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Private Labels

- A Study of the Development of Private Labels
on the Fast-Moving Consumer Goods Market

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ABSTRACT

Title **Private Labels**
 - A study of the Establishment and Development of Private Labels

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The Fast-moving Consumer Goods Market (FMCG) is characterized by the competition between private labels and national brands. Private labels are a global phenomena, but the private label market differs between nations due to various market conditions. This thesis aims to study the motives, triggers and challenges affecting the development of private labels on the Swedish FMCG markets, as well as the private labels strategies used. The empirical data has been collected by qualitative interviews with Sweden's three largest FMCG companies: ICA, Coop and Axfood, as well as Swedish and European market studies. Future private label development trends on the Swedish market have then been identified and analyzed.

The study shows that main motives for private label introduction on the Swedish market today are to fulfil customer needs, and increase the retailers' power in the value chain. Triggering factors have proven to be food- and health trends, as well as a high market concentration. The main challenges for private label retailers are quality assurance, customers' perceptions of private labels in relation with national brands, and vertical challenges such as how to work with private labels on store level. Furthermore, the study found that retailers now and in the future will focus on providing the customers with unique offers, by differentiated products ranges, and by filling out unsaturated consumer needs. In addition, the study suggests a circular relationship between the traditional chains' private labels, new food- and health trends and hard discounters' establishment in the Swedish market. Finally, the study observed a wider view of the competition on the market, where FMCG companies compete with the service sector in terms of "share of stomach".

Key words Fast-Moving Consumer Goods, National Brand, Private Label, Private Label Development

Key Words

Fast-Moving Consumer Goods

National Brand

Private Label

Private Label Development

Abbreviations

FMCG - Fast-Moving Consumer Goods

G1 - Generation 1

G2 - Generation 2

G3 - Generation 3

G4 - Generation 4

PL - Private labels

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1. INTRODUCTION

The introduction will provide the reader with a general view of the area of research and will explain the most prominent former studies within the field of study, as well as deeper explanations of the keywords and factors connected to the subject. In the problematization section the topicality of the problem is further explained. This will be followed by the purpose of the study, and a statement of the questions of research. The chapter ends with a presentation of the limitations and a clarification of the structure of the thesis.

1.1 BACKGROUND

Food is an inevitable and essential expense for every household, no matter geographical location or economic situation. As a consequence, the development and price fluctuations in the fast-moving consumer goods (FMCG) industry are in everyone's interest. In Europe, the constant need for food correlates with food consumption being the third largest household expense per year, and even during the past economic recession food consumption remained stable (Eurostat, 2013). The FMCG industry will therefore always be of great importance for the society, and due to the constant development within the industry, research in the field is required.

Most households still choose to visit a physical store to purchase their goods. On the shelves, they will see a lot of well-known brands, but during the past fifty years competition of the store shelves has emerged in extent. Not only do national brands, the brands manufactured by suppliers, widen their product ranges, but retailers have also started to offer the customers products under their own brand name. According to Kumar & Steenkamp (2007), McGodrick (2002) and Parker & Kim (1997), private label products are retailers' own products sold under brand names controlled by retailers. In Europe, countries that faced early private label development were United Kingdom, France and Germany (reds. Anselmsson & Johansson 2005). The start for private labels goes back to the 1920's when, for example companies in the UK, started with their own product labels. The development of private labels led to more companies introducing them on the market, and in the 1960's private labels were officially introduced (eds. Ezrachi & Bernitz 2009). Companies around Europe invested in innovative development for products, consumer research and marketing, which resulted in a European success story and strong private labels (Nielsen, 2011). UK is considered to have the most developed private label market (Dawes & Nenycz-Thiel 2011; Johansson & Burt 2004), but other European countries are closing in, in terms of volume sold. Instead, Switzerland with its 53 per cent and Spain with its 51 per cent are currently the leading private label

markets. In addition, Portugal with its 44 per cent private label share is just one percentage point behind the UK, and many countries, including Sweden, today have shares around 30 per cent (see appendix 8.1).

