EVOLUTION OF PRIVATE LABEL DEVELOPMENT: A JAPANESE CASE

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ABSTRACT

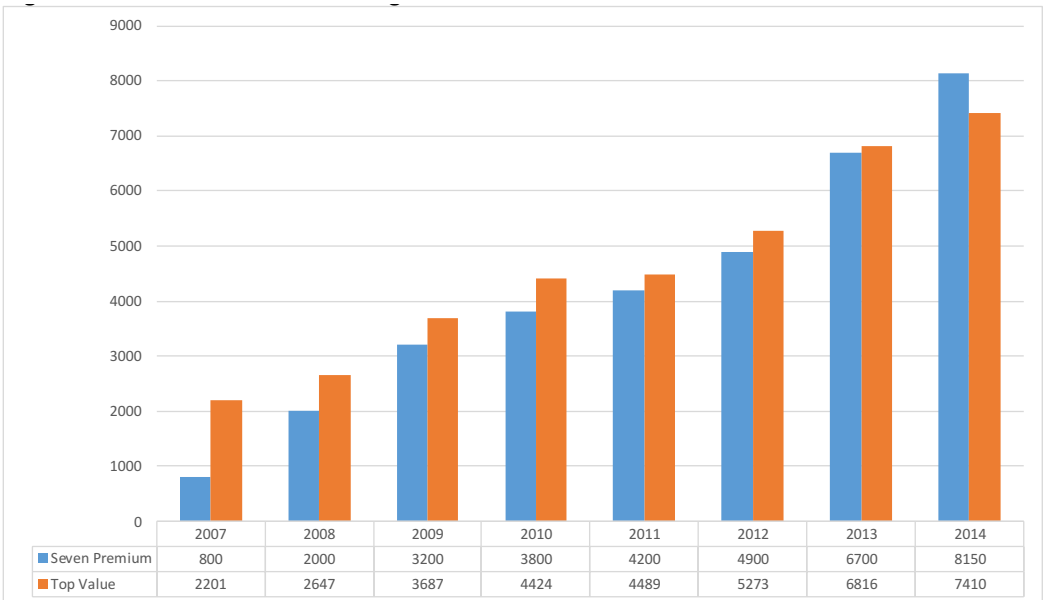
This paper discusses on recent trend in private label development in Japan. Reasons for introducing of private label products have been explained as low price with moderate quality by the beginning of 21st century in Japan. However, improvement of quality is one of the persuasive factors which explains recent growth of private label products. In this paper, we will show market share growth which evolves with private label evolution from low price appeal to quality focused, when we traced its evolutionary sequence. Continuous quality improvement of private label product is one of the critical factors which influences consumers' repeated purchase. Though previous studies indicated that quality improvement positively influenced, there was few report on practices and management of quality improvement in retailers. This paper will explore such quality improvement activities, how that evolved. Recent private label development focused on involvement to upstream, that is, production phase, such as material selections and supply management.

KEY WORDS: private label products, quality improvement, involvement to upstream phase.

1. INTRODUCTION

ales of private label products still grow and have good reputations (Figure 1). Private label development of retailers and sales expansion are closely related with problem solving to achieve retailer's strategy, such as construction of store loyalty, competitive differentiation, and improvement of gross margin (Ailawadi et al., 2008; Koschate et al., 2014). In this paper, private label will be abbreviated as PL, so private label product will be written as PL product.

Figure 1. Sales of Private Label in Big Retailers



	2007	2008	2009	2010	2011	2012	2013	2014
Seven Premium	800	2000	3200	3800	4200	4900	6700	8150
Top Value	2201	2647	3687	4424	4489	5273	6816	7410

Source: Seven and i Holdings Corporate Outline, each year; AEON annual report, each year.

As recent background of sales growth of PL, one persuasive explain is to reduce consumer risk perception to PL products (Richardson et al., 1994). Low price and price difference from national brand were one of the most critical reasons that consumers bought PL products for last decades. Compared to these days, the reason consumers buy them is to regard contemporary PL products as quality equivalent, even better. Such quality of PL contributes to establish (retail) store loyalty. In PL research, two dominant studies can be identified. The first one focused on market share expansion of PL and its evolution (Kumar and Steenkamp, 2007). The second one is the relation between PL and consumer's store loyalty. Compared to these studies, there is few study on quality improvement of PL products. Our study investigates on the management efforts to improve quality of PL by retail company in Japan.

