goldsmith et al. (2010) find further supporting evidence in their research and state that demographic factors do not play a statistically significant role when it comes to defining the typical Private Label customer. However, they compare attitudes between national brand and Private Label brand buyers. Accordingly, Private Label buyers are less concerned or sensitive to differences in brands and expressed more faith in the performance of Private Label products. Moreover, national brand buyers were found to be more price insensitive for national brands and Private Label buyers are less price sensitive for Private Label brands. National brand buyers also stated that they perceived brands to be more relevant to their lifestyle. Thus it can be concluded that the differences recognized between national brand and Private Label brand buyers is caused by the individual difference in the degree of brand engagement (Sprott, Czellar and Spangenberg, 2009).

1.3. The Health & Beauty Retail Industry

In the past 20 years, the global Health & Beauty market experienced an average yearly growth rate of 4.5%. Thus, the market was not only able to prove constant growth but also its capacity for resilience in unfavorable economic conditions like the financial crisis in 2009/2010 (Loboda and Lopaciuk, 2013). According to Loboda et al. (2013), the global beauty market can be separated into five sectors: skincare, hair care, color cosmetics, fragrances and toiletries. Moreover, beauty products can be divided into mass and premium products, which are defined by the brand image, the distribution channel, which is employed, and the price level. In 2010, mass-market products represented 72% of the total beauty sales and the remaining 28% by premium products (Barbalova, 2011). Even though the major part of sales is still generated in the developed countries, the leading international cosmetics manufacturers are currently puttinghigh emphasis on the BRIC countries (Brazil, Russia, India, China). By the end of 2015, these fourcountries are expected to account for 25% of the total market value of Health & Beauty product sales (Leonard, 2011). Emerging markets in general accounted for 81% of the total sales growth in 2011 with the BRIC countries growing strongest and developing countries such as Mexico, Thailand and Turkey closely following (Euromonitor, 2013).

In order to get an overview of the upcoming development of the Health & Beauty industry in Europe, it makes sense to look at future marketing trends that will influence the way of doing business for all players in this industry. In general it can be stated that product portfolios are becoming more diverse, addressing higher numbers of different consumers, from teens to over 50s. Additionally, companies are focusing on more gender specific offerings (Euromonitor, 2014). A suitable case exemplifying the importance of gender is the fragrance CK One by Calvin Klein. It is a unisex fragrance and even though it is still available on the market, its sales never turned out to be as high as expected (Euromonitor, 2013).

The most defining trend in 2015 will continue to be cross-category alignment, as consumers have become even more willing to pay for convenience as well as trying new product innovations and services (Euromonitor, 2014). As consumers have raised the bar in terms of product expectations, national as well as Private Label Brands need to come up with multi-benefit solutions, like the two-in-one shower gel and body lotion “In-Dusch” from Beiersdorf’s most popular brand – Nivea (Nivea, 2015).

Moreover, the trend of creating an own beauty salon at home becomes more and more popular. All kind of social classes thrive for a little bit of luxury and thus are willing to invest in equipment and high quality products in order to substitute for the expensive treatments at hair or beauty salons. This trend enhances product innovations connected to Spa and wellness features. In 2013 for example, the Health & Beauty category of facemasks experienced a growth of 8%, being the fasted growing sub-category within skin care (Euromonitor, 2014). Many product innovations from this group are developed in the Asian market, entering the Western markets in a relatively short amount of time. The most successful new product in recent years was the BB-cream, which adapts to the skin of the user and is thus more natural than a liquid Make-Up foundation. Long-lasting cosmetics are experiencing more popularity recently as well. They need to be used less than the normal equivalents and thus present a good price to value ratio for the customer (e.g. 24 hour make up). The customers thus not only save time but also money as the products last for a longer period (Loboda et al., 2011).

The upcoming section will focus on the competition in the European Health & Beauty retail industry. By comparing different competitive settings, benchmarks can be obtained for the section of recommendations.

Generally speaking, the German retail market is highly competitive and customers are extremely cautious on prices. In 2012 the retail group Edeka Zentrale dominated the market with a market share of 21%. Competitors like Lidl Dienstleistungen, Aldi Süd, Aldi Nord, Rewe, Kaufland Warenhandel, Metro Group, Penny Markt and Netto Markendiscount had a market share between 4% and 9%. Due to the constant growth of the Health and Beauty market that was mainly driven by men's grooming and color cosmetics, a lot of supermarket chains and discounters identified the big potential of this segment and invested accordingly. The German drug store market is a little less competitive and dominated by four main players, dm, Rossmann, Müller and Budnikowsky (Euromonitor, 2013).

The Main German Drug Store Retailers

Rank & Company	Gross revenue in Mio. Euros (2012)	Number of stores (2012)
1. dm	5.112	1.256
2. Rossmann	4.450	1.612
3. Müller	2.693	479
4. Budnikowsky	445	157

Table 1 – Source: Drug Store Players in Germany (Euromonitor, 2013).

The main player from the manufacturing side in Germany is Procter & Gamble with a market share of 12.4% in 2012. Surprisingly, Private Labels already gained the second highest share with an only slightly smaller value of 12.1%. L'Oréal, Beiersdorf and Henkel ranked third, fourth and fifth place with market shares of 10.9%, 9.0% and 7.4% respectively (Euromonitor, 2013).

In order to enhance the understanding of current Private Label strategies from Health & Beauty retailers, the German drugstore chain dm will be presented and its competitive position in Germany will be analyzed. The retail-owned brand “Balea” is often considered as state of the art example of a successful Private Label. In 2012, Balea ranked eighth best-sold Health & Beauty brand with a share of 8%, after Jade, Dove, Schwarzkopf, L’Oréal Paris, Nivea Visage, Nivea for Men and Aldi’s Private Label “Isana” (Euromonitor, 2013).
The drugstore chain dm is the most popular Health & Beauty retailer in Germany and ranks third on the German Brand Index 2013, which reveals German brands with the most positive noise (“buzz”) (Brandindex, 2013). With a gross revenue of 5.112 mio. Euros in 2012, dm is market leader even though the number of stores is smaller compared to its biggest competitor Rossmann. Next to the most successful brand Balea, the retailer owns more than 30 other Private Label brands (dm, 2015). Founded in 1995, Balea currently has a product portfolio of around 350 SKU’s (stock keeping units) specializing in skin and hair care. Further, there are many limited editions that fit to current trends or seasonal specials available (dm Online shop, 31.04.2015). After Beiersdorf’s successful brand Nivea, Balea ranked second on most popular Health & Beauty brands in 2013 (BrandIndex Germany, 2013). The appealing design of Balea’s products catches the attention compared to many Private Label brands that favor a simple packaging. The colorful and poppy design of Balea’s products is especially targeting young people with a slightly tighter budget. In past years Balea became an increasing threat for well-established brands, especially Nivea. This is mainly due to the low-price (or at least lower-price) strategy combined with many excellent results from the German quality control Ökotest and Stiftung Warentest. Moreover, the brand name Balea is based on the so-called “me-too strategy” (Springer Professional, 2014). This strategy is a Private Label branding strategy that uses a similar name that reminds the customer of a well-known brand from the same industry. In this case, Balea has a very alike sound as the traditional and well-established Health & Beauty brand Nivea.
With regards to Balea’s marketing it can be stated that the brand communicates with its customers primarily via Social Media. This strategy responds to its target group of young people by using fresh and colorful designs and relatively low prices. On Instagram, customers are encouraged to share their Balea moments with their friends and Balea itself has around 150 k followers (Instagram Application, 2015). On Facebook, people can get in touch with the Balea team, keep themselves up-to-date about the latest trends and ask questions or post complaints. Additionally, Balea is using Facebook to engage their customers in the product development process by e.g. asking to vote for the scent they would like to buy as a new special edition. Moreover, dm emphasizes the good test results of their products by printing them on the merchandising (packaging and in-store banners), as many customers are still concerned about the quality of Private Label products. In order to guarantee visibility in the

store, dm allocates a lot of shelf space to Balea and its' sub-brands (e.g. Balea Men or Balea Trend it up). Usually the products are placed in the middle and bottom of the shelves and a tag saying "dm brand" usually sticks next to the products at the shelf (Mystery Shopping dm, 2015). Next to the classic retail distribution via almost 3000 stores, dm will launch an online shop in the summer of 2015 enabling customers to purchase their favorite items from home. In Austria, this is already possible since the beginning of 2014 (dm, 2015).

1.4. Previous Findings on Private Brands and Customer Loyalty

Any brand with a strong and positive reputation is a source of competitive advantage. This is no longer only true for manufacturing companies. Many retailers are aware of this fact and consequently invested into the development of Private Label Brands in recent years. Several authors wanted to know more about the exact impact of these Private Label Brands and conducted studies with which they tried to examine the relationship between Private Label Brands and customer loyalty. Even though the conventional wisdom maintains the thought that Private Labels and customer loyalty are highly interconnected, the empirical evidence on this topic came up with many different conclusions. The following section will provide a brief overview of the existing results, challenging their actual relevance for the Health & Beauty retail industry.

Firstly, it is crucial to gain a brief understanding of what is meant by the term loyalty and why all Marketers seek to win as much brand loyalty as possible. Flynn, Goldsmith, Goldsmith and Stacey (2010) point out that loyalty consists of positive attitudes and preferences that are leading to the consistent repurchase of a specific brand. In order to measure loyalty different parameters have been used in previous research. Ailawadi et al. (2008) operationalized store loyalty as a household's share of wallet (SOW), meaning the expenses at a certain retailer as a percentage of the total spending on supermarket products. Additionally, two more behavioral loyalty measures were used to validate the findings, share of items purchased and share of shopping trips.

Moreover, it needs to be specified which factors play a role in determining the consumers shopping behavior in the context of a (Health & Beauty) retailer. Previous literature suggests four main aspects that influence consumers in their decision on where and what to shop, the product assortment and quality, the price, the service provided within the store and its geographical location (Ailawadi and Keller, 2004). Furthermore, there are attributes that are most probably not connected to the Private Label share of wallet, however still important in analyzing the consumers shopping behavior, namely distance, area and number of checkout counters. On the other hand, three additional variables affect the decision on whether to buy the Private Label product rather than the product of a national brand offered in the store. First of all, the price difference between the Private Label and the national brand product should only have an influence on the purchasing decision, not on the overall decision of how much to shop in the chain. The same is valid for brand loyalty and for the extend to which a customer is conscious on quality (Ailawadi et al., 2004). Nies et al. (2012) found in their research that Private Label product quality can have a positive effect on the decision of whether to shop at a certain store and on the overall perceived image. In six out of ten categories that were tested in the research, there was a strong positive relationship between a positive Private Label evaluation and the store choice. Even in those that showed no significant evidence, the Private Label quality indirectly affects the store choice, as the overall image of the retailer is enhanced, which increases store visits indirectly (Nies et al., 2012). This means that even customers who are not buying Private Labels themselves might be affected in their choice of retailer. This results from the enhanced image the retailer gains through its reputation to offer good quality Private Label products. Moreover, the authors found that direct Private Label quality effects are stronger in categories with high levels of category risk and indirect effects can be expected most likely in categories with weak competition from national brands.