The development of private labels on the Swedish market escalated in connection with the country's entry into the European Union. Through the membership market conditions changed, and new opportunities rose. As an example Sweden got access to new suppliers without punitive tariffs, which lead to greater opportunities for Swedish retailers to create private labels (reds. Anselmsson & Johansson 2005). According to Ossiansson (2004), the Swedish FMCG market is characterized by high concentration, which place it among the highest concentrated markets in Europe. In comparison to other European countries, Sweden is geographically sparsely populated with great distances between the North and the South. Consequently, the country consists of many different consumer preferences and product demands. To serve these needs and to reach the whole population the Swedish retailers try to adapt store sizes and a varied commodity supply. Moreover, the Swedish FMCG market is characterized by the power and influence of each store or supermarket's owner. However, Nielsen (2011) claim the volume of products sold in the stores is not just affected by managers and owners' actions. External factors in general and the economic environment in particular have shown significant effect on sales, especially sales of private labelled products. The report showed that 60 per cent of the European citizens bought more private labelled products during the past economic recession.

1.2 PROBLEMATIZATION

Private labels are not a new phenomena in the FMCG industry, but during the last decade private label strategies have intensified (Kumar & Steenkamp 2007). Establishing private labels is complex, since the products produced must be able to compete with national brands (Ailawadi 2001). Retailers must ensure high or equal quality of the products supposed to substitute national brand products (Hoch 1996; Verhoef et al. 2002), be sold at significantly lower prices if marketed as discount products or being differentiated and of superior quality, if sold as premium private label (Hoch 1996).

According to Schreijen (2011) there are many motives for why a retailer chooses to establish and develop a private label. National brands have over the years attracted customers through advertising and promotional efforts, enabling them to increase their share of the total profits on the expense of the retailers' margins. Thus, the suppliers gained strength towards the retailers. Private labels became a possibility for the retailers to increase their margins and restore the balance of power on the market.

Another motive was the usage of private labels as a tool for retailers to differentiate themselves and create customer loyalty through unique offers.

While there are underlying motives for private label introduction, uncontrollable external factors trigger further development. In addition to strategic actions made on a corporate level for private label development and strategies for how to keep them competitive (Hoch 1996), factors such as market concentration, economic environment and food (Jordbruksaktuellt 2014) -and health (Svensk Handel 2014) trends has shown to be of vital importance. These factors affect what kind of private labels are launched, as well as their product range.

Parallel with triggering factors, several challenges hamper the existence and development of private labels. As the emphasis on the customers' opinions and perceptions of the product has increased in the Swedish FMCG industry (Ossiansson & Fuentes 2006), the customers' preferences pose the biggest challenge for retailers when developing private labels. According to Mårtensson (1994), customers have less trust in products produced by retailers than traditional national brand producers. Thus, retailers are dependent on the ability to deliver a variety of brands on their store shelves since the consumers are demanding it. If they are not able to offer the demanded products they will lose customers to competing FMCG chains (Ailawadi 2001). In addition, retailers meet vertical challenges, such as how private labels shall be marketed (Burt 2000a). During the last years hard discount chains have posed a significant threat against private labels in the UK, a forerunning private label market. Concerns are there focused on the growth of hard discount supermarkets, which can lead to supermarkets being forced to cut prices in order to stay competitive (Felsted 2014). However, on some markets, for example the German FMCG market, hard discounters have shown to have a triggering effect on private label development (Schreijen 2011), indicating that the hard discounters' effect on private labels is a complex and questionable issue.

