Australian retailers need to engage with private labels to achieve competitive difference

AUSTRALIAN RETAILERS NEED TO ENGAGE WITH PRIVATE LABELS TO ACHIEVE COMPETITIVE DIFFERENCE

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Abstract

Private label growth in Australia has not kept pace with the growth in private labels elsewhere. This research paper establishes that the odds of a consumer being highly pleased with a store label product when they are *supportive* of the quality of private labels, is more than the odds of the consumer being highly satisfied when purchasing private label products simply because they are *priced significantly lower* than manufacturer brands. It would therefore be useful for Australian retailers to increase investment in private label programs including changing their customers' attitudes to the quality of private labels if they are to stay competitive.

Key words: private labels, store loyalty, Australian

Introduction

Within a space of ten years, retailing has experienced a broad range of consumer behaviour from that of credit fuelled affluence to one of cautious spending, reflecting consumers' low confidence of economic outlook. This atmosphere of consumer caution is an important concern when formulating a retail merchandising strategy. Value-seeking by consumers should not however suggest to retailers a move just towards price-led retailing offers, but should spur them to get a much more detailed understanding of their target customers and to develop a more accurate response to customers' expectations.

The price of an item is a key variable in communicating to the customer the value of the product (Dickson and Sawyer, 1990). Literature makes it clear that the shoppers' perceptions of price are central to influencing their purchase behavior. In the recent past, price has become even more critical because as per Salmon (1996), consumer interests have expanded to new areas of experience and inquiry and if they wish to pursue them, these interests need to be contained within their resources. Salmon believes that consumers may be able to accommodate their larger interests by substituting, for instance, low-price versions of fast moving consumer goods (FCMG), largely food and household products from a range of private labels. Kotler *et al*. (1977) had long suggested that those retailers who can provide products perceived to be of equal or better quality at less expensive or parity price are more likely to be successful in attracting customers. Needless to say however, these retailers must not compromise their bottom line.

Private labels often cost the retailer on an average 20-40 percent lesser than manufacturer /national brands, and therefore allow some of the economies to be passed on to the customer in the form of lower prices. Supermarkets, for instance, find it possible to price their own-label products lower than other brands in the category by adopting cost cutting methods which include plain and simple packaging, not advertising the product and usually purchasing large quantities that imply a bulk buy discount based on the suppliers' marginal costs and tight product specifications. This means that the retailer, in nearly all instances is able to charge a price lower than the

recommended selling price of most manufacturer brands and often make a higher profit.

It is not surprising that a large number retail centers around the world, give consumers a choice of the store's own private labels on a wide range of product categories. In many countries, strong private labels are putting pressure on proprietary brands - an extreme example is the UK, where according to Euromonitor, GMID database (www.Euromonitor.com), private labels accounted for 28.6 percent of packaged grocery expenditure in 1997, having posted a 52.2 percent growth during 1992-97.

Background

In Europe and North America, private labels have as a category continued to post a high growth rate in the past few years. *Foodweek*'s (February 2001), 25 yearlong survey (1975-1999) within the UK, revealed that the market share of 52 store brands in 26 categories tested had increased from 22 percent to 70 percent. According to *Foodweek* (February 2001), private label sales value in US rose from US$29.4 billion to US$32 billion between 1993 and 1994 and European market sales volume of private labels rose from US$32.4 billion (1993) to US$35 billion in this same period. In some instances, supermarkets have elected to sell only their own store labels, like Marks and Spencers with their St. Michael brand.

As against the growth of private labels in Europe and in North America, retailers in Australia have consistently opted to pursue the growth of high profile manufacturer branded products and limit the categories of their private labels. Kerslake (2001) identified that in Australia, private labels continue to viewed with suspicion by the buying public.

In the grocery market of Australia, presently valued at about $41 billion a year (Foodweek, February 2001), Australian shoppers remain loyal to trusted brands and as a consequence private label products have had a comparatively minor presence on Australian supermarket shelves. According to *Foodweek* (February 2001), private labels in Australia account for less than 10 percent of the total grocery market. Black (2000) identified that sales of private labels in Australia have generally contracted during the last ten years and are about 2 % less than what they were 3 years ago. Black believes that Australian shoppers are in fact turning their backs on private labels in favor of more expensive groceries. ACNielsen in their annual Top Brand Survey 1999, when comparing 1997 and 1998 private label growth in Australia, reported that private labels seemed to lose in all product categories including grocery, frozen foods, household products, confectionery/drinks, dairy, health and beauty. Mitchell (1997) ascribes the poor adoption of private labels in Australia because of private labels being perceived to be of lower quality than manufacturer branded merchandise which she presumes may be due to retailers and their suppliers "poisoning the water with cheap, bad quality generics in the 1970s", particularly in relation to commodity products like sugar, flour, eggs or salt. The truth of the matter is that many private label brands are made by the same manufacturers of popular branded goods and are often of no less quality or compromised technically.