As already discussed in a previous section, there are many types of Private Label Brand strategies. Therefore it is relevant to distinguish the impact these different types are having on consumer loyalty. By conducting a big study with more than 5000 respondents, the researcher Paul-Valentin Ngobo (2010) discovered a decisive difference between Private Label Brands that bear the name of the retailer and the ones that do not. According to his findings, consumers are more likely to switch to a Private Label Brand when the proportion of the Private Labels bearing the retailer’s name increases than if the additional Private Label products did not bear the name of the retailer. Moreover one needs to differentiate between standard and premium Private Label Brands. As the positioning of the two is usually very different, retail brand managers as well as national brand managers need to understand the benefits and threats for the various categories of premium Private Labels. Braak, Geyskens and Dekimpe (2014) examine in their study, that actions of a premium Private Labels pioneer (e.g. Tesco with its brand Tesco Finest) are considered by competing retailers and manufacturers as a signal, making them more willing to introduce a premium Private Label product or a further National Brand product in this category as well. In general, the authors suggest introducing premium Private Label Brands in categories with a lower purchase frequency. The main opportunity for the retailer in this case is the fact that National Brand managers are less experienced in fighting Private Label Brands, allowing them to gain market share over a long period of time before the National Brand can react (Braak et. al. 2014).

Even though many findings are showing that the introduction of Private Label products increases customer loyalty, it is too easy to conclude that this outcome will always occur. As soon as the Private Label product assortment of a retailer reaches a certain threshold, customers will increase their consideration set of shopping at other retailers, which decreases the loyalty to the retailer who increased the product assortment (Ngobo, 2010). This is especially relevant for people who are spending a small proportion of their grocery expenditures on Private Label products. This reaction is mainly caused by the fact that giving too much shelf space to the own Private Label products communicates a poor quality image of the store to the customer. It is therefore crucial for the retailer to consider the Private Label Brand strategy of the competition, as a proportion of Private Label products that is above the industry average can lead to the loss of current customers to a competitor (Ngobo, 2010). Since retaining existing customers is much cheaper than acquiring new ones, this scenario would lead to much higher Marketing costs eating up the relatively high margins of the Private Label products. Ngobos (2010) argumentation is supported by the findings of Ailawadi et al. (2008) who found that the effect of Private Label share on the customers' share of wallet (SOW) has an inverted U shape. This relationship can be explained as follows: customers who are buying Private Labels from a particular chain are likely to be loyal, customers who do not buy Private Labels at all, do not act as loyal and those who buy a lot of Private Labels do so due to costs saving reasons only and thus shop at many different chains always searching for the best price. Moreover, a recent study from Dawes and Nenycz-Thiel (2013) points out that many Private Labels fail to create exceptional store loyalty because their customers will buy a Private Label product regardless of the retailer to which this product belongs to. This consumer behavior can only be avoided if satisfaction, trust and commitment are created.

2. Research Methodology and Approach

2.1. Problem Statement

Establishing Private Label Brands and using them as a strategic tool to create customer loyalty is a recent trend within the whole retail industry. However, there is still little knowledge on the actual reasons of why consumers decide to buy the Private Label product instead of the one from a national brand. Therefore it is hard to tell whether the strategic idea of using Private Labels as a Marketing device for creating customer loyalty is actually working out in the real world. Previous research from the past years mostly focused on the grocery retail industry. In order to find out more about the purchasing behavior for Private Labels it makes sense to look at a fast moving consumer goods product category that is more prestigious, as items are on average more expensive, less frequently bought and national brands are enormously advertised – Health & Beauty products. Customers are thus likely to perceive a higher risk in buying Health & Beauty products from Private Labels, as the perception that a negative outcome may occur is much stronger than for food and beverage items. This research will thus investigate whether customer loyalty to a certain retailer for Health & Beauty products is actually enhanced or even caused by the use of a Private Label Brand product portfolio. Additionally, the differences concerning Private Label purchasing behavior between the separate categories within the Health & Beauty industry will be analyzed. To make the previous findings more relevant for real life Marketing decisions, the demographic factors that influence purchasing behaviors will be investigated as well.

2.2. Research Questions

Question 1: Does it make sense for the Health & Beauty retail industry (drugstore-chains) to invest into the development of Private Labels to create and enhance customer loyalty?

Question 2: Into which product categories should the Health & Beauty retail industry (drugstore-chains) invest to maximize success?

Question 3: How should the communication mix of Private Label Brands in the Health & Beauty industry look like?

Question 4: How are demographics influencing the attitude towards Private Labels and how can a company take advantage of the diverse preferences?

2.3. Quantitative Data Collection

An extensive survey with 20 questions was distributed to Health & Beauty male and female customers with an age ranging from 14 to 84 years. In order to guarantee the most representative sample possible, the distribution took place via several channels, namely restaurants, medical practices, sports clubs and social networks. Around 50% of the answers were collected in a medium sized German city with around 300 k inhabitants. The second half was collected in several European countries, mainly in Czech Republic, the Netherlands, Italy, Sweden and Poland. After the collection, the data from all different sources were put together and analyzed according to their relevance. Questionnaires that were not completed were not taken into consideration for the analysis. Around 55% of responses were collected from the online survey and 45% of participants filled in the hard copy version of the survey, which was electronically recoded at the end of the collection period. This method was mainly used to secure a wide age range, due to the limited access to the Internet of the older generation. Moreover, the survey was translated to German so that less fluent English speakers could become part of the sample as well. In total, 186 responses were collected, 41% coming from men and 59% coming from women.

In order to guarantee that various statistical tests can be used with the sample, three important assumptions need to be checked in advance (Leliveld and Wiebenga, 2014). If all three prerequisites are satisfied analyses, like the regression or One-way ANOVA analysis can be done. For the typical t-test, only the first and third assumption needs to hold. Firstly, the sample needs to be based on independent observations, meaning that respondents should not cooperate with each other while filling in the questionnaire. The first assumption is thus called the independence assumption. The second assumption states that there needs to be a linear relationship between the dependent and independent variable. To verify this, a scatterplot where the residuals on the y-axis are plotted against another variable on the x-axis can be used. In case, there is a linear relationship, the residuals will spread randomly around their average. The third assumption is called the normality assumption, meaning that the residuals are normally distributed. In order to find out, it is easiest to plot histograms for important demographic variables, like age or income. The more normal the sample, the more the histogram looks like the typical bell curve. All necessary sample assumptions have been verified before each test.

2.4. Qualitative Data Collection

In order to gain a better overview of the development of Private Label Brands and some first hand experience from the industry, a manager from the American Private Label consulting company “Daymon Worldwide” was interviewed via Skype. Additionally, an interview with a manager of a well-established fast moving consumer goods (FMCG) company that has many Health & Beauty Brands in their portfolio was conducted. In order to get some insights from the production side of the Private Label Health & Beauty industry, the German manufacturer and service provider “Your own brand”, which belongs to a cosmetics group called TUNAP was contacted and agreed on providing answers to a questionnaire. Moreover, several focus groups with potential Private Label product customers were conducted to gain insights on their needs. In order to create a comfortable atmosphere ensuring prosperous discussions, participants were split by age and gender. The insights gained from the interviews and discussions were used to develop the recommendations for companies.

3. Primary Research

3.1. Hypotheses

The following section develops testable hypotheses based on the previous findings from the literature review. To get a clear overview of the relevant fields concerning the research, the hypotheses have been categorized into four main sections: category difference, customer loyalty, demographics and habit. By testing the hypotheses according to their relevance, it will be possible to consult Health & Beauty retailers in their strategic decision on how to best use Private Labels to strengthen their position in the market.

Hypotheses I: Category Difference

Previous research from the retail industry has shown that some categories of fast moving consumer goods (FMCG) have more Private Label buyers than others. Goldsmith et al. (2010) examined the difference between three categories of groceries and found substantial size variations of Private Label shares in the United States. Orange juice was found to be the category with the highest shares of Private Label purchases (23%), cereals the category with the lowest share (6.5%) and bottled water being between the two with 14% of Private Label purchases. Also Steenkamp and Dekimpe (1997) investigated that the customers' willingness to purchase Private Label products substantially varies across product categories. Often, the reluctance to buy certain categories leads to a ceiling of Private Label purchases for many customers. Due to the fact that Health & Beauty products are a very sensitive category within the FMCG industry, the purchase decision of a customer is usually rather emotional than objective. Health & Beauty products are used for different parts of the human body and those parts are not equally important to a person. Therefore customers might have varying demands concerning the quality of a certain product they use. The overall perception of Private Label Brands still in place is that their quality is inferior and their competitive advantage is based on the relatively low price (Goldsmith et al., 2010). This leads to the development of the following hypothesis:

I. Customers are more likely to buy Health & Beauty Private Brands in certain categories.

Hypothesis II: Customer Loyalty

The online platform Marketing Charts frequently conducts research on the topic of brand loyalty. In 2014, a sample of 4.200 people from the US, UK Brazil and China between the age of 21 and 69 was asked to state whether they consider themselves as brand loyal or open to a variety of brands. The attitude towards brands in ten different categories was tested, from apparel to smartphones. In seven out of the ten categories, men considered themselves to be more brand-loyal than women (Marketing Charts, 2014). However, the category of Beauty and personal grooming is one of the three, where women put a lot on emphasize on buying a certain brand, no matter whether this brand is a Private Label or from a national brands manufacturer. Moreover, the research found that the results highly vary between region, with Asia having the most brand-loyal women and Brazil having the least brand-loyal men from all four countries. As the category of Health & Beauty is still considered to be especially relevant for women, a logical conclusion would be that women possess greater experience and interest in the products. However, once they trust a certain brand they are likely to stick to it. In some cases the main reason for this are high switching costs as many Health & Beauty products are recommended to be used in combination with other products (Marketing Charts, 2014). These facts lead to the following hypothesis:

II. a) Women are more brand-loyal towards a Health & Beauty Brand than Men.

Directly linked to the above stated hypothesis is the question of whether there is a difference between the retailer-loyalty of men and women. In their article, Noble, Griffith and Adjei investigate the drivers of local merchant loyalty including the variable of gender. To explain differences between the shopping behaviors of women and men, researchers mainly used biological and sociological explanations. As local retailers are imbedded within a community in which individuals live and women are more likely to maintain connectedness with these communities, Noble et al. came up with the hypothesis that women are more loyal to local merchants than men (2006). By testing a sample of 2.000 US citizens, the hypothesis was accepted. These findings and the fact that the Health & Beauty industry is a female dominated one lead to the development of the following hypothesis:

II. b) Women are more loyal towards a certain retailer for Health & Beauty products than men.

The process of spending a large amount of time and money at a certain retailer increases the consumer's familiarity with the Private Label products. Thus it can be expected that the positive correlation between Private Label purchases and store loyalty may be reversed, meaning that customers who are very loyal to a store are more likely to buy its Private Label products (Ailawadi et al., 2008). The fact that customers, who are frequently spending time shopping at a particular retailer, are much more exposed to the retailer's Private Label products also supports this result. A person who is shopping at many different retailers gets in touch with a variety of Private Label brands and is consequently more likely to stick to the known and trustworthy national brand rather than trying a new brand every time. These statements lead to the following hypothesis:

II. c) Customers who are loyal to a certain retailer are more likely to buy Health & Beauty Private Brands or also, people who purchase Private Brands are more loyal towards a certain retailer than people who buy mainly national brands.