Recent research conducted on the Swedish FMCG market has during the past ten years mainly focused on the supplier's perspective of private label development and the consequences it leads to (reds. Anselmsson & Johansson 2005; Anselmsson & Johansson 2013). Research on Swedish private label development trends is poor and the field is in need of further examination. Motives, triggers and challenges all affect the market and its development of private labels in combination with each other. Motives explain why a market chooses to introduce private labels in the first place, while triggers will direct the development in one direction or another. The upcoming challenges will influence private labels in a way where companies need to find a solution for further improvements. How far private labels are developed in a country and what the future will look like will therefore depend on the interaction between

these factors. Despite being a national phenomenon, each market need to be studied individually. The complexity of the problem is that the relevance of general research about the motives, triggers and challenges affecting the development must be examined in relation to each market's domestic conditions (Hughes 1996).

1.3 PURPOSE

The purpose of the study is to describe the motives, triggers and challenges for private label development on the Swedish FMCG market. These factors will form the foundation for an analysis of the possible future directions for the development of private labels in Sweden.

1.3.1 Questions of Research

- What are the motives, triggers and challenges for the development of private labels on the Swedish FMCG market?
- What will the future Swedish private label market be characterized by?

1.4 LIMITATIONS

The thesis is limited to the present and future development of food and beverages private labels on the Swedish market and important global external factors affecting the development. The real case examples used to compare the Swedish private label market with other markets are geographically limited to European markets. Furthermore, the empirical study is restricted to interviews being held with national representatives from Sweden's three biggest FMCG companies.

1.5 THESIS STRUCTURE

The outline of the remaining part of the thesis is structured as follows:

2. Methodology - The methodology section will present and argue for the research philosophy, research approach and the choice of method. In addition, the process of data collection and the analytical process used are will be explained and in the final sections the study's reliability and validity will be discussed.

3. Theoretical Framework - In the theoretical framework section theories and models connected with private labels and national brands will be presented and reviewed.

4. Empirical Findings - This section will present the empirical data collected through market studies, the qualitative interviews as well as the results they have brought.

5. Analysis - In the analysis section the empirical data from each interviews will be discussed and analyzed. Here the empirical findings will be compared with the theoretical framework being presented in chapter 3.

6. Conclusion - In this final chapter the conclusions in relation to the research questions that the research on the development of private labels on the Swedish market has led to will be presented and discussed. Lastly the results are summarized and suggestions for future research within the area of study will be given.

2. METHODOLOGY

The methodology chapter will aim to explain the research process and what methods that are used to simplify the standpoint when reaching the final result. The used methods will be well justified to give the reader or opponent a clear view about how data is collected and analyzed. Further on the scientific start points will be explained and a deeper look is taken into how the study of research actually was performed. The interpretation of the used data during that process is of high value, and will in this chapter be explained by methods and reasons for the method chosen.

2.1 SCIENTIFIC APPROACH

According to Starrin & Svensson (1994) a scientific approach includes the perception of the nature of science (what it is), its ideals (what it must achieve) and method (how research should be conducted).

2.1.1 Hermeneutics

Hermeneutic means “interpreting”, “elucidate” or “explicate” (Starrin & Svensson 1994) and is characterized by an interpretive view of science where the object of study is made up of unique acts seen in its context. When the researcher uses hermeneutic approach s/he seeks to achieve as rich material as possible to get the necessary information. Hermeneutics is a qualitative method, enabling researchers to understand a phenomenon. Hjörland (2004) claims that positivism can be seen as a contrast to hermeneutics, as it assumes rail and numerical logical conclusion, which makes it more applicable to quantitative studies.

This study is conducted with a hermeneutic approach, since it aims to understand the individual business elements and intentions of the whole. Starrin & Svensson (1994) argues that in order to understand something, some parts are dependent on the whole picture, and vice versa. This is called the hermeneutic spiral. The hermeneutic spiral is vitally important to facilitate the understanding and interpretation of the connection between theories and reality. Since this study uses both theories and real cases to find answers for the research questions, the study requires the researchers to alternate between written theories and reliable facts collected through interviews, in accordance with the hermeneutic spiral. The study is based on an approach for how to study the development of private labels, through studying motives, triggers and challenges. In Hollensen (2007), motives, triggers and barriers are used to describe why a company decides to internationalize its business. By changing barriers to challenges the approach could be used to colligate the different aspects affecting the development of private labels. In accordance with the

hermeneutic spiral connections could be found between theories and reality and categorized in a scientific way. Therefore, hermeneutics was chosen as a suitable scientific approach for the study.