On the other hand, according to Miranda (2001), Australian retailers both big

and small regularly seek to encourage their patrons to move towards higher prices and upgrade their purchase to more expensive brands as premium brands give the store a higher absolute margin. There is nothing indiscriminate in this approach except that when discounting the prices of premium brands, to encourage customers to adopt them, quite often the price cut is either too much or too little. Too big a price cut, would deprive the retailer of an opportunity for better profit margins, whereas too small a price drop would vitiate the purpose of price promotion, requiring greater merchandising support to achieve sales objectives.

In another study comparing manufacturer versus retailer brands in Australia, Walters and Hanrihan (2000) reported that in almost every instance, the retailer brand is positioned secondary to the manufacturer brand. The manufacturer brand which is often the market leader, is considered the benchmark - the quality and design leader that initiates customer interest. Walters and Hanrihan contend that this assumption ignores the influence of the retailer on customer loyalty. They support their contention by citing the example of a leading Australian store group that introduced a range of private label apparel items that were positioned below the leading labels in terms of price, quality and design. The company assumed erroneously that customers were looking for lower prices. They were not: their response suggested that they were surprised (even annoyed) that the company should consider them to be price-sensitive. It follows that an alternative strategy whereby the private label was positioned to be superior to the leading brands might have been met enthusiastically store loyal customers. The point apparently overlooked (and possibly not considered by the retailer) was that the customers were extremely store loyal and an exclusive distinctive private label range might have enhanced both revenues and margins. In fact Cunningham (1961) in his study found a significant and positive relationship between private label expenditures and store loyalties for 13 of 16 products examined and concluded that there is a positive association between store loyalty and loyalty to the brands sponsored by the store. Gutwilling (2000) believes that an excellent private label program provides many important but frequently uncounted return on investment (ROI) advantages - perhaps the greatest strategic benefit of a store brand program- its ability to create loyal shoppers and a point of competitive difference. McGoldrick and Marks (1987) suggest that consumers prefer the guarantee offered by a familiar store name on a product than the uncertainty and the risk of an unfamiliar minor national brand. It must be recognized however as pointed out by Rao (1969) that while store loyalty may increase the probability of purchasing private labels, consumers do not distinguish among private labels offered by competing chains. Rao (1969) claimed that consumers who are prone to buy private labels do so at whatever chain they happen to patronize. Richardson (1997) maintains however that private labels continue to be undifferentiated in consumer's minds and creation of a unique selling proposition for a store's private label range could be an effective merchandising strategy.

Research Problem

There does not seem to be evidence in the literature of specific studies that have examined the reason for the poor performance of private labels in Australia. There is also no demonstrated evidence that Australian retailers have in any way tried to generate additional store traffic or increase store loyalty by investing greater resources into developing private labels. It is not clear whether Australian retailers' lack of faith

in the ability of a private label programs to improve stores' competitiveness is because they have an insufficient understanding of customers' attitudes towards the quality of private labels or whether these retailers believe that private labels give low returns on investment. Greater insight in understanding the consumer's mindset towards store labels would largely help direct Australian retailers to invest in creating positive attitudes to private labels and also arrive at optimal price levels for their store brands.

This research paper seeks to specifically compare the odds of the Australian consumer who perceives the price of the private label to be significantly lower than the manufacturer brands, to be highly satisfied with the private label's performance with the odds of the consumer who has a positive attitude to the quality of private labels and be highly pleased with the product's performance.

Research Method

The research methodology included the personal administration of a structured questionnaire among 213 grocery shoppers who claimed to regularly buy private labels, in order to investigate their perceptions of price, quality and performance of store labels. As part of the survey's introduction, examples of private/store labels were cited to the respondent to ensure that there was consistency of interpretation of these terms. This survey was conducted over a two-week period among shoppers across Melbourne, Australia, who had just exited Coles and Safeway Supermarkets – two of Australia's biggest grocery retailers, both of whom have their own distinctive store labels across a range of grocery products.

The data obtained from the survey was analysed using SPSS software to investigate how satisfaction with the performance of private labels varies with the buyers' perception of price and the buyer's perceived attitude to quality of private labels.