2. PREVIOUS RELATED STUDIES AND METHODOLOGY

In this section, we will review previous related studies. There are mainly two studies distinguished. The first one is evolution stage model of PL quality improvement. The second one is consumer perception model. We will briefly review both and indicate what they have revealed.

2.1. Review on Evolution Stage Model

Quality improvement of PL has been indicated as the reason that market share growth. Before 1990s in US grocery market, inverse correlation between disposal income fluctuation in the recession period and market share (by money) of PL products (Hoch and Banerji, 1993). However, recently, market share of PL products is getting growing even in period of recovery of recession. As for one reason, Quelch and Harding (1996) suggested that market oligopoly trend by big retailer, even during recession recovery period, explained market share growth of PL products.

However, many others often insisted on that quality improvement was one of the important factors to growth market share of PL products. As one of these studies, Hoch and Banerji (1993) empirically showed that PL product quality and quality consistency positively influenced consumer's perception as the factor of market share growth during recession recovery stage. High level of quality of PL and quality stability became not only to form consumer's motivation for PL preference, but also to build store image and store loyalty. This result suggests that quality improvement of PL development can motivate consumers to shift purchasing reasons from mere brand switch due to income decreasing under recession to continuous PL purchasing.

There are other findings about quality improvement of PL product as evolution of PL development. Regarding improvement of PL as history of PL development, these studies explains such improvement as evolutionary stage model (Kumar and Steenkamp, 2007; Laaksonen and Reynolds, 1994). Through wide survey of PL in Europe in 15 countries, Laaksonen and Reynolds (1994) recognized similarity of evolution among these PL (in their term as own brand) and specified four stages of evolution, as generic, cheapest price, me-too, and value-added. The evolution from generic to value-added PL, they realized purpose of PL transferred concurrently as well. For instance, the purpose of generic in first stage was to provide the option of assortments in the store, then, the purpose of fourth stage was to retain customer basis, to increase margin rate, to modify PL image, and differentiation.

The background of concern to evolution stage, there is an implicit assumption which regards the country with the bigger market share of PL products as the well-developed, in contrast, the country with the lower of PL market share as under-developed. Laaksonen and Reynolds (1994) revealed factors of growth of PL products by following PL evolution process in UK, after all, they summarized that the process evolved from cheaper price emphasis in the first stage to quality focus in the last stage.

Compared to PL development in UK was regarded as the most advanced case, the stage evolution model logically implies that market share of PL product will be able to grow gradually when the condition, such as oligopoly by big retailers, could be established, even evolution stage of PL development has been delayed in Japan at that time. Paying attention on the transition of PL development focus from cheaper price to quality consistency and multiple branded, this transition can be regarded as one of key factors of success.

2.2. Review on Consumer Perception Model

Once consumers realize quality improvement of PL, the improvement contributes to reduce consumer's risk perceptions before buying. Richardson et al. (1994) empirically revealed that consumers relied on extrinsic cue for their selection between national brand and PL (store brand in their term). If PL brand could be a signal to quality consistency of PL, consumers' reluctance to re-buying and another category of PL should be decreased. As the result, consumers perceived value for money of PL.

PL has been regarded as certainly cheaper, but less quality products compared to national brand. This absolutely becomes the reason why consumers did not buy PL consecutively, once they temporary bought PL, due to income decreasing during recession. However, according to Figure 1, sales growth of PL of big retailers in recent Japan, consumers positively evaluate PL and buy them. One of the factors which reduced consumers' resistance buying PL products was product image by big retailer and quality improvement.

Recent PL development activities do not only focus on cheaper price, but also on the technique how to improve quality. This example in Japan will be stated later, as a case. Formerly, the primary motivation of PL development was to restrain the price up of national brand, and thus many efforts invested on how to reduce the cost. As examples, these efforts were narrowing function and quality (reducing unnecessarily functions), no-return buying contracts, searching for high quality small and mid-size manufactures, increasing amount of procurements for concentrating venders to small numbers, and developing over-seas venders. Though these efforts have been done, consumers regressed to national brand when they had recognized huge quality difference between them, once they bought PL because of cheaper prices. Therefore, it can be estimated that one key factor which makes to diffuse PL widely is to improve PL quality consumers perceived.

Though previous studies have mainly suggested that quality improvement can influence to expand market share of PL products and establish store loyalty, there are few studies on what and how retailers invest and engage quality improvement programs ever. How PL development focused on cheaper price at the beginning has been changing its focus and solving quality improvement problems.