2.2 RESEARCH METHOD

There are two kinds of methods, which can be used during a research process; either qualitative or quantitative research method.

2.2.1 Qualitative Method

Qualitative method proceeds from the study subject's perspective, unlike the quantitative method, which mostly proceeds from the researcher's ideas about what dimensions one should focus on during the research process (Bryman 1989 in Alvesson & Sköldbberg 1994). Research made with a qualitative method, for example case studies, can constitute the precursors of the study, but the aim of the qualitative method is to eventually assure generalizable awareness (Starrin & Svensson 1994).

Since the FMCG market in Sweden has three main players, ICA, Coop, Axfood (Delfi 2013), a qualitative method was considered the best choice for the thesis to obtain the most detailed information possible about the companies' opinions about the present general market situation and the future as well as private label sales figures. The low number of competitors on the market made the method feasible, since the leading food retail chains, almost can speak for the whole market. This was advantageous due to the study's aim to view the problem from a FMCG market- and retail perspective

2.3 RESEARCH APPROACH

The choice of research approach describes the researchers' way of relating to theory and empirical data.

2.3.1 Abductive Approach

Abduction is, according to the hermeneutics a hermeneutic spiral, which means interpretations of facts the researchers already have some prior understanding of (Alvesson & Sköldbberg 1994). The abductive method is usually the method used when case studies are implemented into the research process. Each case will be interpreted with a general picture about how something should be, a believed correct interpretation, which than would explain the problem. This interpretation needs later on to be authenticated through new observations, which adds new elements to the qualitative study. During the process the empirical scope will be put in perspective with the reality.

The abductive approach was chosen since the study is permeated both by theoretical and empirical findings. Proceeding from theories, the study will probe the reality and finally a feedback to the theory will be done. This hermeneutic spiral contributes with new perspectives, which later facilitates the conduction of new angles of approach to the area of research. In practical terms this was achieved through a spiral process. Firstly, the chosen theories were studied. Afterwards the empirical data were collected, giving the thesis a reality perspective. The respondents' opinions about the field of study during the interviews and the market studies made up the empirical findings. These could then be compared with the theory, to find similarities, differences or lack of theories relevant for the study.

2.4 THEORETICAL FRAMEWORK DEVELOPMENT

Saunders et al. (2003) and Adams et al. (2007), highlight Internet as an important tool for gathering the right information needed in the thesis. Using key words is an efficient mode for finding the information of interest. "Private labels", "private brands", "private label development" and other words were used when searching in databases, such as the GU's database, as well as in search engines, such as Google Scholar. In addition, by using the key words, the thesis could more easily be fed with necessary theories and concepts, since each key word was a helping tool to find previous research within the right scope of study. Beyond sources found on Internet references referred to in other literature was explored, which enriched the thesis with valuable theories. A lot of helpful literature was borrowed from the school's library

2.5 METHODS FOR DATA COLLECTION

The section will explain two different methods that can be used when collecting data: primary and secondary data.

The study consists of both primary and secondary data. The latter were collected in order to increase the understanding of the field of study in general and the specific problem in particular. The study's secondary data was external and consisted of market studies concerning private labels and the FMCG industry, on the European market in general and the Swedish market in particular. However, in order to answer the purpose of the thesis, it was necessary to collect primary data. The collection was made through qualitative interviews with private label managers at Axfood, Coop and ICA.