- The response variable *satisfaction* had five categories namely low satisfaction, low-to-moderate satisfaction, moderate satisfaction, moderate-to-high satisfaction and high satisfaction.
- The variable *price perception* identifies the level at which the respondent perceives private labels to be priced at one of two categories namely, slightly lower (≤10% cheaper) and significantly lower (>10% cheaper) than manufacturer brands.
- The variable *attitude to quality* indicates the level of the respondent's agreement that the private label quality is comparable with manufacturer brands in one of three categories (agree, neither agree nor disagree, disagree).

In this study a *Multinomial Logit Model* using *Loglinear Analysis Procedure* is used to specify and investigate the relationship between the polytomous response variable (*satisfaction with performance of private labels*) and explanatory variables (consumers' *perception of price of private labels* and their *attitude toward private label quality*). The SPSS output from the Logit Loglinear Analysis Procedure allows us to consider how the perception of store label price level (slightly lower or significantly lower) and attitude towards private labels quality affects the odds of the satisfaction level of the buyer of private label(s).

Agresti (1990) when analysing category data successfully fitted the following logit model:

$$\ln (m_{ijk} / m_{1jk}) = \lambda_i + w_{ij} + v_{ik,,} \quad \text{----------(1)}$$

The same logit model as in (1) could be used for analysing data relating to categories defined by the three variables being considered, namely *satisfaction*, *price perception* and *attitude*; where the main-effect terms corresponding to *price perception* and *attitude* are *w* and *v*; *i* is the index for *satisfaction* (*S*), *j* is for *price perception* (*P*), *k* is for *attitude* (*A*), and *m* is the count for the *i*th category of satisfaction, the *j*th category of price perception and the *kth* category of attitude (i = 1,2,3,4,5; j = 0,1; k =1,2,3); λ_i is the interaction term between price perception and attitude. This logit model is used to study the propensity of low satisfaction with private labels products (i = 1) with any other levels of satisfaction with private labels. The data is weighted by count.

The equivalent loglinear model is:

$$\text{Ln } (m_{ijk}) = (PA)_{jk} + Si + (SP)_{ij} + (SA)_{ik} \text{ [2]} \quad \text{----------(2)}$$

where $(PA)_{jk}$ is the normalising constant for the *j*th category of *price perception* and *k*th category of category of *attitude*; *Si* is the main-effects term for *satisfaction*, $(SP)_{ij}$ and $(SA)_{ik}$ are terms corresponding to *satisfaction* by *price perception* and *satisfaction* by *attitude*. From Equations 1 and 2,

$\lambda_i = S_i - S_1$ ----------(3)
$w_{ij} = (SP)_{ij} - (SP)_{1j}$ ----------(4)
$v_{ik} = (SA)_{ik} - (SA)_{1k}$ ----------(5)

Key Data

1. An overwhelming majority of respondents (92 percent) claimed that they bought their groceries exclusively from the same store that they had exited with 83% of these stating that they had been making their purchases regularly from this store for over six months.

2. Approximately one third of respondents (35.1 percent) who purchased private labels considered the price significantly lower than manufacturer brands. Conversely almost two thirds of the buyers of private labels (64.8 percent) thought that the prices of private label products are only slightly lower.

3. It is significant to note that an overwhelming number of respondents (86.4 percent) were moderately satisfied to highly satisfied with the performance of private labels that they had purchased.

4. Among the respondents who considered the price of private labels to be significantly lower, a dominant number (85.3 percent) had a moderate/moderate-to-high level of satisfaction with the products' performance.

[2] Multinomial Logit model: Constant + Q5 +Q5*Q3A + Q5*Q4D ------- See Table 1

5. The number of buyers of private labels who agreed that the quality of private labels was comparable to manufacturer brands (44.1 percent) were equal to the number of buyers who disagreed that the quality of private labels was comparable to manufacturer brands (44.1percent), as against approximately12 percent saying that they neither agreed or disagreed that the quality of private labels were comparable to manufacturer brands.

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6. Only a small proportion (3.3 percent) of the total respondents had a low satisfaction level with the private label products' performance and 10.3 percent of respondents reported that they were only low-to-moderately satisfied with private labels. Between these two categories the respondents were equally distributed among those who agreed that the quality of private labels was comparable to manufacturer brands and those that disagreed that the quality of private labels were comparable to manufacturer brands. Moderate-to high satisfaction with private labels was indicated by majority of the respondents, i.e. 67.2 percent.