Hypothesis III: Demographics

In previous literature on the topic, contradictory findings on the relationship of age and Private Label purchasing behavior exist. On the one hand, the viewpoint that older people often have a much tighter budget and more experience and are thus more likely to purchase Private Labels than the younger generation makes perfect sense (Richardson et al., 1996). However, another standpoint is that older shoppers favor national brands because they often have been in the market for so long and do not represent any risk when purchasing them (Dick et al., 1995). Since many years, the Health & Beauty industry comes up with new product innovations on a very frequent basis. Elderly people tend to stick to the old and traditional brands of the industry, such as Nivea because they were satisfied with the brand for many years and thus do not want to take the risk of trying new offers. Younger consumers however, often show a less risk-averse behavior, because in many cases they have not yet found a brand that they can identify themselves with. Additionally, younger consumers (especially women) spend on average more time on researching the latest trends in the Health & Beauty industry. By doing so, they make use of new media and communication methods, like Youtube tutorials from famous beauty bloggers (Marketing Charts, 2014). Therefore, the following hypothesis will be tested:

III. a) Young customers are more willing to buy Health & Beauty Private Label products than older customers.

Research from the past years showed that there are three main factors important to Private Label Brand customers, namely perceived risk, quality and price (Chen et al., 2009). Due to the fact that many Europeans are very price sensitive, several different social layers are shopping for low prices. In a recent article from the British newspaper Express it is said that discount supermarkets are gaining posh shoppers on a constant basis. Nowadays already 31% of all customers of the discounters belong to the highest socioeconomic class in Great Britain (2015). Richardson et al. (1996) examine in their research that highly educated customers are more likely to earn greater income and are thus less dependent on the brand name of a product to be an extrinsic factor for how they are perceived in society. Therefore, it can be assumed that income is a much less influencing factor in the purchase decision for a Private Label Brand than expected, leading to the following hypothesis:

III. b) The income level of a person has no/little effect on his/her Private Label purchase decision.

The Health & Beauty industry is still regarded to be a female dominated area. When visiting a drugstore, it is clearly identifiable that most of the shelf space is occupied by products that are targeting women. For females to be engaged in the topic of Health & Beauty and to be informed about the latest trends is normal, if not regarded as required. However, for men to care a lot about Health & Beauty innovations is not common and embedded in the culture of the western world (HJi, 2014). Additionally, the number of categories, women are buying compared to men is much higher. As women are more involved in the Health & Beauty industry in general we assume that:

III. c) Women are more likely to buy Health & Beauty Private Label products than men.

As mentioned in the upper part for the explanation of hypothesis III. c), women are dealing with the topic of Health & Beauty to a much larger extend than men. Thus they are more cautious on information concerning new products, brands and the latest trends. They spend more time and money on shopping in drugstores and other Health & Beauty retailers and pick the products differently (Marketing Charts, 2014). Thus, it is assumed that they can better identify the difference between brands, leading to the following hypothesis:

III. d) Women are able to differentiate Private Labels from National Brands better than men.

Hypothesis VI: Habit

The term "habit buying" is said to be the continuous purchase of the same brand rather due to the absence of dissatisfaction than because of positive loyalty and attachment (Business Dictionary, 2015). It is usually associated with products that are purchased with a relatively low level of involvement. Even though brands play a central role in the purchasing decision, loyalty towards individual brands has been decreasing in recent years (Interone, 2015). As there are still people left who never bought a Private Label product from the beauty section but due to the latest research only 3-6% of customers are remaining to be very loyal to a brand, the following hypothesis has been developed:

VI. People, who are mainly buying National brands, do so because it is their habit, not because they don't trust Private Labels.

As previously pointed out in the literature review on typical Private Label customers, recent research suggests that a typical Private Label customer does no longer exist. In fact, people from all kinds of social classes are shopping for the best price/quality alternative these days. It is assumed that wealthy people spend relatively more money on Health & Beauty products per month but due to the fact that the literature review suggests that income level is not linked to the Private Label purchase decision of a person, the following hypothesis is developed:

V. There is no correlation between the spending of a person on Health & Beauty products overall and this person's likelihood to buy Health & Beauty Private Label products.

3.2. Findings

Before analyzing the above stated hypotheses, this section will give a brief overview on the engagement of the respondents with Health & Beauty products and Private Labels. Additionally, some statistics concerning the demographics will be presented. A very interesting outcome from the survey is the following. Customers' perception of the importance of Private Label products in Health & Beauty differs from the importance they attest through their behavior. In the first question, respondents were asked to mark all fast moving consumer goods categories they have been purchasing a Private Label product in. Next to Health & Beauty products, categories like dairy products, water, alcoholic and non-alcoholic beverages, cleaning & hygiene products and many more were listed. In this question, only 62% of the participants answered that they bought a Health & Beauty Private Label product before. This leaves the category of Health & Beauty on rank six out of eight, with Cleaning & Hygiene (75%), Dairy products (72%) and Basic side dishes (72%) being the top three categories. However, in question number 5 (Have you ever bought a Health & Beauty Private Label product before?) 81% of the 186 respondents answered "Yes", making this category the leading category in theory. The fact that almost 20% more respondents answered that they bought a Health & Beauty Private Label product before in the fifth question leads to the following conclusion. When asking about different product categories, Beauty products are not the number one category people think of when considering their Private Label purchasing behavior. Therefore they rather mark different categories they perceive to be more important for Private Labels. However, if the question whether a Private Label product has been bought in the category of Health & Beauty is asked directly, like in question 5, people are more likely to remember that they carried out a purchase in the past.

After a brief overview concerning the general attitude towards Private Labels in different FMCG categories has been gained in the first part of this section, the following part will analyze the hypotheses that were previously introduced and explained based on the secondary research. In order to evaluate the data, which were gathered during the primary research process, several statistical methods of analysis need to be employed. The Pearson's Chi Square test, also called goodness of fit test or Chi Square test of independence, applies to sets of categorical data and tests how likely it is that any observed difference between sets arose by chance (Leliveld et al., 2014). It is the correct test to use when cross tabulation is employed to observe differences between distinct groups of respondents and the impact on a certain dependent variable. The number of degrees of freedom is n-1 for this test. Due to the fact that all variables were arranged according to a nominal scale, most of the hypotheses were analyzed by using this descriptive statistics test. The test requires that no more than 20% of the cells have a count of less than five responses and this requirement was fulfilled for all hypotheses. Moreover, for some hypotheses simple percentages were calculated. This method was employed when no more than one variable was relevant.

I. Customers are more likely to buy Health & Beauty Private Brands in certain categories.

As described in the previous section of this paper, research from the past years has shown that there is a significant difference between certain categories and their Private Label shares. In order to find out more about the (possible) category difference within the Health & Beauty industry, all respondents who have bought a Health & Beauty Private Label product before have been asked to cross the product categories in which they did so (Q6 from the survey). The table below presents the results from the research, categories were ranked according whether Private Label purchasers had bought them before. Moreover, results were split between male and female participants because there are some categories in the Health & Beauty industry that are not relevant for one of the two sexes (e.g. color cosmetics or make-up remover). It can be easily recognized that there are significant differences in the Private Label purchasing behavior within the different subcategories of Health & Beauty products. One important factor influencing these differences might be the general likelihood of use as e.g. every person uses toilet paper but not the same amount of people color their hair at home.

Moreover variables like the perceived quality and the price difference between the national brand product and the Private Label product affect each category to a dissimilar extent.

Successful Private Label Product Categories

		Sex		
		Male	Female	Total
Private Label Purchase	Toilet/Kitchen Paper	59%	79%	72%
	Shower gel	61%	68%	66%
	Shampoo/Conditioner	63%	60%	61%
	Cotton products	26%	74%	57%
	Body lotion/After sun	30%	57%	47%
	Sun protection	50%	45%	47%
	Hand cream	37%	49%	45%
	Razors/blades/shades	44%	38%	40%
	Face cream	24%	42%	36%
	Deodorant	43%	32%	36%
	Make-up remover	0%	51%	33%
	Color cosmetics	2%	40%	26%
	Hair color	2%	7%	5%
	Others	4%	4%	4%
	Total	54	98	152

Table 2 – Source: The Author, n=186

II. a) Women are more brand-loyal towards a Health & Beauty Brand than Men.

To test this hypothesis, the Pearson's Chi Square test needs to be employed. The two survey questions analyzed are: "Q18 - What is your sex?" and "Q4 – How would you describe your purchasing behavior for Health & Beauty products?". The number of possible outcomes (n) is five and thus the number of degrees of freedom is four (n-1). The critical value at a 97,5% significance level is 11.143 and at a 99% significance level it is 13.227. As the Chi Square value of the test is 11.52 we can reject the null hypothesis at the 97,5% significance level. In the cross tabulation it can be observed that male respondents appear to be more loyal than female participants. Due to the statistically valid result from the Chi Square test, it can be concluded that the opposite from what was expected is true – men being more loyal towards a certain Health & Beauty brand than women. However, there is insufficient evidence for this outcome at the 99% significance level.

Cross Tabulation – H&B Purchasing Behavior and Sex

		Sex		
H&B Purchasing Behavior		Male	Female	Total

	Only the same products of the same brands	11	6	17
	Only the same brands	16	19	35
	I sometimes try new/other brands	36	68	104
	I am buying based on promotions	7	14	21
	No pattern in my purchasing behavior	7	2	9
	Total	77	109	186

Chi Square	11.52
Degrees of freedom	4
p-value	0.02
Critical value 0.025	11.143
Critical value 0.01	13.277

Table 3 – Source: The Author, n=186

II. b) Women are more loyal towards a certain retailer for Health & Beauty products than men.

To test this hypothesis, a cross tabulation with a Pearson's Chi Square test needs to be used. The two questions analyzed are "Q18 – What is your sex?" and "Q12 – How would you rate your own loyalty towards the retailer where you usually buy H&B products?". The number of possible answers is three (n), namely very loyal, loyal due to convenience and not loyal. This leads to two being the number of degrees of freedom. The Chi Square value of this hypothesis is 5.66 meaning that we can accept the null hypothesis at the 90% confidence level, meaning that women are significantly more loyal towards a retailer than men. As the critical value at the 95% significance level is larger than the Chi Square value of the test, we fail to accept the hypothesis at this level.

Cross Tabulation – Retailer Loyalty and Sex

		Sex		
		Male	Female	Total
Retailer Loyalty	Very loyal	5	12	17
	Loyal due to convenience	39	68	107
	Not loyal	33	29	62
	Total	77	109	186

Chi Square	5.66
Degrees of freedom	2
p-value	0.06

Critical value 0.1	**4.605**
Critical value 0.05	**5.991**

Table 4 – Source: The Author, n=186

II. c) Customers who are loyal to a certain retailer are more likely to buy Health & Beauty Private Brands or also, people who purchase Private Brands are more loyal towards a certain retailer than people who buy mainly national brands.

Once more, the Chi Square test of independence can be applied to test whether the hypothesis above can be accepted or needs to be rejected. The two questions analyzed for this hypothesis are the following, "Q5 – Have you ever bought a Health & Beauty product from a Private Label?" and "Q12 – How would you rate your own loyalty towards the retailer where you usually buy H&B products?". With two degrees of freedom, the critical value for the Chi Square distribution is 9.210. The Chi Square value from the test being bigger leads to the conclusion that customers with different loyalty levels are not equally likely to buy Health & Beauty Private Brands. As expected, loyal customers are more likely to do so leading to the acceptance of the null hypothesis II. c) at a 99% significance level.

