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Private label development in the Republic of Serbia

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The paper is focused on market research of private label development in Serbia from 2005 to 2010. Core objective of the paper relates to the comparative analyses of private labels portfolios and strategies between different retail formats. The data used for the research are official statistical data and data collected within the interviews of consumers (200 samples) and private labels managers in four retail chains. Characteristics of private labels between different product categories are not high statistically different from its characteristics at EU markets. Private labels will continue to raise its market and category shares with the high rate in the next 5 years at Serbian retail market.

JEL Classifications: M31, M37, F14, C81

Keywords: Private label, retail concentration, marketing channel, category management.

Introduction

The prevailing attitudes of leading authors in the field of marketing and retail point to an increasing importance of branding process. Brand is marked as a vital strategic instrument, where efficient marketing attains the awareness of consumers on the value and quality of marketing mix. The private label, as a concept, can bring significant advantages to producers, retailing companies and consumers if the relationships inside marketing channels realize without conflicts. It is evident that brand property is not in the foreground, but it is necessary, by means of the joint activities of producers and retailers, to create competitive advantages of products and services. Taking over the initiatives of trading companies in marketing channels causes exponential development of private labels, especially at EU markets, i.e. Southeast Europe.

Accepting the differences between the national brands and private labels, researches are paying an increasing attention to their competition and perspectives of development in different retail segments, and in the framework of different product categories. Internalization of retail activities exerts a positive influence on private label expansion to new markets. Trend of private label expansion in the markets of Serbia and the neighbouring countries, represents the stimulus for researching their space diffusion, research and comparative analysis of similarities and differences between the ways of their presentation. The exponential development of private labels requires the innovation of approaches into brand management process. The focus in this work will be on researching the role of category management of products in efficient positioning of private labels in retail formats of retail chains in Serbian markets.

The analysis of private labels presence in the Serbian market

Number of products of private labels sold in Serbia has increased since 2005. Reasons can be seen in the appearance of international and regional retail chains in the Serbian market, which have already developed their private labels in other international markets. Metro, Merkator, Interex, Idea, DM, and others have such an influence on the accelerated private label development. Their private labels concepts have stimulatingly exerted influence on the national retail chains as Delta, Maxi, Univerexport, DIS, and Lilly. Presentations of private label policy in Serbian markets according to their features are mostly similar to the private label concepts of EU developed countries. The absence of entering the market of retail chains as Aldi, Spar, Tesco, Billa, Auchan, Carefour, Cora, and other, has influenced on relatively low level of retail concentration in Serbia. Besides, an accelerated development of retail formats is missing, as hard discount stores, supermarkets and supercenters, which have been convenient to higher market share of private labels. The first hard discount chain Delta Maxi, called "Tempo Express" was open in 2009, ten more have been opened in Serbia during 2010. Their significance for private labels development can be seen in its high assortment participation (50%).

Private label development can be researched through the dimension of its territorial representation. The territorial private labels allocation points to its potential of realizing market participation, being interdependent with the level of market concentration. Retail network development in the whole marketplace of Serbia is characterized by significant differences from region to region. Besides Belgrade, the biggest concentration of private labels is reported in large cities as Novi Sad, Nis, Kragujevac, Subotica, and others. Contrary to the cities with a large number of inhabitants/consumers, in rural regions and inhabited places with small population (under 20.000) retail chains which operate with private labels are not present or their presence is sporadic. According to the data on sales departments of retailers as Delta Maxi, Mercator, Univerexport, Tus and IDEA in the territory of Vojvodina, taken from their official presentations, the total number of department stores of all sizes is 130. It is necessary to emphasize that the total number of all stores does not mean that the size, attractive power and offer are equalized, but it differs from superettes (convenience stores) and supermarkets, on the one side, to mega markets and hypermarkets, on the other side. Regarding to present differences in characteristics of retail formats, the presence of private labels is very heterogeneous.

In seven cities of Vojvodina with the biggest number of inhabitants, i.e. potential consumers of private labels, there are 84 stores, that is, 64% of the total number in the territory of Vojvodina. The analysis of territorial allocation of stores with private labels offer (84) shows that the strategic focus of retailers is oriented to seven cities, where 957 000 inhabitants live, or 47.1% of all population. Contrary to this, consumers in 19 municipalities of Vojvodina are not able to buy private label products in the places where they live.

Characteristics of private labels presentations

Private label is mostly identified in retail industry, goods of everyday consumption, but it is represented in the wholesale of Metro, Velpro and DIS. Private label representation in retailer chains assortments is very heterogeneous. It ranges from the minimal (starting) participation as a "complementary assortment" in the brand "Baš-Baš" to the broad private label assortment of over 1000 SKU (Delta Maxi, Mercator, IDEA). Retail chains with fewer assortment cover are oriented, before all, to food products (groceries), while both food and non-food segments are equally developed in the conception of private label portfolios. It is interesting to emphasize private label success in specialized chains of DM and Lily, where they develop in nonfood assortments for body care, personal hygiene, household chemicals, and so on.