TABLE 1
Variable Information

Factor	*Levels*	*Value*
Q5	5	satisfaction of performance
		1.00 low satisfaction
		2.00 low-moderate satisfaction
		3.00 moderate
		4.00 moderate-high satisfaction
		5.00 high satisfaction
Q3A	2	price perception
		0.00 significantly lower
		1.00 slightly lower
Q4D	3	attitude to quality
		1.00 disagree
		2.00 no view either way
		3.00 agree

Data Analysis and Findings

This Logit model fits the data well as shown by the measures of association namely Entropy (R_H)=0.849 and Concentration (R_C)=0.728. In the Logit Loglinear Analysis, R_H and R_C play a role similar to R^2 in regression and their values being close to 1.00 suggest that satisfaction with the performance of the store label is highly associated with price perception and attitude towards quality of private labels.

Let us consider how the **perception of price** level affects the odds of the customer **being highly satisfied** instead of **having a low level of satisfaction**.

Substituting in Equation 3 for $i = 5$ and $j = 0$, the parameter $w_{50} = SP_{50} - SP_{10}$
Since SP_{50} and SP_{10} are the 20^{th} and 12^{th} parameters (TABLE 2), the corresponding parameter estimates from TABLE 3 give:
$w_{50} = 0 - (-0.6430) = 0.6430$
Similarly for $i=5$ and $j = 1$, $w_{51} = SP_{50} - SP_{11}$
Since SP_{50} and SP_{10} are the 21^{st} and 11^{th} parameters respectively (TABLE 2), from corresponding values from TABLE 3, $w_{51} = 0$
Thus for a given attitude to the quality of private labels, the estimated odds of the customer being highly satisfied when the price is significantly lower is $e^{0.6430}$ i.e. 1.90 *times more than when the price is slightly lower*----------**A.**

TABLE 2
Correspondence Between Parameters and Terms of the Design

Parameter	*Aliased*	*Term*
1		Constant for [Q3A = .00]*[Q4D = 1.00]
2		Constant for [Q3A = .00]*[Q4D = 2.00]
3		Constant for [Q3A = .00]*[Q4D = 3.00]
4		Constant for [Q3A = 1.00]*[Q4D = 1.00]
5		Constant for [Q3A = 1.00]*[Q4D = 2.00]
6		Constant for [Q3A = 1.00]*[Q4D = 3.00]
7		[Q5 = 1.00]
8		[Q5 = 2.00]
9		[Q5 = 3.00]
10		[Q5 = 4.00]
11	x	[Q5 = 5.00]
12		[Q5 = 1.00]*[Q3A = .00]
13	x	[Q5 = 1.00]*[Q3A = 1.00]
14		[Q5 = 2.00]*[Q3A = .00]
15	x	[Q5 = 2.00]*[Q3A = 1.00]
16		[Q5 = 3.00]*[Q3A = .00]
17	x	[Q5 = 3.00]*[Q3A = 1.00]
18		[Q5 = 4.00]*[Q3A = .00]
19	x	[Q5 = 4.00]*[Q3A = 1.00]
20	x	[Q5 = 5.00]*[Q3A = .00]
21	x	[Q5 = 5.00]*[Q3A = 1.00]
22		[Q5 = 1.00]*[Q4D = 1.00]
23		[Q5 = 1.00]*[Q4D = 2.00]
24	x	[Q5 = 1.00]*[Q4D = 3.00]
25		[Q5 = 2.00]*[Q4D = 1.00]
26		[Q5 = 2.00]*[Q4D = 2.00]
27	x	[Q5 = 2.00]*[Q4D = 3.00]
28		[Q5 = 3.00]*[Q4D = 1.00]
29		[Q5 = 3.00]*[Q4D = 2.00]
30	x	[Q5 = 3.00]*[Q4D = 3.00]
31		[Q5 = 4.00]*[Q4D = 1.00]
32		[Q5 = 4.00]*[Q4D = 2.00]
33	x	[Q5 = 4.00]*[Q4D = 3.00]
34	x	[Q5 = 5.00]*[Q4D = 1.00]
35	x	[Q5 = 5.00]*[Q4D = 2.00]
36	x	[Q5 = 5.00]*[Q4D = 3.00]

Note: 'x' indicates an aliased (or a redundant) parameter.
These parameters are set to zero.