Cross Tabulation – Retailer Loyalty and Private Label Purchasing Behavior

		Private Label Purchase		
		Yes	**No**	**Total**
Retailer Loyalty	**Very loyal**	**15**	**2**	**17**
	Loyal due to convenience	**94**	**13**	**107**
	Not loyal	**43**	**19**	**62**
	Total	**152**	**34**	**186**

Chi Square	**9.52**
Degrees of freedom	**2**
p-value	**0.01**
Critical value 0.01	**9.210**

Table 5 – Source: The Author, n=186

III. a) Young customers are more willing to buy Health & Beauty Private Label products than older customers.

Age is an important demographic factor that is influencing purchase decisions and thus marketing activities of big companies to a large extent. In order to test the influence of age on the purchasing behavior of Health & Beauty Private Label products, a Chi Square test was run with SPSS. The questions used for cross tabulation are "Q17 – How old are you?" and "Q5 –

Have you ever bought a Health & Beauty product from a Private Label?". Beforehand, the age participants provided was recoded into four distinct age groups: kids/teenagers (0-20 years), young adults (21-40 years), mid-aged adults (41-60 years) and elderly (>60 years old). The alpha value of 0.692 is much higher than the p-value of 0.05, which belongs to a 95% confidence level. This leads to the fact that we cannot accept the null hypothesis. It can therefore be concluded that age has no impact on people's willingness to buy Private Label products in the Health & Beauty area.

Cross Tabulation – Private Label Purchasing Behavior and Age

Have you ever bought a Private Label Health & Beauty product? * Age_Recoded Crosstabulation

			Age_Recoded				Total
			0-20 years	21-40 years	41-60 years	> 60 years	
Have you ever bought a Private Label Health & Beauty product?	Yes	Count	7	109	28	8	152
		Expected Count	8,2	109,5	27,0	7,4	152,0
	No	Count	3	25	5	1	34
		Expected Count	1,8	24,5	6,0	1,6	34,0
Total		Count	10	134	33	9	186
		Expected Count	10,0	134,0	33,0	9,0	186,0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1,458[a]	3	,692
Likelihood Ratio	1,394	3	,707
Linear-by-Linear Association	1,162	1	,281
N of Valid Cases	186		

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	,089	,692
	Cramer's V	,089	,692
N of Valid Cases		186	

Table 6 – Source: The Author, n=186

III. b) The income level of a person has no/little effect on his/her Private Label purchase decision.

Via cross tabulation, the relationship between either being a Health & Beauty Private Label buyer or a national brand buyer with the demographic variable of monthly gross income can be assessed. From the table it can already be seen that the percentage number of people who have already bought a Health & Beauty Private Label product are much higher than the values for the answer “No”. The percentage values are ranging from 72% to 100% for the seven demographic categories but there is no trend observable (e.g., the higher the income the lower the percentage value of people who tagged “Yes”). The Chi Square test supports the results with a value of 15,14 leading to a significance level of 95%. Therefore the null hypothesis that the income level of a person has no effect on his/her Private Label purchase decision for Health & Beauty products can be accepted at the 95% significance level.

Cross Tabulation – Income and Private Label Purchasing Behavior

		Private Label Purchase		
		Yes	No	Total
Monthly Gross Income	0-500	30	9	39
	501-1.000	30	2	32
	1.001-2.000	27	10	37
	2.001-5.000	42	7	49
	5.001-10.000	13	0	13
	>10.000	2	0	2
	Not specified	8	6	14
	Total	152	34	186

Chi Square	15,14
Degrees of freedom	6
p-value	0,02
Critical value 0,05	12,59

Table 7 – Source: The Author, n=186

III. c) Women are more likely to buy Health & Beauty Private Label products than men.

To test this hypothesis, the Pearson’s Chi Square test needs to be used. The number of possible outcomes (n) is two, as people either could have bought a Private Label Health & Beauty product or not (Q5: Have you ever bought a Private Label Health & Beauty product? Yes/No). Therefore the number of degrees of freedom is one (n-1). The critical value at a 99% significance level is 6.635 for one degree of freedom. As the Chi Square value in this case is 11.82, it exceeds the critical value and therefore rejects that women and men are equally likely to purchase Health & Beauty Private Label products at a 99% significance level. Thus, the null hypothesis III. c) can be supported, leading to the statistically valid outcome that women are more likely to purchase Health & Beauty Private Label products than men.

Cross Tabulation – Private Label Purchasing Behavior and Sex

		Sex		
		Male	Female	Total
Private Label Purchase	Yes	54	98	152
	No	23	11	34
	Total	77	109	186

Chi Square	11.82
Degrees of freedom	1
p-value	0.00
Critical value 0.01	6.635

Table 8 – Source: The Author, n=186

III. d) Men and women are equally able to differentiate Private Label Brands from National Brands.

To test this hypothesis, again the Chi Square test is used. The questions concerned are "Q3 (5) I can differentiate Private Labels from national brands in the Health & Beauty section" and "Q18 – What is your sex?". With four degrees of freedom (n-1), the critical value at the 95% significance level is 9.210. The null hypothesis states that men and women are equally able to recognize the Private Label and the National Brand product. However, the Chi Square value of this test is larger than the above-mentioned critical value and thus leads to the rejection of the null hypothesis. According to the research, women are thus more confident than men in identifying Private Labels and National Brands in the shop.

Cross Tabulation – Private Label Differentiation and Sex

		Sex		
		Male	Female	Total
Private Label Brands vs. National Brands	Completely agree	24	54	78
	Slightly agree	31	40	71

	Neither agree nor disagree	13	7	20
	Slightly disagree	7	6	13
	Completely disagree	2	2	4
	Total	77	109	186

Chi Square	9.33
Degrees of freedom	4
p-value	0.05
Critical value 0,05	9.210

Table 9 – Source: The Author, n=186

VI. People, who are mainly buying national brands, do so because it is their habit, not because they don't trust Private Labels.

Participants who did not buy a Health & Beauty Private Label product before (Q5 -19% = 34 participants) were asked to give the main reason(s) why they never did so in question 8. The number one reason with 51% of the respondents crossing this option is "The habit of buying National Brands". The second most frequent reason (26%) is the perceived quality difference between Private Labels and National brands, followed by the fact that it is hard to identify Private Labels in the store (20%) and that the packaging is unattractive (20%).

Reasons Against Purchasing H&B Private Labels

	Sex		
	Male	Female	Total
Quality differences	6	3	9
Habit	13	4	17
Unattractive packaging	4	3	7
Prestige	5	1	6
Bad PL visibility	4	2	6
Others	2	2	4
Total	23	11	34

Table 10 – Source: The Author, n=186

V. There is no correlation between the overall spending of a person on Health & Beauty products and this person's likelihood to buy Private Label Health & Beauty products.

In order to test the fifth hypothesis, a descriptive statistics analysis was employed by using the Chi Square test. Moreover, expected counts were added to the cross tabulation. A participant's monthly spending on Health & Beauty products were recoded into one of the four following groups: Low spending (0-15 Euros/month), Average spending (16-30 Euros/month), High spending (31-60 Euros/month) and Very high spending (>60 Euros/month). One cell has a count of less than five but due to the fact that it is only 12,50% of all cells, this does not validate the prerequisites to run a Chi Square test. The alpha value (called Asymp. Sig. (2-sided) in this case) is larger than the p-value of 0.05 (for a 95% significance level) and thus the sample does not show a significant difference between the Health & Beauty Private Label purchase behavior and the four different spending groups. Therefore we can accept the null hypothesis stating that there is no correlation between monthly spending and the likelihood to purchase Health & Beauty Private Label products.

Cross Tabulation – H&B Private Label Purchasing Behavior and H&B Spending

Have you ever bought a Private Label Health & Beauty product? * Spending_Recoded Crosstabulation

			Spending_Recoded				
			Low spending	Average spending	High spending	Very high spending	Total
Have you ever bought a Private Label Health & Beauty product?	Yes	Count	45	70	26	11	152
		Expected Count	49,8	65,4	25,3	11,4	152,0
	No	Count	16	10	5	3	34
		Expected Count	11,2	14,6	5,7	2,6	34,0
Total		Count	61	80	31	14	186
		Expected Count	61,0	80,0	31,0	14,0	186,0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4,559[a]	3	,207
Likelihood Ratio	4,498	3	,212
Linear-by-Linear Association	,966	1	,326
N of Valid Cases	186		

a. 1 cells (12,5%) have expected count less than 5. The minimum expected count is 2,56.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	,157	,207
	Cramer's V	,157	,207
N of Valid Cases		186	

Table 11 – Source: The Author, n=186

4. Managerial Implications

Nowadays, managers of all big retail chains make big efforts to grow their customer's Private Label share of wallet. However, recent research shows that even though Private Labels are an important factor of a retailer's success, it can be overdone. The British retail chain Sainsbury experienced this first hand. Recently, the management had to cut the share of Private Label products in the shelves, exceeding 60% because customers believed they were restrained in their choice of national brands (Ailawadi et al., 2008). Moreover, in the United States, several retailers like Sears and A&P experienced a decrease in store traffic, revenue and profitability and found that the increase in Private Label development was the main driver for the setback. It is crucial for Private Label manufacturers/retailers to examine the current marketing strategy in place and external conditions before committing to expensive improvements in characteristics like quality, packaging, merchandising, advertising support or consumer promotions (Halstead et al., 1995).

One of the biggest opportunities for Private Labels is an economic recession, in which customers are more likely to switch from the branded product to the PL product due to their decreasing purchasing power. If the retailer manages to satisfy the customer needs within this period, customers are likely to continue purchasing the PL products; even in subsequent periods of economic growth (Gooner and Nadler, 2012). The following part of this paper will elaborate on implications for managers of Health & Beauty retail chains and FMCG retailers in general. All recommendations are based on a combination of the literature review and the primary research that has been conducted in form of a survey, focus groups and expert interviews. The first part will provide an overview on which categories are important to consider when developing or improving the Private Label strategy in the Health & Beauty product sector. In the second part, potential customer segments will be introduced and studied according to their different requirements and needs. Based on this, product attributes that participants from the primary perceive to be important are introduced in the third part. Subsequently, one part will elaborate on the marketing communication strategies that are valuable for any retailer selling Health & Beauty products to promote its Private Label product portfolio. The fifth part will summarize the findings concerning the distribution of Health & Beauty Private Labels and introduces new channels that ad up to a multi-channel experience for shoppers. The last two sections are concerning associated risks that might evolve when Private Labels are used to create customer loyalty and the threats, national brand managers are facing through increasing competition from Private Labels and how to deal with them.