Recent PL development is characterized by big retailer's strong commitment to quality decision, such as material selections, cooperate factories, and process modifications. We suppose that this commitment can explain quality improvement activity, such as quality improvement problems, in a retail company. This paper focuses on evolution process of quality improvement program as a Japanese case.

2.3. Research Methodology

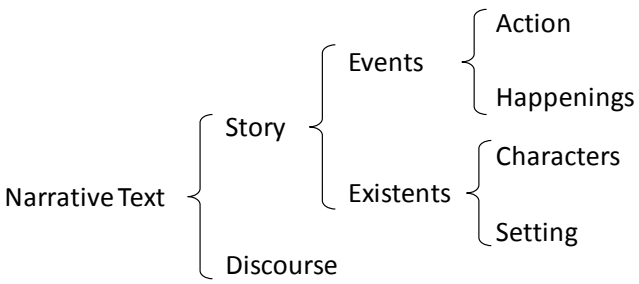
Our research is mainly based on secondary information (documents) and interviews, so far. Thus, this paper employs a case study. Case study is often regarded as case research by Yin (1994), but they are somehow different, or, at least, we recognize some difference between them. First, Yin (1994) referred the case research as one of empirical studies. He and his advocators believe empirical study as generalization method which purpose is scientific research. This belief is stemmed from covering law model which has dominated over management studies for last five decades. Covering law model defines as attitude which tries to specify the generalization which covers phenomena should be explained (Hollis, 1994).

This generalization is regarded as the one critical condition of science, and aims to establish nomothetic principle of management law, for becoming management study as the science. For this establishment, some researcher advocated that even a case study could test a (hypothetical) theory by using several (four to ten) cases (Eisenhardt, 1989).

However, as Dyer and Wilkins (1991) criticized, her discussion which was paradoxical because although its purported purpose was theory generation, it included many of the attributes of hypothesis-testing research (e.g., sampling, controls). If anyone would claim anything positive to hypothesis test by case research, this procedure could not be supported by any statistical theory, specifically, inferential statistics based on law of large number.

Rather, the case study should have another role and contribution to management study. Generally, this role and contribution are often referred as theory building. Additionally, this paper suggests the case can tell what and why a decision maker believed what s/he chosen as good and better. Of course, though we know that it is neither theoretical, nor scientific, it should be not only persuasive, but also understandable. Here, we will say this as narrative story analysis.

Figure 2. Elements of Narrative Theory



Source: Chatman, 1978, p. 19.

Figure 2 shows basic elements of narrative theory. Previous case research studies indicated how a researcher designed and conducted the case research. Elements and notifications were included, but few information on how to write the case. Compared to case study text, primary purpose of narrative theory is to reason account of the structure of narrative, the elements of storytelling, and their combination and articulation.

According to structuralist theory, each narrative text had to have two parts: a story, the content or chain of events (actions, happenings), plus what might be called the existents (characters, items of setting); and a discourse, that is the expression, the means by which the content was communicated. Our research applies this element to describe PL improvement management in Japan.

3. CASE OF PREVIOUS PL DEVELOPMENT

In this section and following section, we will briefly introduce two PL developments, i.e. previous and recent ones. The former copes with cheaper price PL development; the latter will do contemporary development.

3.1. The Previous PL Development and Motivations

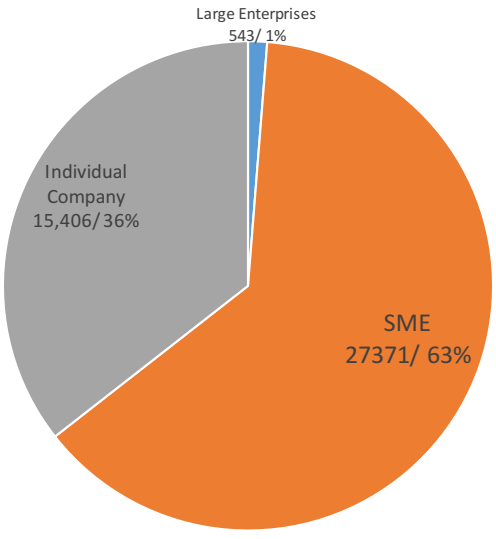
Reflecting a history of PL development by a super market chain retailer (hereafter supermarket), a motivation of the development was to counter price increasing by NB producers. Since its early time in 1960 of introducing PL in Japan, primary purpose of PL development has been to achieve price difference from NB products, especially, during recession, consumers who oriented cheaper price strongly supported. Then, market share of PL products grew. Indeed, focus of development of PL products were 20 or 30% cheaper than existing NB products and equivalent quality to them. Originally, a conceptualization of PL development has been benchmarked the top brand of a product category and achieved equivalent quality and sufficient price difference to it.