On the other hand to see how the **attitude to quality of private labels** affects the odds of the customer **being highly satisfied** instead of having a **low level of**

satisfaction, we compare parameters v_{53} and v_{51}.
Substituting in Equation 4 for *i and k,* $v_{53} = SA_{53} - SA_{13}$. Since SA_{53} are SA_{13} are the 36th and 24th parameter in TABLE 2, correspondingly from TABLE 3, $v_{53} = 0$
Similarly from TABLE 3, $v_{51} = SA_{51} - SA_{11} = -10.1814$, where SA_{51} and SA_{11} are the 34th and 22nd parameters in TABLE 2 respectively.

Thus for a given perception of price level, the estimated odds of the customer being highly satisfied when agreeing that the quality of private labels is comparable to manufacturer brands, is e^0 i.e. equal to 1 *since* $v_{53} = 0$----------**B.**

However, for a given price perception level, the estimated odds of the customer being highly satisfied when they ***do not agree*** *that the quality of private labels is comparable to manufacturer brands is almost zero, i.e.* $e^{-10.1814}$ ----------**C.**

We also note that:
the estimated odds of one who perceives private label's price to be slightly lower (w_{41})*, of being moderate-to-highly satisfied with its performance is more albeit slightly (1.05 times) than the estimated odds of one who perceives the private label's price to be significantly lower* (w_{40}) *and is moderate-to-highly satisfied with its performance*----------**D.**

This is evidenced by substituting the parameter estimates from TABLE 3 for the relevant parameters (TABLE 2) for w_{41} (parameter19 minus parameter 13) and w_{40} (parameter 18 minus parameter12) in Equation 3 we get:

$$\frac{w_{41}}{w_{40}} = \frac{0.000 - 0.000}{0.6895 - (-0.6430)}$$

$$Hence \frac{e^0}{e^{-0.0465}} = \frac{1}{0.9546} = 1.05$$

When we consider **the interaction of price perception with attitude to quality towards establishing a high satisfaction with performance**, we find that: *the odds of the customer being highly satisfied when perceiving the price to be slightly lower and agreeing that the quality is comparable to that of manufacturer brands* (m_{513} / m_{113})*, is extremely high* (as under)----------**E.**
As per the Logit model (Equation 1), $m_{513} / m_{113} = e^{\lambda_1 + w_{51} + v_{53}} = e^{9.9825+0+0} = e^{9.9825} =$ 21644.36
where $\lambda_1 = S_5 - S_1$ (Equation 2); as per estimates in Table 3: $\lambda_1 = 0 - (-9.8925) = 9.8925$

On the other hand:
the odds of a customer being highly satisfied when the price is perceived to be significantly lower and does not agree that quality is comparable to manufacturer brands (m_{501} / m_{101})*, is comparatively very low* (as under)----------**F.**
$m_{501} / m_{101} = e^{\lambda_1 + w_{50} + w_{51}} = e^{9.8925+0.6430+(-10.1814)} = e^{0.44} = 1.55$

TABLE 3
Parameter Estimates

Constant	*Estimate*
1	-.6365
2	.4227
3	2.0725
4	-.7532
5	-.7467
6	1.8009

Note: Constants are not parameters under multinomial assumption.
Therefore, standard errors are not calculated.

				Asymptotic 95% CI	
Parameter	*Estimate*	*SE*	*Z-value*	*Lower*	*Upper*
7	-9.8925	26.6782	-.37	-62.18	42.40
8	-.4859	.5887	-.83	-1.64	.67
9	1.5703	.4258	3.69	.74	2.40
10	1.2486	.4358	2.87	.39	2.10
11	.0000	.	.	.	.
12	-.6430	1.5706	-.41	-3.72	2.44
13	.0000	.	.	.	.
14	-.7647	.6741	-1.13	-2.09	.56
15	.0000	.	.	.	.
16	-1.4585	.5743	-2.54	-2.58	-.33
17	.0000	.	.	.	.
18	-.6895	.5630	-1.22	-1.79	.41
19	.0000	.	.	.	.
20	.0000	.	.	.	.
21	.0000	.	.	.	.
22	10.1814	26.7074	.38	-42.16	62.53
23	9.6486	26.7003	.36	-42.68	61.98
24	.0000	.	.	.	.
25	3.7627	1.1377	3.31	1.53	5.99
26	1.0099	1.1252	.90	-1.20	3.22
27	.0000	.	.	.	.
28	2.7348	1.0640	2.57	.65	4.82
29	.5633	.8840	.64	-1.17	2.30
30	.0000	.	.	.	.
31	2.4247	1.0667	2.27	.33	4.52
32	1.1756	.8316	1.41	-.45	2.81
33	.0000	.	.	.	.
34	.0000	.	.	.	.
35	.0000	.	.	.	.
36	.0000	.	.	.	.