4.1. Meaningful Categories

As already mentioned in the section of the literature review, the success of a Private Label product highly depends on the product category. This difference between product categories however represents a valuable opportunity, as the retailer can invest into categories with a relatively low purchase frequency, a higher price ratio relative to national brands and with lower levels of national brand promotions leading to a differentiation strategy that distinguishes that retailer from the competition (Dawes et al., 2013). For the development of additional product categories it is important to consider what previous research has shown. Experience with Private Labels in certain product categories positively influences the degree of satisfaction with Private Labels, being the most important variable influencing loyalty and the intention to buy new Private Label categories of the retailer. It is thus crucial to use the same brand name for the new product category. In many cases however, using the same name does not make sense as it may confuse the customer in case the new category is substantially different from the old ones (e.g. toilet paper and shampoo). For this situation the retailer clearly needs to communicate that both Private Label brand names belong to the same entity. Thereby, the retailer can try to make use of the established loyalty, which is much easier and cheaper than convincing existing customers again (Miquel-Romero, Caplliure-Giner and Adame-Sánchez, 2013).

In order to give recommendations into which product category it makes sense to invest, the upcoming part will sum up the most important findings from the primary and secondary research. According to the Euromonitor report analyzing the year 2012, the two categories with the highest percentage value of retail value coming from Private Label sales are Babies & Children care and sun care. The first reason for the success of these categories is the high price difference between national branded products and Private Label products. Additionally, the per-item price within these categories is relatively high compared to others in Health & Beauty, e.g. diapers are much more expensive than shampoo. The second reason most probably is the fact that items from the babies and sun care are often very functional and are more seen as a necessity than a luxury product. Therefore, people are less willing to spend a lot of money on them. The managing director from Your Own Brand moreover mentioned a strong argument for the development of Baby Care in the Private Label sector. According to him, all Private Labels try to win the customers for the category of baby care and baby nutrition. If young parents are convinced from a Private Label brand they will buy everything the baby needs when growing up from this brand (diapers, food, etc.). Moreover, when parents trust a brand for their child, they are likely to buy other categories from the brand as well. On the opposite, the two least successful categories for Health & Beauty Private Labels are Fragrances and Deodorants (Euromonitor, 2013). During the focus groups that have been conducted during the phase of the primary research, both male and female participants said that fragrances is the item within the Health & Beauty section that they are least likely to buy for themselves. Usually, people rather tend to buy fragrances and colognes as a present for a special occasion like a birthday or Christmas. Therefore, they are willing to spend a relatively high amount per purchase and do not seek for a cheaper Private Label alternative. Additionally, the brand plays an important role in this product category as national brand manufacturers spend a lot on creating a certain image for each of their brands and people are picking the product based on this communication (The Author, 2015). Deodorants are products with a much lower value; however, selling them requires a high level of trust from the consumer perspective. Neither male nor female customers are willing to take a high risk in this category, because the fear of smelling bad during the day is quite strong. Only once a Private Label brand was able to convince a person of its quality in other categories in which the functional risk is less severe, investing in the category of deodorants makes sense.

The fasted growing categories when comparing the sales of Private Labels as percentage of the total retail sales (2007 vs. 2012) are color cosmetics, depilatories, men's grooming, skin care and sun care (Euromonitor, 2013). The survey on Health & Beauty Private Labels asked the participating respondents to tag Health & Beauty product categories in which they already bought a Private Label product. 152 out of the 186 participants bought a Private Label product of at least on of the categories presented. Even though differences between the purchasing behavior of women and men were found due to the large variations in needs, some categories were found to be very popular for both genders.

H&B Private Label Categories and Sex

		Sex		
		Male	Female	Total
Private Label Purchase	Toilet/Kitchen Paper	59%	79%	72%
	Shower gel	61%	68%	66%
	Shampoo/Conditioner	63%	60%	61%
	Cotton products	26%	74%	57%
	Body lotion/After sun	30%	57%	47%
	Sun protection	50%	45%	47%
	Hand cream	37%	49%	45%
	Razors/blades/shades	44%	38%	40%
	Face cream	24%	42%	36%
	Deodorant	43%	32%	36%
	Make-up remover	0%	51%	33%

	Color cosmetics	**2%**	**40%**	**26%**
	Hair color	**2%**	**7%**	**5%**
	Others	**4%**	**4%**	**4%**
	Total	**54**	**98**	**152**

Table 12 – Source: The Author, n=186

For a retailer who did not launch any Private Label brand in the Health & Beauty section, the following categories are recommendable. Any product connected to hygiene and paper or cotton, namely toilet and kitchen paper, cotton pads and sticks and sanitary towels. Between 72% and 57% of respondents replied that they are using Private Labels in this product category on a frequent basis. The strategy should clearly be high volume for a cheap price as people are usually not emotionally attached to these products and thus strive for the cheapest alternative in contrast to looking for a specific brand they trust. Moreover, it makes sense to invest into the classic Health & Beauty product categories, like shower gel and shampoo. The category of color cosmetics is a tricky Private Label category for companies who are not yet distributing their own brand. On the one hand it is regarded as the most luxurious category with strong competition from the luxury goods industry such as Esteé Lauder Companies. On the other hand, there are Private Label color cosmetic brands that are extremely successful mainly through copying innovative products and selling them for a much cheaper price. As the image and quality of these products are extremely important, trust needs to be built up in the long term. Thus, an investment into this category will take a much longer time until it will pay off.

4.2. Potential Customer Segments

In order to avoid the downside of growing Private Labels, namely loosing customers due to constrained national brand choice; one strategy would be to focus on light Private Label users, who currently buy simple, basic Private Label products from hard discounters such as Aldi or Lidl (Alilawadi et al., 2008). In terms of Health & Beauty products, this customer segment usually buys national brands in categories where they perceive the quality to be important (e.g. face cream) and tries to save money on basic items, which are partly even decanted into different containers (e.g. liquid soap). In order to reach out to this customer segment, retailers should firstly expand their offer for budget Private Labels. Subsequently, these products should be transformed to becoming more differentiated and premium, creating the loyalty the retailer was thriving for in the first place. However, the risk that this light group of Private Label buyers will not migrate upward is left as a main constraint for this strategy.

Another option would be to focus on medium-high Private Label buyers. By giving Private Labels a distinct-need image (e.g. Alverde – organic cosmetics), retailers are able to encourage people to buy Private Label products in categories in which they were reluctant to buy them before. For this strategy it is especially important to put a high emphasis on the quality of the products. Several consumer-focused tests frequently assess the quality of Health & Beauty products and publish the results independently on their websites and in specialty magazines. Especially, for products that are communicating natural ingredients or high reliability (e.g. sun lotion) those tests are really important. In case the test results are good, the retailer should make sure that they are highly visible on the packaging and also communicated via all of the employed communication channels. However, it is crucial not to compare the own superior quality with the one of national brand manufacturers, as their products are still a major driver of success and thus the relationship should not be risked.

4.3. Product Attributes

According to the CEO of the Private Label products manufacturer You Own Brand, the price is the fundamental attribute of a Private Label item and is usually on the same level at all retailers. However, price was not ranked as the most important variable a Private Label product should have by the participants of the survey from the primary research that has been conducted in for this thesis. They rather consider quality to be crucial as it is likely to be a prerequisite for the customer and not a differentiator for the retailer.

According to the expert, differentiation can be achieved via professional layouts, a coherent product assortment and a good selection of additional products in niche segments. Additionally, the scent of the product is an important factor that influences consumers right at then point of sale. Surprisingly, participants rate “Limited Editions” to be the least important attribute a Health & Beauty Private Label brand should have even though many retailers are currently employing limited editions, especially during summer and winter season. Moreover, products can be found that fit to sport or social events, like color cosmetics in colors of different flags during the championship (dm, 2014). One explanation why retailers are investing into the expensive development of such special editions, even though customers do not perceive them to be important in their decision making to which retailer to go is the following; special editions are likely to be regarded as entertaining. Even though, people might not need color cosmetics in German flag colors, they might find the idea great and want to look at the products. Once they are in the store, they are likely to buy whatever they need instead of switching to another or even their previous favorite retailer.

The research reveals that people do not perceive the packaging of a Health & Beauty brand to be important as only 6% of the respondents claim it to be very important. However, the impact of a good and representative packaging often has a subconscious impact on the purchase decision of a person and thus should be considered carefully (Marketing Charts, 2015). In the survey, participants were asked to state their preferred type of packaging for Health & Beauty products and the following conclusion can be drawn based on the answers. For this question only 26% of respondents stated that they do not care about the design at all, namely 35% of all male respondents and 20% of female respondents (The Author, 2015). Therefore, it can be assumed that the packaging is not considered important in relation to other attributes but can be a crucial part influencing the final decision when other factors like scent or quality have been assessed by the customer to be equally good. The most popular design “elegant style and solid colors” was chosen by 53% of participants. Further, it is interesting to see that the design proposal “poppy colors and fun motives” is preferred by 14% of women but only 1% of men.

Moreover, the scent of a Health & Beauty product is considered to be very important throughout every category and regardless whether male or female respondents answered the question. For the attribute “Image of the brand” it is however hard to finally conclude which impact it has on the popularity of a Health & Beauty product. Thus, this attribute was neither ranked as important (4th rank out of 7) nor as not important (4th rank out of 7 as well).

