Research on Innovation and Development of Private Brands of Physical Retail Enterprises

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Abstract. In the context of the Internet, with the introduction of "new retail", the development of private brands has become a historical turning point in the development of retail enterprises. Through its development, new opportunities for physical retail companies can be found for growth, so the innovation of private brands and development is essential. Based on the analysis of the status quo, development trend and growth path of private brands, this paper finds out the current stage of the private brands of Chinese retail enterprises, and points out the development direction of the private brands of retail enterprises in the new era, which is the private brand of physical retail enterprises. Provide reference for future development.

1. Introduction

With the marriage of Ali and Bealead, the "new retail" finally landed. The so-called "new retail" is the integration of online and offline, namely: in order to enable consumers to obtain a better user experience, and to satisfy consumers' demand for quality and quality in the new era. The pursuit of life creates a complete closed loop of consumption. The proposal of "new retail" is a huge challenge for the retail industry. In the context of "new retail", retail companies have four main development trends: first, big data and cloud computing will play a pivotal role in the retail industry; second, continuous integration of cross-border resources, online and offline retail business Continuous synchronization and integration; third, strategic cooperation and capital cooperation will become the main methods of online and offline cooperation; fourth, the entire format of the retail industry will undergo transformation and upgrading, including convenience stores, comprehensive markets, large-scale comprehensive supermarkets, and specialty stores, Shopping malls and supermarkets will join the "new retail" industry at the fastest speed. It can be seen that under this trend, competition in the retail industry will intensify. Especially for the physical retail industry, where its development will go, has become a difficult problem facing enterprises.

For physical retail represented by chain supermarkets, in order to reduce costs to the greatest extent and increase profit margins, more and more large-scale comprehensive supermarkets have adopted the path of developing their own brands to encourage enterprises to meet challenges in the new environment. According to the survey on the status quo of Chinese supermarkets and the analysis of market prospects in 2019, private brands will become a turning point in the history of retail brands, and the in-depth development of the retail industry will enter the era of private brands[1]. Private brands have become a chain supermarket. Represents the mainstream trend of the future development of physical retail.

2. Development Status and Trends of Private Brands

Private label (PB) refers to retailer brands. Retail companies design products according to market demand, and the retail companies designate specific manufacturers for production, affix the retail companies’ own brands, and sell them in their own stores. The development of self-owned brands
can reduce the cost of various products such as advertising, stationing fees and other links, and mass sales, ultimately achieving economies of scale. At present, the development of private brands presents the following characteristics:

### 2.1. The Proportion of Private Brands is Increasing Year by Year

Private brands have decades of history for developed countries, and some world-renowned retail companies have cultivated their own well-known brands. According to relevant statistics, the average proportion of private brands in European countries is 30%-35%, and the proportion of private brands in some large retail companies in the United States has reached as high as 40%. The average proportion of private brands in retail companies in my country is about 3%, and the proportion of private brands in more successful retail companies has reached 10%. Taking large retail companies such as Wal-Mart, Carrefour, and Tesco as examples, the proportion of their own-brand products in the total products is on the rise, and the product categories continue to develop toward all categories. Although the proportion of private brands of domestic retail companies is relatively low and is still in the early stages of development, they are showing a good momentum of growth and there is huge room for growth.

### 2.2. The Popularity and Market Share of Private Brands Continue to Rise

Take the large retailer Wal-Mart as an example. At present, it has three main categories of private brands: "Whiyi" covering food and non-food categories, "Mainstays" covering household items, and "Simply Basic" covering clothing products. In order to enhance the visibility of its own brand, Wal-Mart currently launches "Fully Mobilization" as its own brand. Important sales locations in supermarkets such as the main shelves of various categories, the main promotion channel, the cashier area and other areas are filled with Huiyi products. According to statistics, Wal-Mart has more than 2,000 varieties of Huiyi offline in China, covering everything from hot-selling dry goods, convenience products to fast-selling products, which basically meet the daily needs of consumers, because advertising and supermarket entrance fees are omitted. In various intermediate links, we continuously reduce intermediate costs through economies of scale, and our own brands have obvious competitive advantages in low prices and high quality. According to the forecast and analysis of AC Nielsen and Kearney, Wal-Mart’s A-brand market share will remain at 35% in the future, and its own-brand market share will accelerate until 2020[2].

![Figure 1. Market share of different brands of Wal-Mart.](image)

Source: AC Nielsen; Planet London Retail Consulting; Kearney analysis

Note: Brand A represents the top three brands of best-selling products in the market; Brands B and C represent other national brands; 2018 and 2020 data are based on Kearney's forecast.