Discussion

Though an ACNielsen study (1999) on private label penetration in 30 countries identified that the average discount of private labels from manufacturer's brands in Australia was 43 percent, the biggest margin of all countries included in the survey, in this study it was evident that most purchasers of private labels (64.8 percent) do not consider prices of these labels to be significantly cheaper than manufacturer brands. It is usual to expect that consumers who have little buying experience of particular products may not be able to recall the price difference between various brands of those products. Everybody who participated in this survey confirmed buying store labels in one or more product categories. The survey did not determine the proportion

of the shopping basket that private labels constituted and some respondents may be purchasing more private labels than others. It safe to assume however that private labels would comprise only of a small fraction of most customers' total purchases, in keeping with the proportion of the market share of private labels in Australia and their non familiarity with a range of private label products is what contributed to the inaccuracy of price recall.

While about a sixth of store labels buyers do not have a firm view of the quality of store labels, equal number of respondents from the balance of those surveyed (44.1 percent) either agreed or disagreed that store labels were of comparable quality to manufactured brands. Even among those who were not positive about the quality of store labels, an overwhelming majority (78.8 percent) from this cohort were moderately to highly satisfied with the performance of private labels.

This research demonstrates (Finding E) that the estimated odds of the buyer of private labels being *highly satisfied* with the product's performance are extremely high when the buyer has a *positive attitude towards the quality* of private labels even though the buyer perceives the price of the private label being only *slightly lower* than the manufacturer's brand. Majority of respondents (64.8 percent) perceive the prices of private labels to be only slightly lower than manufacturer brands. In this group, as seen in Finding D, the estimated odds of the customer being at least moderate-to-highly satisfied with private label products is more than the estimated odds of those customers who perceive the price to be significantly lower and aspire to the same level of satisfaction i.e. moderate-to high satisfaction.

It must be remembered though (Finding A), that for a given attitude to the quality of private labels (in terms of the comparison of the quality of private labels to the quality of manufacturer brands), the customer would prefer the private label to have a significantly lower price if they are to give their preference to a private label. Also, from Finding C, we see that customers are not likely to be highly satisfied with private label products when they do not agree that the quality of private label are comparable to manufacturer brands, the estimated odds being almost zero.

The converse of Finding F is that positive customer attitudes to quality of private label products and not significantly lower prices (compared to manufacturer brands), is what contributes to the estimated odds of the customer being highly satisfied with the performance of private label products.

Conclusion

Improving consumer attitudes to private labels therefore seems to be mandatory if Australian retail firms are to achieve a competitive difference with their private label programs.

Private labels are known to give customers greater choice and variety. They add depth and breadth to the retailers' existing ranges and provide a promotional "pull". Improving the attitude of customers to the store's private label products would heighten the impression among the stores' customers that they were being provided with an expanded choice of products. A positive attitude would help prevent the store's patrons shop hopping to prospect bargains of manufacturer brands in other

stores if they were reasonably confident that their preferred store offered quality private labels. A well-devised private label program, covering product quality and merchandising, would provide the store's customers with the latitude to migrate from well-known manufacturer brands to private labels that bear the familiar name of the retail store.

So far two retail chains, namely Coles and Woolworth, have dominated Australian grocery business. However with globalisation quickly making its impact on the retailing sector, it will not be long before retail giants from particularly Europe would want to participate in the Australian market, perhaps as a stepping-stone into Asia. With the entry of Aldi, the German retailing group, building store loyalty may become one of biggest challenges to Australian grocery retailers in Australia. Because private labels are exclusive to a store, store loyalty can possibly be based upon a store's provisions of its particular "brand" of product, unique to the store but different from manufacturer brands or other store brands. Australian retailers need to engage themselves seriously with private label programs if they are to achieve a competitive difference. We have seen that the lower price of private labels is not a sufficient motivating factor to buy them as consumers are likely to choose cheaper options of branded products over private labels, simply because they have more knowledge about them – and these branded manufacturer brands can be found in other stores as well.

Hence it is important that Australian retail firms position their private labels in consumers' minds as being able to perform on some quality dimension similar to successful manufacturer brands. Importantly, Australian retailers must also ensure that their private label products are positioned differently from the store brands of their retail competitors so that consumers are able to distinguish among private labels offered by competing chains. Cultivating a unique strategy for their private labels could be a particular defensive strategy against the threats posed from new entrants in the Australian market like Aldi whose business is centred around their private labels.

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