For instance, to implement the cheaper PL products, these methods have been adopted, as follows: reducing advertisement, simplifying the packaging, refining quality and functions, and modifying production processes. Some PLs successfully attained intended objectives with consumers' big surprise, but most of them was judged as low quality.

3.2. Development Methods in Early PL Development

In the early time of PL development, PL development was undertaken by small and mid-size manufactures without own NB products. The motivations of these manufactures were mainly these five: utilization of surplus production capacity, maintain the shelf share in big retailer, non-risk excess stock (no return policy contract), and so on. Figure 3 shows the size distribution of food manufactures in 2013 in Japan. That means that over 60% of food manufactures were small and mid-size manufactures.

Figure 3. Size Distribution of Food Manufactures



Source: Ministry of Economics and Industry, 2013 Economic Statistics, Industries edition

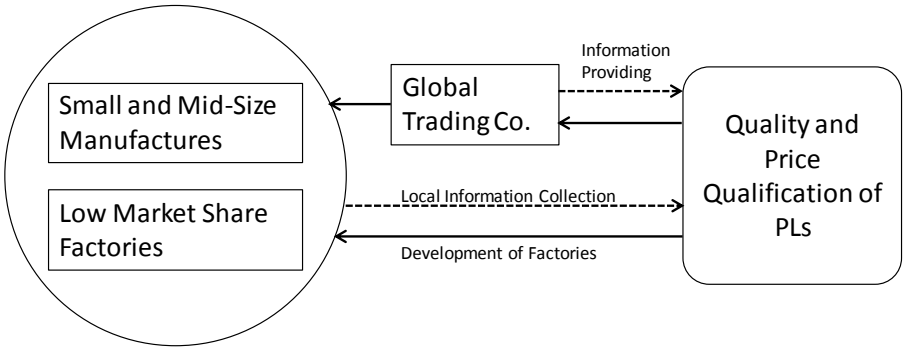
*: Large enterprise > 300 employees, SME < 299, Individual company < 3).

Due to resource restriction, small and mid-size manufactures often were bounded to expand their outlets and distribution channels. Additionally, limitation of production capacity restricts their production ability to distribute their products all over the country. Searching for these small and mid-size manufactures are mainly based on reputation and information from local wholesalers. To small and mid-size manufactures, to have transaction accounts with big retailers directly influences to increase operation rate of production units and to expand retail outlets. These all motivate small and mid-size manufactures to produce PL products.

3.2.1. Intelligence Activity for Factory Selection

As discussed above, once retailer decided to improve PL quality, to find a factory with advanced production technology is critical. In the factory selection process, information from global trading company are exploited. The trading company is delegated to conclude a contract between a retailer and a production factory, to maintain quality management, to manage logistics, and even to cover fluctuation of exchange rate if the contract with foreign factory. As a mean for developing the factory with high quality level, to exploit global trading company will contribute to expand the category of PL products, as well. On the other hand, to global trading company, not only commission will be increased, but also sale increasing will be expected expanding business scale thorough new business opportunity with subcontract wholesalers and cooperated factories (Figure 4).

Figure 4. Development Focus of Previous PL Products



Source: Authors

In contrast, the delegated factory is entrusted from retailers by certificating HACCP for quality management, advancing traceability, investing new facilities. These results, such as certification and business performances will be the signal which assure the quality of PL. Certification is the evidence which describes the factory has management system for product assurance, and business performance is the signal of level of achievement (included improvement of ratio of defectives).

3.2.2. Usefulness of Factory with Low Market Share

In Japan, market share of product categories differs from each local market. Some factory attains high market share in the west in Japan, but low market share in the east. Such high market share in local area represents that the factory has high quality production units, but as for nationwide expanding, low brand reputation, restrict of outlets, and insufficient logistic ability are reasons for market share difference in different area.

These low market share factories eager to accept PL production from big retailers, for expanding their outlets and delivering their product nationwide. Additionally, the factory would be expected production increasing, highly occupation of store shelf by PL production. As for retailers, on the other hand, they would have an opportunity to solve quality improvement problem of PL products under cooperation with these factories.