### 2.3. The Recognition of Private Brands by Consumers has Gradually Increased

The development of private brands has mainly undergone three changes. From the initial low price as the mainstay, the quality second to the multi-branding and economical, quality, and lifestyle
changes, to the current breakthrough homogenization. Cooperate with large manufacturers to produce differentiated products and enhance the market image of private brands. Through three evolutions, the private brand has changed the image of low price and low quality. At present, in the market, private brand and manufacturer's brand are of comparable quality and have lower prices. Retail companies continue to establish internal development systems, establish private brand development teams, and participate in private brand production. While improving product quality, they reduce product circulation costs. There are even some "premium private products" and private brands. The status of the company continues to improve. According to the survey report, more than 50% of consumers buy their own brands during each shopping process, and they hope retailers will develop more distinctive private brands. This shows that consumers are more and more favored.

3. Analysis of Private Brand Growth Path

The growth path reflects the way things develop at different stages, which is affected by many factors such as product positioning and product mix. Analyzing the growth path of private brands (see Figure 2) can accurately locate the stage of private brand development and lay the foundation for private brand development[3].

![Figure 2. Market positioning, product development and private brand growth path.](image)

In the early stages of the development of traditional retailers' private brands, they attracted consumers with OEMs and low prices. After decades of development, retailers realized the serious shortcomings of this move, and the development of private brands entered the second stage. At this stage, retailers are positioning their products as imitative development due to their own financial constraints and weak R&D capabilities and risk-bearing capabilities. During this period, the quality of goods has improved compared to the first stage, but the quality of production is still low. Mainly price products. With the development of the mobile Internet, private brands are shifting to the third stage. At present, the largest domestic retailers such as China Resources Vanguard, Wal-Mart, Leyou, etc. have adopted high cost-effective positioning, and through cooperation with large manufacturers, on the basis of controlling costs, they have improved the operating capabilities of their brands and continuously participated in the R&D, design, and comprehensive analysis of customer preferences with the help of big data to produce consumer-specific products. In the context of the Internet, online retail has become the main force of development. Compared with physical retail, online retail has rapidly entered the third stage and even has developed innovative products with product characteristics due to its inherent advantages in platform financing and large investment in product research and development. The fourth stage. For example: JD.com has implemented its own brand research and development strategy since 2012, built a "broad and deep" private brand product portfolio, and developed a full range of products. As of 2016, it has produced multiple private label categories in multiple fields (See Table3). According to relevant statistics, 30%-50% of gross profit is currently derived from the development of private brands.
### Table 3. JD.com's own brand categories and positioning.

<table>
<thead>
<tr>
<th>Private Brand</th>
<th>Product Category</th>
<th>Market Positioning</th>
<th>Commodity Combination SKL Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dostvle</td>
<td>3C products and accessories</td>
<td>High quality, medium price, innovation</td>
<td>130</td>
</tr>
<tr>
<td>hommy</td>
<td>household products</td>
<td>Simple, high-quality home solutions</td>
<td>36</td>
</tr>
<tr>
<td>Truewow</td>
<td>Personal care products</td>
<td>Colorful and vibrant personal care solutions</td>
<td>21</td>
</tr>
<tr>
<td>Interght</td>
<td>Business men</td>
<td>High quality, leading technology</td>
<td>7</td>
</tr>
<tr>
<td>Latit</td>
<td>Travel luggage</td>
<td>High quality, medium price, low price and affordable</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: According to the company website

For large physical retail companies, they should continue to transform and upgrade in the context of the Internet, relying on the Internet and big data platforms to improve financing and R&D capabilities, and change the traditional retail companies’ influence on display space, financial strength, inventory turnover, and market perception. Restrictions, change the characteristics of "broad and shallow, narrow and shallow" product mix, position the product market with innovation, fashion, and cost-effective according to consumer needs, and promote the continuous transformation of private-label products from the third stage to the fourth stage.

### 4. Development and Innovation of Private Brands of Entity Retail Enterprises

#### 4.1. Enhance the Quality Image of Own Brand

Domestic consumers generally have misunderstandings about private brands, that is, private brands are low-priced and low-quality, and the proportion of private-brand consumption is lower than that in foreign countries. Therefore, there is an urgent need to improve the quality and quality of private brands. Image, change consumers’ misunderstanding of private brands. In order to strictly control the quality of products during the production process, Wal-Mart has established a notification and self-inspection system to strictly select the types of products to be put on and off the shelves, so as to achieve "competitive listing" and "careful exit", so as to guarantee the quality of its own brand products throughout the process. Reduce private brand quality concerns, rely on quality control, ensure safety, and build a lifeline for private brands. Secondly, customize the packaging design of its own brand to enhance its visual recognition. For private brands, each product category should have its own design creativity. Product packaging should be designed according to product attributes, which can better reflect the value of the product.