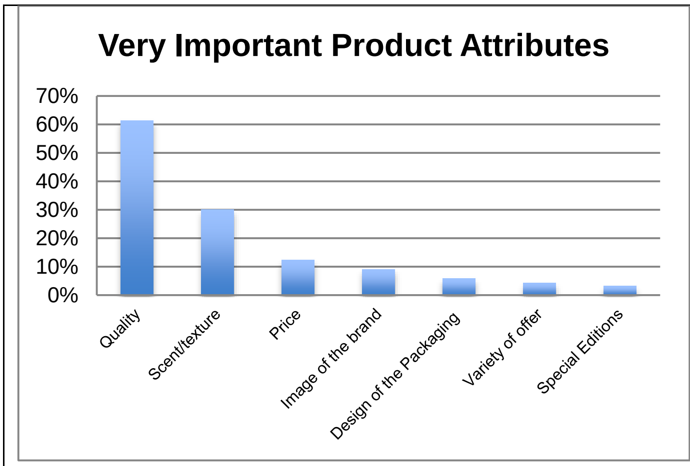

Table 13 – Source: The Author, n=186

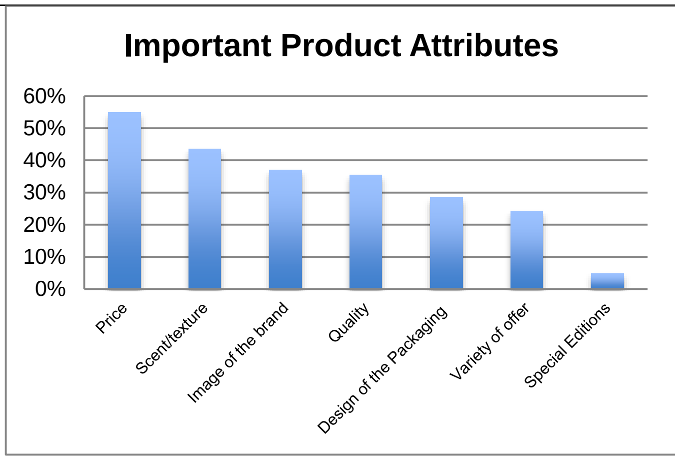

Table 14 – Source: The Author, n=186

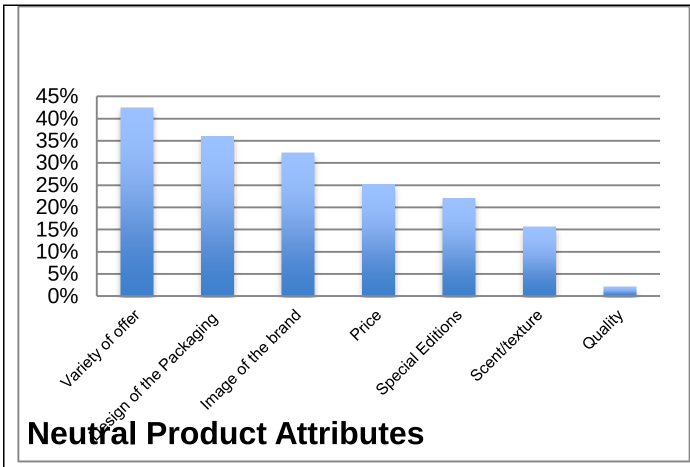

Table 15 – Source: The Author, n=186

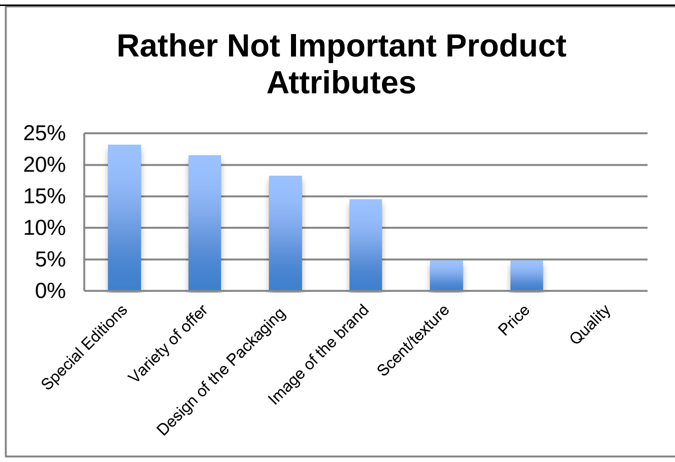

Table 15 – Source: The Author, n=186

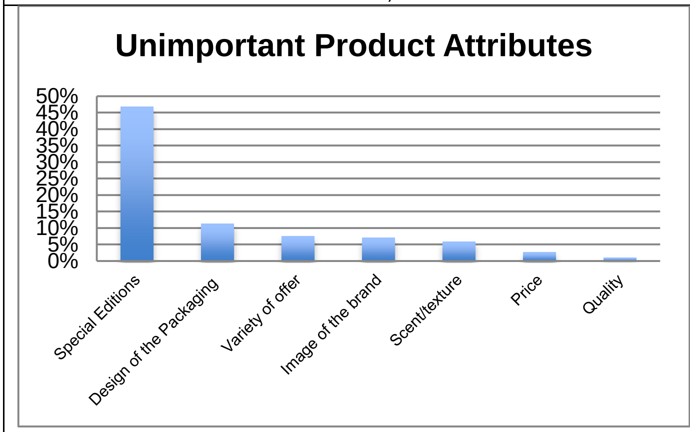

Table 16 – Source: The Author, n=186

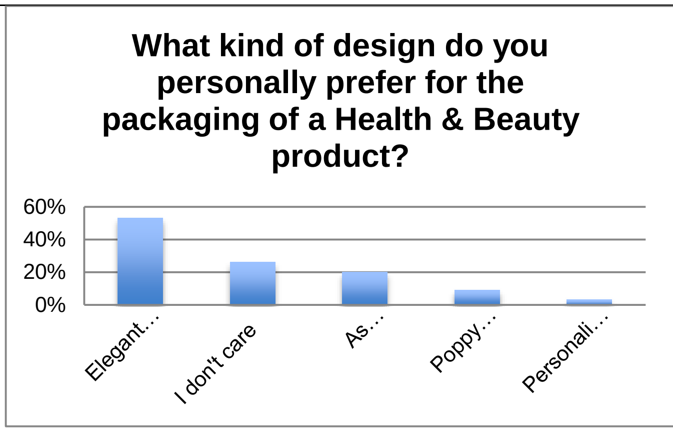

Table 17 – Source: The Author

4.4. Marketing Communication Strategies

In general it can be said that, retailers do not invest in advertisement for their Private Label brands with the current Lidl campaign for Private Labels being an big exception ("Gutes Brot, Gute Schokolade, Guter Wein" Lidl, 2015). Thus, the products need to convince the customer at the Point of Sale. However, Private Label marketing appears to be shifting from its usual low cost strategy to one, which is close to a national brand-marketing strategy (Halstead et al., 1995). Even though there are many studies on the purchasing behavior of customers for Private Labels, many authors mention in the limitations of their research the missing link to marketing communications. Chen and Glynn (2009) emphasize that non-product attributes, like the brand image of their store and the marketing activities connected to a specific Private Label Brand may have a high relative influence on its success in the market. Moreover, to develop a strong Private Label assortment, it is equally important to firstly improve the quality through better sourcing an innovations and secondly, to actually convince customers of the higher level of quality (Ailawadi et al., 2008). Private Label sales often suffer from the unfavorable gap between actual and perceived quality, as many product tests rate Private Label products much higher than potential customers. A straightforward method to overcome this problem is to make shoppers to try the products for free. One effective though expensive way to do so was employed by the American retailer Publix supermarket. For several weeks, the retailer placed the Private Label product right next to the competing product from a national brand manufacturer and gave it away for free when the branded product was purchased (Supermarket News, 2009). With this campaign, consumers were able to test the Private Label equivalent of a product they usually purchase without taking any risk.

In the survey, participants have been asked how they usually get informed about product innovations and new offers in the section of Health and Beauty. The results are very favorable for Private Label brands, as more than 60% of participants stated that they get informed via in-store advertisement, which is often used by retailers' Private Labels due to its low cost compared to advertisements in classical media, like TV or magazines. Additionally, it is easier for Private Label brands than for national brands to be advertised and exposed in the store, as they are owned by the retailer and thus are usually prioritized when it comes to shelf space, banners or promotions in the store. In order to guarantee a good exposition of their brands, national brand manufacturers often employ sales representatives or account managers who are constantly checking the shelves of their assigned retailer (P&G, 2015). This represents additional costs that the retail does not have to incur, one additional factor that influences the margins of Private Label products.

The second most important source of information, with more than 50% of respondents referring to it on a frequent basis, is recommendations from friends and family. Especially, friends and relatives with the same gender and the same age range are an important benchmark. Especially women exchange latest trends and experiences with new products, brands or innovations and trust the advice from closely related people to a great extent. As a grandmother might advise her grandchild to use a new product and vice versa it is crucial for Private Label brands to appear appealing to a wide range of age groups. On the other hand, there are product categories in the Health & Beauty industry that are explicitly used by a certain age group and for those, marketing strategies that fit to the personal living conditions of the target groups are crucial. A good example for such a product category would be waxing equipment and depilatories. Items that belong to this product group are mostly used by young people and thus an advertisement that communicates family coherence would not make sense. Therefore, brands like Gillette emphasize friendships in their advertisements by resetting scenes in which several girls are going shopping or on holidays together (P&G, 2015). Due to the fact that men spend less time on talking about new products in the Beauty section when they are meeting friends, P&G rather uses role models in the same age of the target group, like famous soccer players or actors when advertising male products.

Sources of Information for Health & Beauty Product Innovations

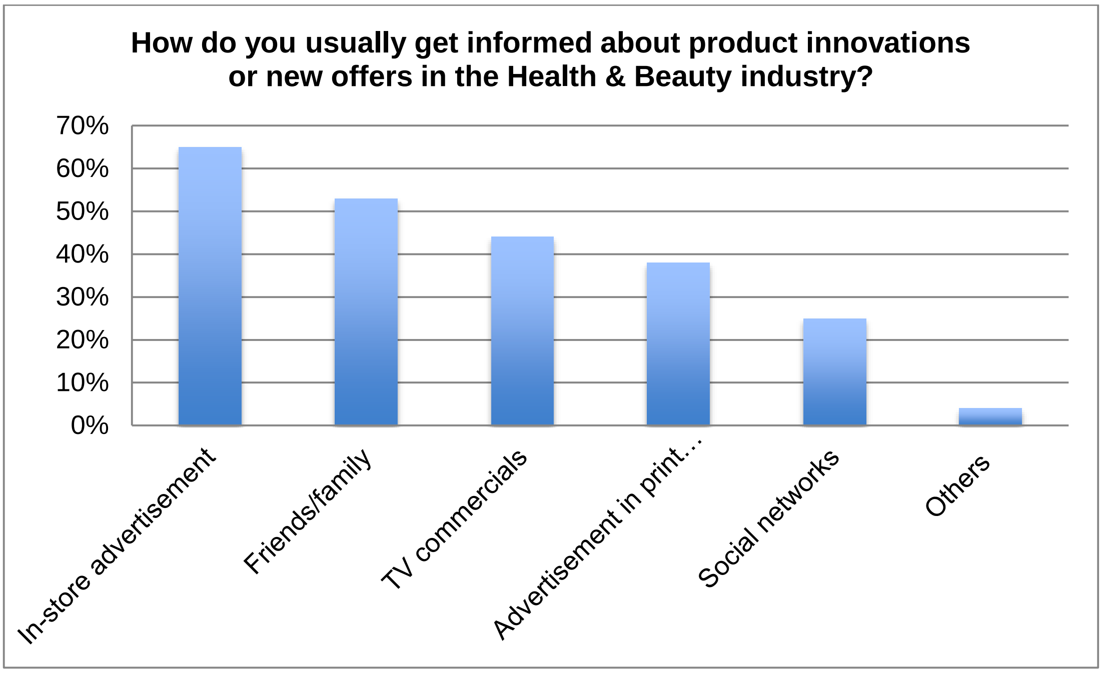

Table 18 – Source: The Author, n=186

TV commercials were ranked third by participants as favorable source of marketing communications. The biggest opportunity that TV is representing, as method for marketing communications is its high reach (Král, Lhotáková and Machková, 2010). However, high costs that are mainly resulting from shooting a spot and from the high fees that are charged by the channels are a big counter argument. Therefore it does not make sense for a Private Label brand to introduce new product innovations or seasonal limited editions via this communication method. However, it may make sense to run a campaign that is promoting the Private Label brand itself and directly linking it to the retailer. In Germany, the big discounter Lidl recently changed its advertising agency and is currently running a massive Private Label campaign via several channels, including TV advertisement. The main message of the campaign is to show people that quality bread, chocolate, wine and many more categories is not linked to a brand but to taste, ingredients, durability and price. Each category has an own spot and starts with the question “How do you recognize good …?”. (Youtube Channel Lidl, 2015). With a campaign like this, a retailer can educate people, which brands are exclusively sold in its own stores and therefore partially solve the problem that some customers do not even recognize a Private Label brand in the stores. As investigated in the part of secondary data, men are less able than women to differentiate Private Labels from national brands in the Heath & Beauty section. Due to the large differences of purchasing behavior and loyalty between males and females, it makes sense to come up with two different campaigns, stressing different attributes that were considered to be important by the participants. As there are several TV channels that are focusing on one of the two genders and on different age groups, it is relatively easy to reach the desired target groups with this method of communication.