2.5.1 Primary Data

According to Greener (2008), primary data are the least accessible sources of information, which can be received from for example company literature, unpublished research, and private correspondence or conference proceedings. Despite being a very time consuming method, primary data is invaluable due to their capability to provide the researcher with specific information, directly related to the problem of research.

Collecting primary data was a necessity for the purpose of the thesis, since the companies' individual opinions of the business environment and the phenomena of private labels were of interest. Through qualitative interviews the information needed could be received. Thus, the most important tool available for the researchers was the choice of what questions should be asked to the interviewee and their connection to the theoretical framework.

2.5.2 Secondary Data

In contrast to primary data, secondary data are much more accessible and can be found in the public domain. This category of data includes published books and articles in journals, news media and published business, government and international body publications. Moreover, many secondary sources have been interpreted before, and adapted to different problems within the area of research. This provides subsequent research with a wide spectrum of the previous researches in the field of study connected to the thesis (Greener 2008). Since the accessibility of secondary sources can be considered endless, the data collection may be very time consuming. However, the ability to analyze the problem and further on find the important connections within the specific topic.

The most cited research in this field originated from the late 1990's. Attention was therefore put on finding more recent studies to see if there has been a significant change in market conditions. As the number of data found increased a selection process began and different directions for research questions were taken into consideration, before they were finally narrowed down in terms of topic and other limitations. Data of clear relevance for the study were then further examined and became the foundation of the thesis' market studies presented in the empirical findings chapter. One interview question (2.4, 2.4a) required internal secondary data to be provided. The data was compiled in a figure (see figure 2) and missing values were found in the companies' annual reports.

2.5.3 Method for Selection

The research questions in this thesis aim to give the study a reality perspective on what the Swedish FMCG market is characterized by today and what future private labels and its companies may meet. To answer this, interviews were made with representatives from the three biggest retailers in Sweden, and since interviews are one of the most important ways to gather information in case studies (Yin 2003) it was very important to find the right respondents. These requested retailers are within this business environment everyday hence they are holding the ability to understand the market in the best way possible. However, to find the best respondents and the most suitable companies to cooperate with we set up a few criteria to find respondents with good insight on the FMCG market. This process is about identifying the chosen cases or companies before starting to collect the information, mostly to avoid picking out wrong respondents (ibid.). The set up criteria were the following:

- **Private Labelled Products**

Firstly, the companies included in the case study had to own and work with private labels. A company without private labelled products had not been able to answer the relevant questions aimed for the study.

- **FMCG Chains**

Many companies in various sectors offer private labels to their customers. Since our focus is the FMCG industry the second criterion was that the respondent company was performing exactly within this sector and nowhere else. This was a natural criterion since the study examines private labelled fast-moving consumer goods.

- **Large Market Share**

Since the Swedish FMCG market is very concentrated we also set as criterion that the companies used in the case study had to hold a big share of the total market. This led to an exclusion of smaller food retailers such as Lidl.

To carry out these interviews with the top-three food retailers within the sector will also give the study an overall picture of the market reality, since these three actors together fill 87,1 per cent of the total Swedish market (Delfi 2013). The interviews with ICA, Axfood and Coop will contribute with their own view on this topic from a market- and retailer perspective.

2.6 EMPIRICAL DATA COLLECTION

Below the way the empirical data collection was executed will be explained.

2.6.1 Qualitative Interviews

According to Eriksson & Kovalainen (2008), qualitative interviews are focusing on particular issues related to a topic of interest, asked with the intention to fulfil certain purposes. Structured interviews were chosen to be implemented, as they are efficient in gathering information about the "facts", which the empirical study in this case to a large extent was intended to do. Moreover, the technique advantageously is used when there is more than one interviewer in order to reduce the elements of variation connected to the conversation. When conducting this type of interview the interviewer follows a pre-planned script and the flexibility is low in terms of wording and order of questions. What makes structured interviews qualitative are when questions are giving room for open-ended responses. Thus, the outline was mainly composed of open questions. However, similar to the semi-structured form of interviews, the interview was intended to be rather conversational and follow-up questions were asked when more in-depth responses were needed. One disadvantage of an all too predetermined questionnaire is that topics that the interviewee might otherwise have raised or added to the conversation will not be mentioned (ibid.). An important advantage with structured interviews is that the variations in the respondents' answers are not due to the questions being asked, but by "true" or "real variation". Furthermore structured interviews facilitate the processing of data (Bryman & Bell 2011).