#### 4.2. Use Big Data to Scientifically Subdivide Product Categories

The choice of commodity categories is a crucial link for physical retailers. In the development of many categories, physical retailers have great barriers in developing their own brands due to their own management capabilities, financial conditions, and research capabilities. The development of private-label categories by foreign physical retail supermarkets is mainly focused on people's livelihood products and has achieved great success. Therefore, for Chinese retail companies, they should also streamline their brands, focus on the development of their own brands in food and daily necessities, and abandon high-end technology products. In order to accurately locate consumers and
meet their needs, physical retail companies should make full use of accumulated consumer data, analyze the factors that affect consumers’ purchasing power and purchasing decisions based on big data, analyze consumer spending habits, and provide consumers with the best Attractive consumer products provide companies with more opportunities.

4.3. Innovate the Research and Development Mechanism of Own Brand

For the development of private brands, retailers should be highly involved, and there should be a standard process system for product quality, design, and control. In order to develop its own brand, AEON established the subsidiary "AEON TOPVALU CO.LTD" with 1,000 employees for research and design; 7-ELEVEn established a research and development system, and corporate personnel and R&D personnel jointly undertake the design of its own brand. Gain insight into market changes and produce products tailored to consumer needs; Wal-Mart currently also sets up a private brand development team to flexibly research and develop private brand categories through analysis of accumulated customer data around the world, and realize private brands based on different marketing scenarios Classified and accurate placement; Metro's research and development mechanism for its own brands is relatively mature. Its research and development of its own brands is mainly concentrated on mid-to-high-end products, and the research and development meets its category of products suitable for its own brands, and the research and development process is complete and systematic Team guidance. It can be seen that the creation of a private brand research and development mechanism is an inevitable trend for retail companies. Retail companies must follow the trend and innovate mechanisms to promote the development of private brands[4](See Figure 4).

![Figure 4. Changes in sales of Aeon's own brand "topvalu".](image-url)

Source: Aeon Group's annual report

4.4. Expand Differentiation and Enhance Customer Stickiness

At present, the homogeneity of the development of private brands in the market is particularly serious. Many products are OEM or OEM based on big brands, which are almost indistinguishable from those of big brands. This results in low recognition of retailers' own brand products. In order to avoid the risk of being eliminated by the market, retailers must look for differences and conduct differentiated production. Retailers must conduct research and development for customers, deeply intervene in production, and analyze customer preferences and habits based on big data. Taking Huiyi Zongzi as an example, Wal-Mart analyzed sales data and user portraits and found that customers in different regions have different preferences and tastes for Zongzi. For example, customers in South China are suitable for various tastes, and Eastern China is suitable for salty taste. According to the situation, Wal-Mart and its own-brand partners conducted in-depth research and re-adjusted the recipe, raw materials and taste of Zongzi to produce products suitable for different regional tastes.
4.5. Innovate the Marketing Mechanism of Own Brand Products

Make flexible use of brand innovation strategies to achieve brand innovation through cultural marketing, brand extension strategies, multi-brand joint strategies and product innovation (See Figure 5). In the mobile Internet era, physical retail should integrate online and offline, and increase the promotion of private brands through Weibo and WeChat platforms, media soft-texts, mobile rich media, video websites, etc., to change consumers’ perception of private brands. For example, the three squirrels developed an integrated communication strategy in the marketing stage based on the cultural attribute of "seeing the world with mouse eyes". Through the Internet platform, they are catching up with the most popular communication methods. Pictures, posters, comics, emoticons, bullet screens, etc. attract consumers' attention. Starting from "mouse", "cheap", "cool", and "beauty" to target different groups, creating different communication points to achieve appropriate marketing and customized marketing, and finally through the establishment of its own brand self-media platform to continuously integrate the brand On the content carrier, embedding and conversion are realized, and the three squirrels marketing strategy is a great success[5].

Figure 5. Brand innovation strategy.

5. Conclusion

The development of private brands of physical retail companies is still in its infancy in China. According to the analysis of private brand growth paths, it is concluded that private brands of large physical retail companies are already in the third stage of cost-effective and joint development. Private brands account for the proportion of companies is constantly increasing, and the profits it brings to companies are also on the rise, which shows that the development potential of private brands in China is huge. However, the development of private brands of physical retail companies is still restricted by many factors, such as price, brand image, store image, consumer buying attitude, etc. The development of private brands should be viewed dialectically, avoiding various restrictive factors and risks, and combining the platform provided by the Internet draws on the advantages of online retail, continuously promotes the online and offline integration of private brands, and continuously innovates and develops private brands.

References