3.3 Summary of Former PL Development

The first step of PL product development for retailers without factories is to pursue cheaper price and sufficient quality as the original concept of PL. To realize that, there needs to develop the factory with high quality technology, and to gain the acceptance producing PL products. In sum, characteristic of PL development are mainly two: first, the ability which attains the cheaper price with the specification (recipe) the retailers required, and second, the guarantee which achieves the quality technologically.

4. CASE OF CONTEPORARY PL DEVELOPMENT

Here, recent quality improvement activities of PL development in big retailers will be discussed. There are three characters on that. The first one is retailer's involvement to material procurement. The second one is also involvement to production and quality control by recruiting technological staffs. The third one is, and this is critical, to delegate PL development to a famous factory with famous NB. However, this paper discusses on quality improvement of PL development by a retailer's involvement for material procurement and production.

4.1. The Cotemporary PL Development and Motivations

A previous standard understanding of PL development revealed that the retailers indicated delegated factory specifications (recipe as well) of PL product and decided the amount of production, price, and quality level. So far, retailer mainly focused on a convenience goods (by Copeland (1923) meaning) as PL products because of enough expectation of amount of sales, under non-return policy. In that case, retailers delegated the factory to select material providers and production method, while they emphasized on cheaper price product development.

4.2. Development Methods

Contemporary PL development approach, retailers achieved cost reduction by own material procurement and provided material to their factories because scale of economy does not work, for the reason that small and mid-size manufactures could not purchase enough amount of material. This material procurement by the retailers contributes to establish some advantages, such as price down, traceability and secure safety, and knowledge accumulation of materials and production processes.

4.2.1. Involvement to Production Management

There is the case what the retailer directly involves production process of delegated factory as quality improvement activity. Previous PL development sometimes lacked these involvement, such as direction of material procurement and production controls, research and development of products, frequency of new product development, while emphasising on cheaper prices. Consequently, in the short term, consumers made motivations to buy PL in early stage by the price difference between PL and NB, but in the long term, insufficient quality of PL became one of the reasons consumer who realized quality differences did not prefer PL repeatedly.

It is natural understanding on retailers which activities have focused on buying assortment and selling are deficient in knowledge and know-how about production processes. Here are some cases in which retailers involve the advances of production processes in delegated factories for improvement of PL quality.

Fast Retailing Co. LTD (hereafter Fast Retailing), which operates UNICLO garment store as SPA, is one typical case in Japan. Fast Retailing began to build its own store overseas since 2001, at that time, most of merchandise were exported from Japan, even most of them produced in off-shore factories. To increase local contents (local products procurement), Fast Retailing hired the former local marketing manager, Mr. Nagai at Toyota, who was responsible for global optimized procurement in South-East Asia in mid-1990s. Mr. Nagai represented to develop new factories, first mainly in China, then Vietnam and India.