Due to the distance between the interviewers and the respondent's three choices of interview forms were given to the interviewees; either by telephone, video or mail. Two out of three interviewees chose to answer the questions by telephone, while the third chose to answer in an attached file by mail. In Bryman & Bell (2011) several advantages of telephone over personal interviews are listed. First, telephone interviews are cheap and quicker to implement since the interviewee and interviewer do not have to meet face-to-face, and thus travel time and costs can be reduced. Moreover, telephone interviews are easier to supervise than in-person meetings, especially when there is more than one interviewer. Third, interviews held in person may be affected by the characteristics of the interviewer, for example class or ethnicity, which in turn may affect the interviewee's replies. However, there are also some disadvantages of telephone interviews. For instance you cannot observe, for example, facial expressions shown in connection with the interview. In a personal interview it may have been possible to read the facial expressions of the respondent, and act based on an interpretation of this expression, for example by clarifying a question that seems to be unclear.

Through qualitative interviews respondents that on a daily basis are working with issues related to the study's topic might share their experiences from the market. These in turn can lead to further discussions and contribute new insights into the thesis. Due to the choice of using structured interviews, it was of high importance that questions in the interview guide were well formulated, had a clear relevance to the topic, and left room for open-ended answers and discussions. The structured interview guide was sent to the respondents before the interview session, enabling preparations being done and facts and figures to be found in advance.

2.6.2 Execution of Qualitative Interviews

First e-mails including an attachment with the interview questions, were sent to the press contacts on the different companies. This contact method was chosen since it was clear that the matter needed to be forwarded to another entity within each company in order to be connected with a suitable respondent. The companies were informed that they could choose how to answer the questions: either by a telephone or video interview or by replying the answers in the attached file. Hemköp's and Willy's press contacts referred us to the press contact at Axfood since they are responsible for the two chains' private labels. In turn, Axfood's press department forwarded the request to the private label business unit director, Johan Neuman, who replied the questions in the interview questions document on April 14. The received responses were compiled and translated into English before they were sent back to the interviewee for his approval along with some follow-up questions. The interviewee answered the follow-up questions and the document was recompiled.

From the press contact at Coop a reply was received with two time slots available for a telephone interview with the private label director at Coop, Anna Hällöv. This interview was decided to be held on April 25. The interview technique and documentation mode chosen was a joint interview in which interviewers shared headphones and took turns asking questions. Thus, both interviewers could hear the interviewees' answers and document the replies on each computer. By using parallel documentation the most accurate interpretation of the answers as possible could later be provided. The basic idea to conduct the interview via the phone's speaker function and record the interview was rejected since the sound quality of the conversation at a test call proved to be too bad. The interview started at 9:30 am and took approximately 45 minutes and some follow-up questions were asked during the session.

The contact information to the head of private labels at ICA was provided by ICA's press contact. Hans von Heijne, the private label director, got a call and a telephone interview was planned to be held on April

28. The same interview technique and documentation mode, which had been used when interviewing the Coop representative, was chosen. Also he received an email with the summary of the interview responses along with a few follow-up questions and comments. These were asked to be replied, which was made by telephone at 8 am on May 12. The interview lasted in approximately 45 minutes.