Next to the classical media of television and prints, like magazines or newspapers, social networks became a crucial tool of communication over the past few years. Even though only 16% of participants from the research are following one or more Health & Beauty brands via social networks, 87% stated that they are registered on one or more platforms and checking their profile and newsfeed on a frequent basis. By advertising special promotions that are only accessible via social networks, retailers could convince more users to follow their pages and then use the tools of the several social networks for customer relationship management, the introduction of innovations and for gaining feedback from their customers. The Private Label brand of the Health & Beauty retailer dm has around 270 k likes on Facebook and the marketing team is posting different pictures, videos and comments on a frequent basis (dm Facebook page, 2015). In order to surprise their fans, Balea posts videos with handy tips how to use the products for a different purpose, like how to keep flowers fresh for a long time when using Balea hair spray. Moreover, Youtube is a significant channel to communicate with teenagers and young women. It drives traffic and produces excellent search results. Moreover, it provides a much more accessible medium for targeting a specific customer base, helps building relationships with customers and encourages to brand a business with a unique personality (Marketing Donut, 2013). By watching Beauty tutorials, many young customers find inspiration and are likely to buy the product in case the opinion leader was satisfied when testing it. Opinion leaders are often bloggers that are testing or using the products and recording the entire process to put their opinion on their own channel on Youtube. If such an opinion leader has many followers, it is crucial for Health & Beauty brands to make sure that its products are used and positively referred in the tutorials. In the fashion industry, brands are already paying bloggers to wear their products and in the Health & Beauty industry, this Marketing method is increasingly getting popular as well. The three most important aspects to consider when coming up with a social media marketing strategy are the following, quality, consistency and variety (Marketing Donut, 2013). Variety is the key ingredient to keep the followers glued to the channel or page. Due to the fact that the Health & Beauty industry is very fast paced and innovative, there are plenty of opportunities for marketing managers to come up with new content to entertain the audience. However, one needs to be careful that due to the large variety of substance, the message communicated via social media does not loose its consistency (Marketing Donut, 2013). Last but not least the quality of the posted video, picture or message needs to be high standard. Shaky videos and photos or the inappropriate us of language can lead to an unprofessional image very fast and have a direct impact on the perceived quality of the Private Label products as well as of the retailer itself.

Some additional options that have been mentioned by participants were homepages of product test, expert literature and beauty salons. These communication channels make sense for products for which the functional effect is crucial, as people will only search for expert opinions when they perceive the risk of using the wrong product to be high. If the functionality is important, usually the prices of the product are relatively high. For product categories like sun lotion or anti-aging face cream it thus makes sense to be advertised or featured in expert literature, whereas the functional risk of a shower gel is relatively low and thus customers will buy it without investing a lot of time into researching for the best option.

Another effective way to promote product innovations is to partner up with companies like Glossybox or Birchbox. Once a month the two companies are sending out a box full of new Health & Beauty samples to their members and thus represent a big opportunity how to reach potential customers who are interested in the topic of beauty and cosmetics. Both companies also offer the grooming version of the box, which is sent to young adult males who are too busy to keep themselves up to date on the latest trends but still want to be in the loop. Subscribers pay around 10 to 15 Euros a month depending on how long their membership contract is. Due to the high quality and exclusive design of the packaging, all samples appear to be high end. Additionally, it is also common for many above stated opinion leaders to use the products from the box and to upload a video with their opinion on Youtube (Gründerszene, 2015).

Next to deciding which combination of media to choose for the marketing communication of Health & Beauty Private Labels, it is crucial to define a clear message with which the customer will be addressed. From the research it can be derived that only 42% of the respondents were completely convinced from the fact that they can differentiate Private Label products from national brand products (50% of female participants, 31% of male participants). In the focus groups conducted, especially men stated that they spend so few time in the stores while shopping for Health & Beauty products that they buy products by chance, depending on which is best visible, on promotion or attractive to them for some other reason. Therefore, many participants were not able to state which brands they are currently having at home. Also, elderly people were often not aware of the fact that a brand they are using is actually retail owned. Therefore it happened several times that an older participant stated he had never bought a Private Label product before in question number five from the questionnaire but crossed one or several Private Label brands in a later question, asking which brands they are using on a regular basis. In many cases, the reason for this result is that the brand of the retailer is often only printed on the back of the packaging or the logo is very small on the front side. For retailers who already own one or more Private Label brands, it makes sense to closely connect the brand to the retailer in their communications. It may be different in case the retailer owns several brands, as a big advertising campaign is usually very pricy and needs to be done for each individual brand. In case the retailer did not launch a Health & Beauty Private brand yet, it should decide on coming up with one main brand, having different line extensions based on the category, gender or age. One big campaign to introduce the brand to the customer is a lot more effective as many small ones that are promoting several brands, which the consumer usually cannot connect.

4.5. Distribution

The distribution of a good is a Marketing factor that becomes more and more important these days. Many customers expect to receive a multi-channel shopping experience, no matter which product they need. Even though, there are great differences between categories, the Health & Beauty Retailers (Drug Stores) remain to be the number one choice for customers compared to grocery retailers and non-store retailing (e.g. e-commerce or personal selling). Especially for categories where customers expect an exceptional shopping experience and often need advice from a professional sales consultant, almost 70% of total sales are coming from specialty stores.

Question two from the survey that has been distributed for the primary research, asked participants where they usually buy their Health & Beauty products. The graph below indicates massive differences between gender and the preferred type of retailer. Even though, drug stores are the most popular type in total, men prefer purchasing their Health & Beauty items in combination with other fast moving consumer goods in supermarkets. Any Health & Beauty specialist retailer could take advantage of these differences and engage in a partnership with one more even many supermarket chains. A Store in Store concept could be implemented by offering the Private Label products in the stores of the strategic partner. Due to the preference of men to buy Health & Beauty products in the supermarket mainly due to more convenience, the product portfolio should mainly include men’s grooming items. Even though there might be the threat of cannibalization as supermarkets usually offer Health & Beauty Private Labels themselves this partnership could be beneficiary for the supermarket as well. With a broader offer of Health & Beauty products, the supermarket chain may be able to bind its customers to its stores even more – especially if the partnership was exclusive. Additionally, it can be said that the product range of Private Labels in the Health & Beauty segment of many supermarkets is often not very extensive and mainly focused on low price and high volume items (e.g. liquid soap that can be decanted into a soap dispenser).

Distribution Preferences

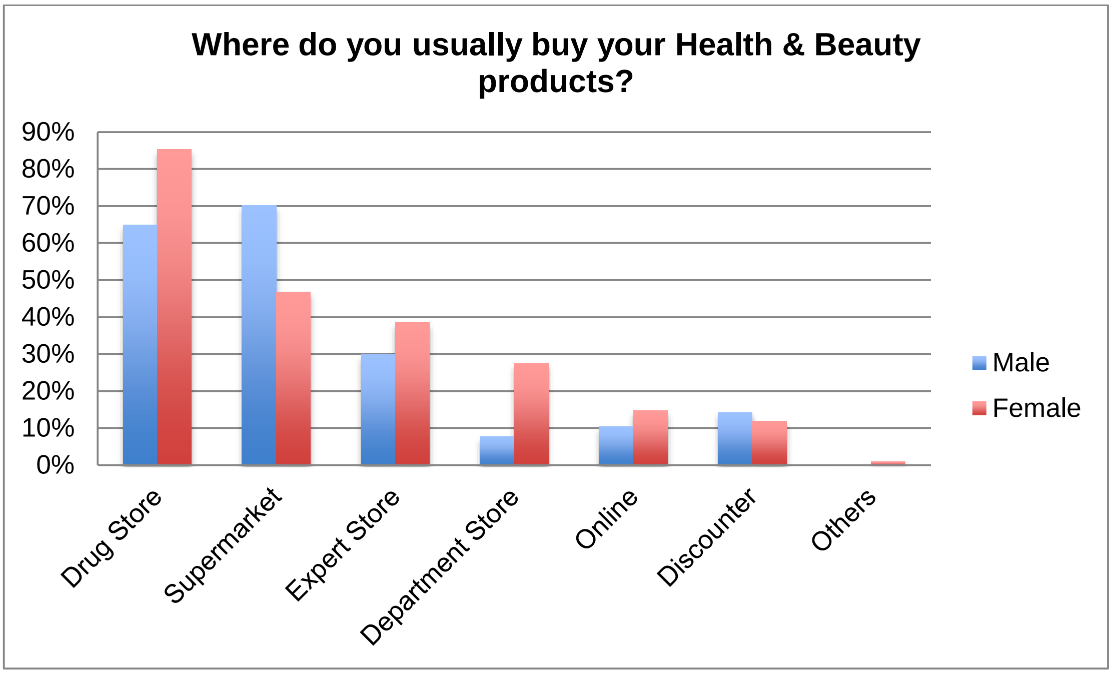

Table 19 – Source: The Author, n=186

Even though, the channel of E-commerce is not yet used that much by people who participated in the survey (12%), it is a massive trend in the industry. E-commerce outlets continue to expand their range of products and price comparison engines are helping customers to find the cheapest offer. In the near future, the young generation who grew up with the access to Internet will become the demographic group with the highest purchasing power and the e-commerce will experience further growth (Marketing Donut, 2013). Therefore, market leaders like dm and supermarket chains like Rewe recently invested heavily in setting up an online shop for their customers. Moreover, third-party online stores like Amazon represent a big opportunity for manufacturers and their brands as a further distribution channel. Amazon offers a service called Amazon Prime, which charges a yearly subscription fee of $99 in the US or 49 Euros in Germany and other European countries and allows members to receive all Amazon Prime products in 24 hours. A product becomes a Prime product as soon as it's stores in an Amazon Warehouse. Currently, it is already possible to purchase a wide variety of Health & Beauty brands via Amazon, however, only a few products are Prime products and it usually takes 3 to 4 working days until they are ready to be shipped. As people do not buy Health & Beauty products a long time in advance but rather when the old product is empty, used or broken, it would make sense for the retailers to engage in a deal with Amazon (or alike) that makes fast shipping to the customer possible. Currently, experts estimate that Amazon has around 60 million Prime members, mostly coming from the US and Germany (Recode, 2015). Moreover, specialty stores are often applying the concept of in-store mobility. The beauty chain Douglas offers its customers to order the product that is needed directly from the store to the customer's home in case it is not available. Additionally, the chain is trying to accustom people to shop via its e-commerce channel by handing out online vouchers to people who purchased an item in their branch.

It might also make sense for a Health & Beauty retailer to identify additional touch points besides the store and the online shop. Therefore, the routes that are taken by potential customers frequently need to be studied in detail and places where they spend a lot of time can be identified. An example would be to place a vendor machine with small packages of deodorant, toothpastes and other items necessary for traveling into the terminals where long distance flights are taking off. The electronics retailer Saturn that belongs to the Metro Group already identified this opportunity and placed several vendor machines with small electronic devices at big airports. Items sold are mostly inexpensive but crucial for many people when taking a long distance flight, like headphones, batteries or mobile phone chargers (Metro Group, 2015).