Joint characteristics of private label presentation in Serbia relate to quality level, where the middle quality level prevails, while the low and high level is more an exception than a rule. Complementary services and electronic sale are at the low level, and it is connected with relatively small investments in private promotion. All the cited elements of offer exert influence on their price positioning in the interval of 10% to 40%, where some price differences are present according to retail formats within the framework of retail chains as Delta Maxi and Mercator. Therefore, for example, Maxi private labels prices have the low levels in Maxi stores. Differences range from 1% to 5% for private labels prices in discount stores relating to supermarkets, being approximate as in the EU marketplace (Sckokai and Soregaroli, 2008, pp.26-40). When we watch the differences in private label presentations through different retail formats of the same retail chain, we can notice the difference in the number of branded products in discount stores in relation to supermarkets. Delta Tempo and Mercator Center have in their assortments over 1000 their own branded products (SKUs), while Delta Maxi and Roda have about 400 to 500 private label products.

Private labels price trends in the marketplace of Serbia is not monitored by the by the official statistics, but it is possible to evaluate the average price gap between the private labels and national brands based on trend analyses in the neighboring marketplaces of Croatia, Hungary, Slovakia, and others. The cited markets are reported as highly increasing in AC Nielsen Report. These markets are characterized by the high price gap level, which, in 2005, was 43% in Hungary, 38% in Slovakia and 37% in Croatia (AC Nielsen Report, 2005, p.17). Besides domicile retailers as Delta Maxi, Univerexport, DIS and Lily, in Serbian market some other retailers do business with their own brands as Metro, Mercator, IDEA, Interex, Veropoulos, and DM. Price strategies applied by foreign retailers in Serbia are identical to their access to markets in the environment. All this points to private labels differentiation in Serbia relating to national brands in the interval from 31% to 33%. Some lower level of price gap in benefit of private labels in Serbia in relation to Croatia and Hungary is primarily the result of the late private labels introduction in our marketplace and smaller number of private label products in the assortments of retailers.

TABLE 1. REVIEW OF DIFFERENT PRIVATE LABEL POLICY PRESENTATIONS IN SERBIA

	MAXI, TEMPO	MERKATOR	METRO	UNIVER-EXPORT	IDEA	VELPRO
Time of private label introduction	2002	2004	Brand production since 2007	2009	2001	2009
Origin	Serbia	Slovenia	Switzerland/ Germany	Serbia	Croatia	Croatia
Brand name	Favola, Fedela, Adut, Premia, Alba, Mistral, Happy Pets, Ambiento, Casabella, Free Line, Polar, Pikolino	Merkator, Stočiću - postavi se/ Table, set yourself ! (fairy tale), Health life, Lumpi, Generic line, Complete care	Aro, Metro quality, Active, Sigma, Alaska, Fairline, Authentic, Select Horeca, Watson, Tarrington House	Baš-baš	K+	Rial
Retail format/stores	Maxi, MiniMaxi, SuperMaxi, Tempo, Tempo Expres	Merkator TC, Roda Centar, Merkator S	Metro	Univerexport and Trgopromet	Idea, Idea Extra, Idea Super	Velpro
SKU in Assortment	700 food and 1000 nonfood articles (11,25% of the total turnover)	1300 articles in 7 lines	125 articles from Serbia + 200 foreign brands	15 articles + 120 articles in 2010.	Over 1000 food and nonfood articles	15 articles
Commodity areas and product categories	Frozen food program, Cakes products, Juice, Canned fish, Paper products, Textile, Pet food, Meat products, Household chemicals, Coffee	Paper products, Milk, Vine, Beer, Cocoa pudding, School suppliers, Ready-made food, Cosmetics, Meat products, Household chemicals,	Meat products, Milk and dairy products, Household chemicals, Cake products, Textile, Frozen food program, Canned food, Housewares, Tools, Sport equipment, Papeer products.	Juice, Paper handkeershiefs, Wet and baby handkerchiefs, Napkins, Toilet paper, Vinegar, Natural mineral water, Tea, Spice, Soups, Whipped cream	Juice, Paper products, Tea, Spice, Soups, Coffee, Detergent, Shampoo, Pasta, Cocoa pudding, Household chemicals, Canned food	Jam, Cake products

TABLE 1. REVIEW OF DIFFERENT PRIVATE LABEL POLICY PRESENTATIONS IN SERBIA (cont-d)