2.7 ANALYSIS AND INTERPRETATION

2.7.1 Analysis and Interpretation of the Empirical Material

Starrin & Svensson (1994) argue that in order to analyze the statements made by the interviewees, documentation is of high importance and the interviewers shall therefore make sure that it is done as accurately as possible. This enables the interviewer to return to the original material and see the context in which the statement came from. Afterwards, when the material is analyzed it is intended to find all the statements, actions and sequences related to what the study is seeking answers to. These parts will not be selected in an arbitrary manner, but in a systematic way, for example by hermeneutic text interpretation. Hermeneutic text interpretation means seeing a word as part of a clause where the word gives meaning to the clause. In turn, the meaning of the section is created by the clause, and then an understanding of the text is created. These parts are in their individual form set in relation to the whole. Whether or not this statement, action or sequence seen in context can increase the ability to provide answers to the research questions is then assessed. This interpretation method, to switch between part and whole, is consistent with the hermeneutic spiral. According to Starrin & Svensson (ibid.), initially during interpretations of interviews attempts shall be made to establish an overall impression of the results. This is done for example by looking at the interview answers a number of times and try to find significant statements respondents between. The goal is to find qualitative differences in interviewees' ways to treat the contents of the object in focus (ibid.), in this case the query document. It is for the scientific quality essential that only the conclusions be drawn, which the material and processing method provides the foundation for. Furthermore, the basis for the conclusions shall be reported in such way that the reader can judge the reliability of results. In addition, the results and the conclusions expressed shall be expressed in clear and unequivocal words (Starrin & Svensson 1994).

In accordance with hermeneutic text interpretations keywords in the respondents' answers that gave meaning to the question asked and the study as a whole, were highlighted. Then, the keywords that two or all respondents made use of were linked under the same title. The questions from the qualitative interviews were first divided into main headings: motives for private label market introduction, challenges for private label development, the present Swedish private label market and future private label trends on

the Swedish FMCG market. Responses were then subdivided under appropriate headings. At this stage it could be clearly observed that, based on keywords, some parts of the responses better matched other headings than the heading to the question that led to the answer. Furthermore, it was discovered that some questions could be linked to provide a stronger response image. During the telephone interview sessions both interviewers conducted notes based on interpretations of the responses received. After the session, a response document was compiled based on the two interpretations. To avoid misinterpretation, the document was then sent to the respondent for approval and if necessary, with adjustments.

2.7.2 The Study's Reliability and Validity

According to Bryman and Bell (2011), the two most important criteria when assessing and investigating a business area are reliability and validity.

Reliability

According to Eriksson & Kovalainen (2008), reliability concerns the question whether the result of a research study is repeatable and whether the result of a concept is consistent. Furthermore, if a study is reliable, another researcher should get the same outcome when investigating the same research questions, thus the importance for the researcher to be consequent through the whole research process, is therefore highlighted (ibid.). To create reliability for the thesis, follow-up questions were given to the respondents, which was helpful to get the information the research needed for its purpose. The interview questions asked were also designed to work well with the research questions, in a way where the questions would give the information needed to answer them. Since the thesis focus on a market that is constantly under development, the conclusion concerning future characteristics of private labels will not be the same if this study would be carried out 10 years from now.

Validity

From a study or a research the final conclusions need to possess validity, and is seen as maybe the most important criteria of them all in a recent study (Bryman & Bell 2011). According to Starrin & Svensson (1994), it is therefore of high importance to explain the final conclusions and why they are made. Conclusions always need to be based on the collected information in the thesis to create trust and the final result need to be well backed-up by an explanation about from where the result is coming (ibid.). Conclusions and result in the last chapter are therefore always connected with the information these statements are based on. The empirical findings in terms of interview answers also need to conclude validity. It means that the answers collected from the interview must be consistent with the given

questions, without any misunderstandings (Saunders et al. 2003; Collis & Hussey 2009). Therefore, the Swedish answers translated into English were sent back to the respondents for eventual adjustments, to avoid mistakes and demonstrate the validity.