4.6. Associated Risks

When determining whether and how much to push the own Private Label brands, retailers need to be aware of different factors that may influence these strategic decisions to a large extent. Firstly, it is very likely that the relationship between store loyalty and Private Label success is nonlinear or even non-monotonic. Previous research shows that medium Private Label users contribute more to retailer sales than light and heavy users do (Ailawadi, Kusum and Harlam, 2004). Therefore it is important for a retailer to acquire as many medium Private Label customers as possible. As national brands are still a crucial part of the success of a chain, it is important that enough customers are willing to buy them. Otherwise, the national brand manufacturers will focus on competing retailers with a less successful Private Label product portfolio, leading to a decrease in negotiation power and thus smaller margins for the chain. This argument is supported by the findings of Ailawadi et al. (2004), regarding the segment of high (>60%) PL buyers. It was found that this heavy segment has the lowest expenditure on groceries and is thus should not be the focus of a retailer when positioning itself in the market and targeting customers. These findings perfectly fit to the strategic decision of the Dutch supermarket chain Albert Heijn to disintegrate their low price Private Label brand Euro Shopper in 2013 (Volkskrant, 2013). Moreover it is important to consider that switching the Private Label brand strategy frequently may have a negative effect on the retailer's performance. New offers should normally be consistent with earlier ones, as this demonstrates commitment to the customer (Reinartz and Kumar, 2000).

Another important point is to consider the legal risks associated with Private Labels (Modern Distribution Management, 2011). When sourcing products from abroad, distributors may end up carrying the ultimate blame or responsibility in a number of situations, including product liability claims, intellectual property infringement, and product recalls. This is due to the fact that there are different laws concerning acceptable ingredients and is especially valid in the chemical and thus also Health & Beauty industry. Therefore, Private Label sourcing managers need to be very cautious on which suppliers to choose and need to back up all actions with the legal department in advance. Field monitoring to ensure continuous compliance can solve the problem, however, is very costly for the retailer to conduct. A mistake will not only cause a bad reputation for the brand but for the whole retailer as the customer often regards them as one entity. This risk is especially high in the United States as the different legal system enables unsatisfied customers to file big lawsuits against companies. Moreover, the product development and marketing team needs to consider the intellectual property rights that national brands often own when coming up with recipes, brand names and design packaging. If only one of the three is too regarded to be too close to the original national brand product, the company is likely to legally enforce the retailer to either take the product off the market or to pay a penalty fee for the caused damage (National Association of Wholesaler-Distributor, 2007).
As already mentioned in previous sections, one big risk that should not be underestimated is the relationship with national brand manufacturers that can suffer in case the Private Label section of a retailer becomes too dominant. For many customers, national brands are still part of their daily life and they cannot imagine substituting all of their desired products with Private Label versions. Therefore it is still crucial to maintain a fair and open relationship with national brands and their account managers. A dropout of a popular national brand could lead to many customers switching to the competition, no matter how strong and positive the image of the Private Label brands is perceived.

4.7. Defense Techniques for National Brand Managers

In their research, Halstead et al. (1995) find evidence that the vulnerability of Private Labels may be rather due to competitive reactions from national brands than to any internal strategy changes of competing Private Label brands. From the expert interview with the fast moving consumer goods company Procter & Gamble, it can be derived that many national brand managers do not consider Private Labels to be direct competition. However, many experts and their research show that Private Brands are getting more and more popular and that the most common response strategy from national brand manufacturers is to reduce prices (Halstead et al., 1995). Consumers are trying to stretch their dollar as much as possible and thus, the purchasing behavior of Private Labels is directly connected to the macro-economic environment (Flynn et al., 2010). Especially in times of economic recessions, people start switching from the national brand product to the Private Label alternative. What is dangerous for the national brand producer is the fact that not all customers switch back as soon as the economic situation improves (Lamey, Deleersnyder, Dekimpe, Steenkamp, 2007).

The growth of Private Labels has led to a decrease in shelf space availability for the products of national brand manufacturers (Ogilvie, 1994). In order to protect the own brand from loosing market share, National Brand Managers can derive a lot of insights from the research on Private Labels. First of all they should be aware of the fact that premium Private Label Brands are getting more and more popular – by both, the consumer and retailer (Braak et al., 2014). As these premium Private Labels are often introduced in non-classical categories with a lower purchase frequency, brand managers of those categories need to start educating themselves even before a single Private Label product entered the category market. By preparing, they can react much faster on the new threat leaving the Private Label Brands less time to gain market share. Next to going through the most recent research, National Brand Managers of the above-mentioned categories should closely cooperate with category Managers within their company, already facing the threat of Private Label Brands. Moreover, National Brand Managers should be aware of the fact that a Private Label Brand often imitates the own product and should use this fact in their communication to their customers. Sometimes this imitation is so visible to the customer that he or she gets reminded of the real brand when he sees the Private Label product. This indirect Marketing benefits the original version of the product, as it is often regarded as a compliment, which the customer can usually clearly identify. Moreover, National Brand Managers can try to make their category unattractive for retailers to enter with Private Label Brands in the first place (Braak et al., 2014). This may be done by increasing the budget for advertisements, which most probably will not be imitated by a retailer for its equivalent Private Brand, and by increasing the social risk for the customer to purchase the Private Label product. Increasing the social risk might be achieved via communicating values and beliefs that the customer truly beliefs in or wants to achieve throughout his life. Another method to protect the own brand would be to cut the own retail price, so that the difference between the Private Label and National Brand is no longer so significant that the customer would care (Braak et al., 2014). Even though this method is often successful in the short run, the National Brand should rather focus on being perceived as superior to the Private Label Brand. Therefore a price cut in the short run does not fit to this long-term strategic goal.

Grossman (1998) moreover advices national brand manufacturers to exploit relationship marketing as a means to provide added value to the customer who might be tempted to purchase Private Labels instead. Relationship marketing is a long-term initiative that is build on satisfaction, trust and commitment and leads to the fact that the customer base as well as the lifespan of a manufacturers' customer can grow and that new brand or product-line extensions are accepted to a greater extend (Sirohi, Mcloughlin and Witink, 1998). Next to relationship marketing, national brand managers can prevent further shelf space reduction by increasing trade support in form of better trade deals, more point-of-purchase material and via slotting allowances for new products (Halstead et al., 1995). Further, several studies have shown that using coupons for sales promotion of national brand products is an effective deterrent to Private Label share increase (Rao, 1991).

According to Goldsmith et al. (2010) traditional recommendations for national brand managers are still valid these days. These include new distribution channel as well as innovative products that are hard to copy as well as launching "flanker brands" that can compete on the price level of Private Labels and partnerships with retailers to create combo products, combining the two brands. Moreover, it is important to keep in mind that there can be found a high number of switchers among brands these days. Therefore, a manufacturer should consider how they could offer more variety within the brand world, like using sub-brands, product brands or developing partnerships with other popular brands to surprise the existing customer base of both brands.

Conclusion and Limitations

The goal of this thesis was to learn more about the impact of Private Label brands on customer loyalty in the Health & Beauty retail industry. Thus, the research was used to give advice on how to develop Private Label Brand strategies that will create and enhance customer loyalty. In order to come up with the delivered results, secondary research was conducted by going through a diverse selection of academic articles and online sources concerning Private Label strategies and the topic of customer loyalty. Accordingly, different hypothesis were developed. Afterwards, a questionnaire was set up and distributed to a sample of 186 participants from several nationalities and age groups.

According to the findings from the previous outlined research, Health & Beauty retailers should take the quality of their Private Labels very serious. Moreover, it is crucial that their improvements and investments are communicated to their customers. In order to conclude this paper, it makes sense to look at the research questions that were introduced in the second part:

Question 1: Does it make sense for the Health & Beauty retail industry (drugstore-chains) to invest into the development of Private Labels to create and enhance customer loyalty?

Due to the answers collected in the primary research, it can clearly be concluded that the two variables “store loyalty” and “Private Label purchase” are correlated. Therefore the investment into the research and development of one or even several different Private Label brands makes sense for a retailer that wants to enforce the loyalty of its current customer base. Moreover, it can be said that even new customers can be acquired over a moderate period of time if the Private Label brand succeeds in establishing itself in the market and gains a good reputation in terms of its product quality. It is also crucial that the income has no or if only little effect on the purchasing behavior of Private Label brands, meaning that customers from all kinds of income classes are equally likely to develop loyalty.

Question 2: Into which product categories should the Health & Beauty retail industry (drugstore-chains) invest to maximize success?

For the product categories it is impossible to define a smart choice for investment. Due to many variables such as age and gender, almost all introduced categories have been purchased by the respondents of the primary research before. It is thus more important to consider the attributes of each product category for choosing the right strategy how to develop the Private

Label brand within this certain category. Color cosmetics and cotton products are two successful Health & Beauty Private Label categories but could not be more different from each other. A PL within the category of color cosmetics on the one hand needs to have a well-defined brand with an attractive layout and at least a moderate quality compared to the big competitors like L'Oréal or Max Factor. On the other hand, the only important attribute for a cotton product is the price. Moreover, it was found that the trend towards natural cosmetic products is growing and thus a focus on biological ingredients makes sense for all categories.

Question 3: How should the communication mix of Private Label Brands in the Health & Beauty industry look like?

Private Label marketing appears to be shifting from its usual low cost strategy to one, which is close to a national brand-marketing strategy. Thus, the emphasis of convincing customers of a purchase is no longer only crucial for the Point of Sale. In the research, it was found that recommendations by family and friends were rated as the second most important source of information after classical advertisements, like TV or print media ads. Additionally, social networks are crucial tools for online marketing managers as they can be used for various marketing initiatives and e.g. can actively involve the customers in the development of a new product. In general, it can be concluded that the promotion of one big Private Label is a lot more effective then developing several small brands and communicating the brands image individually. Thus, it is recommendable for retailers who did not launch any Private Label brand yet to invest in the development of one big brand that the customer can easily identify. In a later stage, the retailer could introduce sub brands, e.g. a brand with an organic or teenager focus.

Question 4: How are demographics influencing the attitude towards Private Labels and how can a company take advantage of the diverse preferences?

Different demographic factors were tested in the previous research. Surprisingly, it was found that two out of three very popular variables did not have an impact on the attitude towards a Private Label product, namely age and income. On the other hand, gender turned out to be a quite influencing variable. For Health & Beauty retailers it is thus important to consider this variable when targeting prospective customers through diverse communication methods. Moreover, it can be said that in case the potential investment is limited, it makes sense to start investing into typical female categories, such as color cosmetics, creams and hair products. Once the female customer is convinced of the Private Label product's value, she is likely to convince male customers within her daily environment to try the products. Moreover, women are more likely to purchase all Health & Beauty products for an entire household than men and thus are more important to be targeted.

Limitations of the Research

Any conclusions drawn from the secondary research must be regarded carefully due to several limitations in place. Firstly, some of the quoted articles have been published a moderate time ago. Since then many trends have changed, especially regarding the development of the Internet and mobile devices. This may lead to deviating conclusions, especially regarding the topic of Marketing Communications. Secondly, most of the previous literature indeed has investigated the topic of Private Labels and customer loyalty but did not use the Health & Beauty industry as a base of its findings. For the primary research, it can be said that the sample size should be even bigger in order to attain results that are more precise. Moreover, it would be interesting to test the hypotheses in different countries, especially in the United States, as purchasing behavior highly differs compared to many European countries. These limitations are offering interesting avenues for future research, especially in the field of Marketing Communications. Now, that it has been found that a positive correlation between Private Label purchasing behavior and store loyalty exists, it would be valuable to dive deeper into the topic of how to effectively use Marketing Communications for strengthening Private Label brand success in the Health & Beauty retail industry.

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