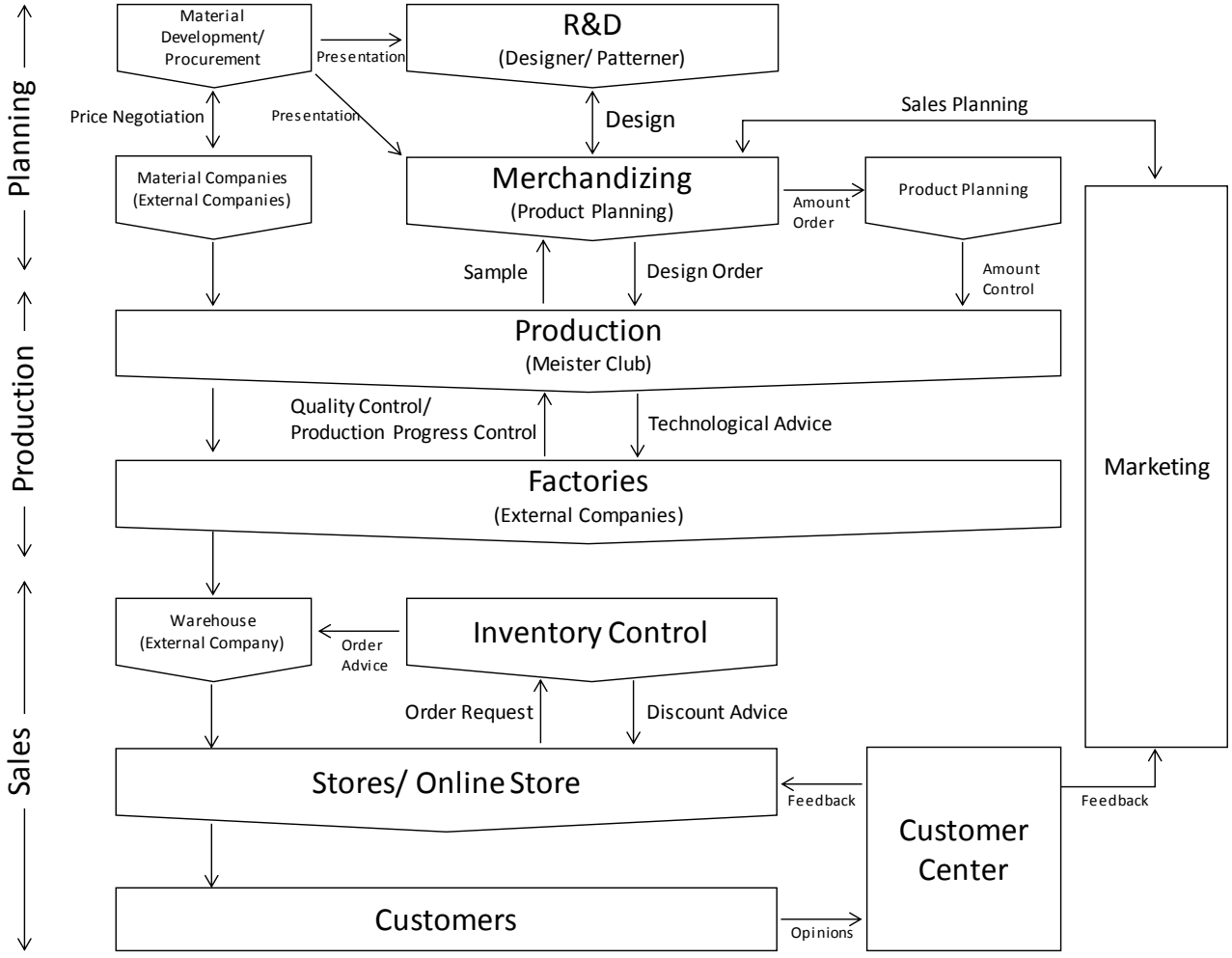
At that time, management team struggled with knowledge transfer problem. Khanna (2014) empirically showed how context intelligence worked. Context intelligence refers to the ability to understand the limits of our knowledge and to adapt that knowledge to an environment different from the one in which it was developed.

In contrast this understanding during 1990s, we believed that similar industries tented to have similar structures and deliver similar economic returns through empirical economists' results on the economies of the OECD member countries. However, when data from multiple non-OECD countries became available, we could not replicate those results. Knowing something about the performance of a particular industry in one country was no guarantee that we could predict its structure or returns elsewhere. Context matters.

Development of new factories both Vietnam and India, Mr. Nagai and development team focused on experienced factories. Experienced factories, in this paper, is referred to the factories which had produced European SPA merchandises ever. European and US SPAs had already shifted their production to these countries since early 1990s. Even these factories

with rich experience, Mr. Nagai recalled that there were two types of presidents (responses). The first one was hesitated, the second one was positive. The former believed that there was no good for her/his factory because merchandises to Japan were extremely strict deadline, quality and cost reduction, additionally, fewer amount of one-time order than other European and US did. The latter one believed that global configuration should be in fashion in close future. They realized that global trend in which shipping to Europe (i.e. orders from European companies) could not continue to grow, in contrast, Japan grew. As for surviving in global economies, business with Japanese company was one realistic option. For these factorise, Fast Retailing delegated "meister club", which directed high quality control method in these new factories. Since 2010, most of meister staffs permanently resist in Shanghai. This structure can be depicted in Figure 5.