	INTEREKS	DIS	VEROPULOS	CBA	DM	LILLY
Time of private label introduction	2004	2008	2004	2006	1989 (in Serbia since 2004)	2007
Origin	France	Serbia	Greece	Serbia	Germany	Serbia
Brand name	Top budget, Men selection	Good	Vero, Spar	CBA	Alverde, S-he, Sun dance, Ebelin, Profissimo, Babylove, Balea (Total 21 brands)	Lilly
Retail format/stores	Interex	DIS, independent detailers	SuperVero	Independent detailers	DM pharmacies	Lilly pharmacy
SKU in Assortment	500 articles of 15.000 (3,33% of total assortment)	180 articles (8,25% of total turnover)	50 artikala	34 articles	2600 articles of 11.000 (23,6% of total assortment)	40 articles
Commodity areas and product categories	Cake products,Household chemicals, Cosmetics, car cleaning chemicals, Frozen food program, Canned fruit and vegetables, Juice, Ready-made food, School suppliers	Groceries (oil, sugar, flour), juice, detergent, household chemicals, natural mineral water	Toilet paper, Household chemicals, Cooking oil, Vinegar, Pudding, Pasta, Packed cereals, Canned fruit and vegetables,	Cooking oil, Flour, Sugar, salt, Natural mineral water, Tea,	Body care, Hygiene, Products for households, sunbathing products, Eyeglasses/sunglasses, Pet products, Health protection	Cream soap, Aceton, Facial cream

Private labels and category management

TABLE 2. PRIVATE LABEL PARTICIPATION ACCORDING TO PRODUCT CATEGORIES

Product category	Private label participation in the maxi company*	Private label participation in the univerexport*
Canned fish	60%	-
Paper product	40%	52,5%
Wet handkerchiefs	-	70%
Tea	35%	35%
Ready-made food	60%	-
Canned vegetables (beet)	40%	60%
Frosted fish	40%	-
Aluminium foil	-	46%
Pudding	-	38%
Vinegar	-	51%

Note: * According to the internal data of the Maxi Company and the Univerexport Company

The leading retail chains in Serbia develop their private labels in the following product groups and categories: frozen food program, cake products, coffee, carbonated and fruit juice, canned food (fish), paper products (toilet paper, handkerchiefs, wet handkerchiefs, napkins), textile, pet food, meat and meat products, milk and dairy products (fruit yogurt), packed goods (sugar, flour, grain), household chemicals, and so on. Private label development in the segment of electrical appliances, bulbs and other electrical products has not yet been present in the marketplace in Serbia, except in the offer of the Metro Company. The reason for that can be seen in relatively limited sources of supplies of retail chains in the Serbian marketplace. Suppliers of private label products cannot offer adequate quality and price for the products at the higher technological level. It represents the obstacle for their development in the category of products of high innovation.

Private label success can be evaluated through different economic and noneconomic goals. Within the framework of private label analysis in the total turnover of retailers, we can see its participation in individual product categories. For example, the private labels of the Maxi Company have attained the high participation in some product categories. If we add the participation of national brand of Yuhor, Danubius and other producers to this participation, then we can draw a conclusion that private labels and national brands of the Maxi Company and the Delta Company are dominant (more than 50% of participation in the turnover category) for more than ten product categories. Similar, private label reports high participation in product categories in the assortment of the Univerxport - retail company, although the Baš Baš private label was registered in the third quarter of 2009. Based on the analysis of private label participation in different product categories, we can emphasize the conclusion that private labels are mostly represented in part of food assortments in relation to nonfood product groups.

Conclusion

Private labels in the marketplace of Serbia report the high growth level, and it is characteristic for the beginning phase of their development towards the so-called fast-growing markets. Besides private labels creating by some domicile retailers, international retail chains doing business in the marketplace in Serbia, exert significant influence on the characteristics of their presentation, competition and territorial allocation. The influence of international retail chains induces competition oriented toward private label prices, but the level of competition is lower relating to EU and surrounding countries. One of the key reasons for it is the development of retail network of the leading retailers in the territory of Serbia. Private labels availability for consumers is the highest in Belgrade and in the marketplace of Vojvodina, where over 60% of their offer is concentrated in 10 largest cities.

By comparative analysis of private label characteristics, we can notice the high level of their similar development. At the same time, it is necessary to emphasize that the average price gap between national brands and private labels, as well as the level of private labels quality in Serbia is lower in relation to compared markets. The important support for private labels development can be found in efficient product category management. Differences in private labels participation to product categories are statistically very important. The biggest participation is reported in frozen food programs, cake products, coffee, carbonated and juice, canned food (fish) and paper products. In some of these products, private labels have already attained a leading participation in some retail chains in the marketplace of Serbia. Further private labels development will keep developing in the segment of food products, as for nonfood assortment private labels introduction into new product categories can be anticipated.

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