Figure 5. The Case of PL quality Improvement Structure



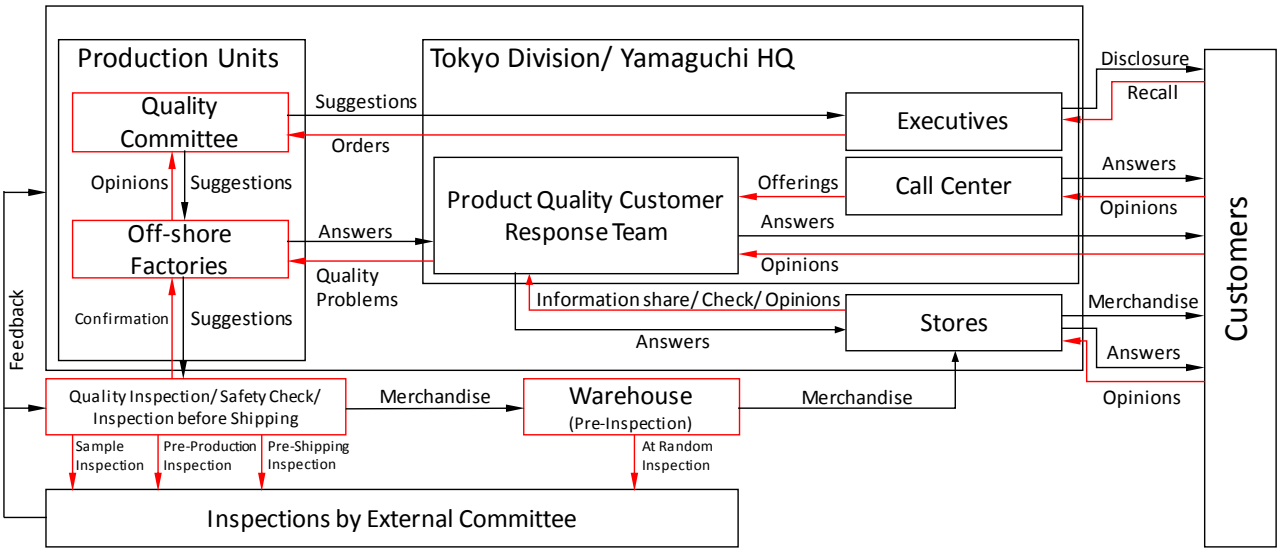
Source: UNICLO IR Library, ar2012_08.

As PL stage evolution model has indicated, PL development of retailers directly evolved from targeting cheaper price to quality focus, while this evolution not only owed technological advancement of delegate factories, but also retailers' involvement to material procurement and production control. Recently, retailers positively involve planning and production processes by recruiting technical staffs, and acquisition the factory with superior production process.

4.2.2. Quality Control Systems

Meister Club staffs are mainly responsible to quality control in off-shore factories. Fast Retailing declared "global quality guarantee" in 2004, and began to committed to material development with textile companies. To achieve high quality merchandises, one organizational solution was to organize quality control units everywhere in and out of the company. Figure 6 shows Fast Retailing (store brand is called UNICLO) quality responsible structure.

Figure 6. The Case of Fast Retailing Quality Control Unit



Izvor: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_sk_dskl_i&lang=en, (19.10.2018.).

However, this structure can be replicated by other companies, or it is easily design this highly restrict quality control company, like Fast Retailing. It's pretty easy, deliver quality control responsible everywhere in the company. Rather, what only could do Fast Retailing is critical. It is called, "from transaction to collaboration" in Fast Retailing.

Transaction in this paper is regarded as economic rational basis. For instance, Fast Retailing asked to submit appraisal estimations to all prospect factories. Under transaction mode, Fast Retailing easily can decide one factory with the cheapest appraisal estimation. Compared to transaction mode, collaboration mode referred to work together under intimate discussions, common goal and mission, and achieving supreme quality target. Under this mode, Fast Retailing and counterpart are equal, and trust each other. Never one had power, nor depend on one side. Consequently, Fast Retailing opened its confidential quality control method with meisters to its counterparts.

4.3. Summary of Contemporary PL Development

Japanese quality improvement management of PL product has been gradually changing. In early time of PL quality improvement, retailer relied on delegate factories, then, involved to upstream of production, such as material procurement, production process control, and quality guarantee management, now material development. One and logical organizational attempt is to configure quality inspection units in the company.

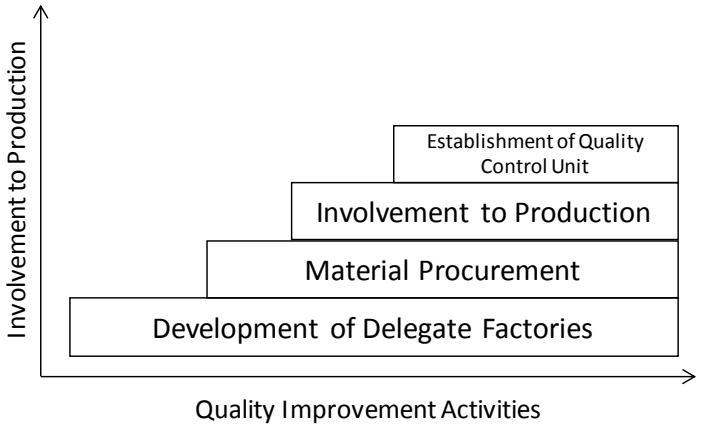
Indeed, there are several cases in which quality inspection unit in the company. AEON, the biggest retail chain store in Japan, owns "life quality science research centre", then intensifies quality inspection judgement. In this foundation, AEON bears all responsible on PL quality, achieves the equivalent level of PL quality to NB products. Consequently, AEON is still a retailer, but it recruits some specialists, include doctor of agriculture and inspector of textile quality management, then, reinforces quality inspection unit.

Further activity than quality inspection can be seen. Nishimatsuya, apparel chain store of children and infants, recruits technologists who has retired famous home appliance companies, and asks them to develop PL products directly. Compared to previous PL development, mainly focused on cheaper price, retailers revise the former development to total quality management and target costing. For instance, material switch and production modification by target costing and improvement of defective ratio to investigate the causes about defective and fault, both are included such revised activities. All affects idea generations of renewal PL and even new PL development.

Recruiting technologists by retail companies is regarded as deep commitment of involvement of quality control in production process and makes quality inspection ability advance to the same as manufacture level. In parallel with this recruiting, as Figure 6 indicated, further activity on quality control, such as third party and independent quality assessment and qualification, are working as well. These certifications by external organizations can be regarded as a guarantee of new PL quality improvement. Through these activities, retailers mastered quality improvement standard which can be an indicator when the retailers realized the timing of PL quality modification.

Figure 7 summarizes the case above discussed. Contemporary PL marketing has been explained primarily not only cheaper price appeal, but also quality improvement, and both contributed market share growth. As our case introduced, quality improvement was not achieved by just establishing quality inspection sections. Rather, Japanese retailers often regarded that quality inspection was not better solution, preferably, collaborative efforts should be needed. Collaboration efforts, here, was introduced as development of delegate factory, material procurement, production control, and quality approval organizational units. All these represented the trend of strong commitment to production phase by Japanese retailers.

Figure 7. The Evolution of Quality Improvement in PL Development



Source: Authors

5. CONCLUSION

Recently, Japanese retailers are gradually changing their appeal of PL products from cheaper price to quality improvement. As the background of PL products growth, consumers are getting admired this quality improvement. Several studies suggested that quality improvement should be one critical requirement for this growth. Unfortunately, there are few reports on retailer's efforts and innovative activities to PL quality improvement. Here, our case introduced what differences exist from previous PL development to contemporary one.

In development of cheaper price PL, relationship between a retailer and a factory focused on scouting for talented factory and derived factory's commitment. Such kind of relationship can be defined as just an order to the factory which could produce PL as retailer's specification asked. Compared to that, characteristics of recent PL development is deep commitment to quality improvement and control in production process. Through some activity in which retailer committed to material procurement and absorbed production know-how, at present, retailer can direct to modify and arrange production processes. Then, target costing can be done by recruiting technologists. They contribute fundamental improvement of PL product design. Organizational inspection of quality advances PL quality much better. Indeed, this organizational commitment must be essential of PL quality improvement.

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EVOLUCIJA RAZVOJA PRIVATNIH MARKI: SLUČAJ JAPANA

SAŽETAK

U radu se analiziraju recentni trendovi razvoja privatnih marki u Japanu. Razlozi za uvođenje proizvoda privatne robne marke početkom 21. stoljeća u Japanu su niska cijena i umjerena kvaliteta. Međutim, poboljšanje kvalitete jedan je od uvjerljivih čimbenika koji objašnjava nedavni rast proizvoda privatne robne marke. U ovom radu pokazat ćemo rast tržišnog udjela koji se razvija s evolucijom privatnih robnih marki koje sa fokusa na niske cijene se usmjeravaju na kvalitetu. Kontinuirano poboljšanje kvalitete proizvoda privatne robne marke jedan kritičan je čimbenika koji utječu na ponovnu kupnju potrošača. Iako su prethodna istraživanja pokazala da je poboljšanje kvalitete pozitivno utjecalo, malo je izvještaja o praksi i upravljanju poboljšanjem kvalitete u maloprodaji. Ovaj rad će istražiti aktivnosti poboljšanja kvalitete i njihov razvoj. Nedavni razvoj privatnih maraka usmjeren je na uključivanje u vertikalni sustav (vertikalno povezivanje), odnosno fazu proizvodnje, kao što su odabir materijala i upravljanje opskrbom.

KLJUČNE RIJEČI: proizvodi privatne marke, poboljšanje kvalitete, vertikalno povezivanje.