2.8 METHOD CRITICISM

Primary data was collected through interviews with three Swedish retailers within the FMCG industry. Criticism can be directed at the low number of respondents, but since these three companies together hold 87 per cent market share of the total FMCG market in Sweden, their answers can provide a general picture of the whole market. Besides being the leading food retail company measured in private label share of total sales, Lidl were excluded from the study due to its low total sales (Delfi 2013).

One of three company interviews was replied by e-mail. This respondent, Axfood, had already cooperation with several other student projects, which probably was the reason why the representative wanted to answer the questions in the least time-consuming way possible. However, the e-mail interview did not give the same chance for the researchers to ask follow-up questions immediately, and the interview process may be perceived as less structured. If the study needs follow-up questions the researchers have to send an email with new questions, and then the respondent need to use precious time again to answer them. As a result the interview experience may be perceived as complicated. The two other interviews were held by telephone. The chance to talk directly with the respondents facilitated the use of follow-up questions and requests for further explanations of the given answers. A negative aspect with telephone interviews is the fact that the interviewees misses out body language, the atmosphere and the opportunity to see if the respondent understand the question in a correct way or not. In this study the telephone interviews provided the study with more information compared to what the answers received by e-mail did, since both telephone interviews became open and conversational. Criticism can therefore be directed towards the use of two different answering options, since it provided the study with different information and to various extents. The ability and option to answer the interview via email, however gave the study more information than a denied interview would have, since one of the respondents did not have time for a telephone communication.

2.9 RESEARCH ETHICS

The Swedish Research Council expressed how essential research studies are and the importance of the way a study is executed and its quality. The Research Council has listed four fundamental main requirements for the process of research, concerning ethics within the study: information requirement, consent requirement, confidentiality requirement and utilization requirement (Vetenskapsrådet n.d.).

Information Requirement - The parties, which are participating in the research, need to be informed about the purpose of the study. The respondents participated on a voluntary basis and could terminate the cooperation with the researchers if he or she wanted to (ibid.). All these things were taken into consideration when looking for possible partners to interview. Information about the study and its purpose was given both when they first were contacted and in connection to the interview.

Consent Requirement - Consent requirement deals with the consent about the respondents' participation (ibid.), and within this thesis the participation was to 100 per cent freely and no pressure was directed towards the respondents to participate. In the case of this study the consent could be seen as the willingness to answer the asked interview questions.

Confidentiality Requirement - The importance of protecting the participant's personal information (ibid.) will in this study be highly respected. The interviewed persons from the three companies are representing their company, since they are directors of the private label department. However, they were requested about if they wanted their own name published within the thesis or if they preferred to use their professional title or answer the questions anonymously.

Utilization Requirement - The information given from the participated parties aims to only be used within this study and is not allowed to be passed on to third parties (ibid.). The interview responses will only be utilized in this research study and for its aim the respondents are informed about.

After the interview sessions, the interviewers' documentations were compared and the responses were compiled and translated into English before they were sent back to the interviewee for their approval. In addition, ethical questions were addressed to the respondents in accordance with Vetenskapsrådet's (n.d.) guidelines. After received answers the whole interview documentation could be used and processed in the thesis without any doubts or questions marks concerning research ethics or misinterpretations.

3. THEORETICAL FRAMEWORK

The theoretical framework will explain previous research conducted in the field of private label studies as well as the most important expressions used in connection to the study's research questions. Furthermore, commonly used and recognized models in the research area of private labels and the competition on the FMCG market will be described. The theoretical framework will form the foundation of knowledge used in order to analyze the empirical data.

3.1 PRIVATE LABELS AND NATIONAL BRANDS

3.1.1 Definitions

National brands are in most cases owned by the producer. Private labels are instead explained as products where the label is controlled and owned by a retailer (Ossiansson 2004). The private label products are not just packaged by its retailer, as many believe. Retailers with own product assortments are often involved in the process of developing new products and marketing of the finished items (Ossiansson 2004; Burt 1992). The importance of private labels is increasing, since it today is seen and used as a marketing tool for the actors within the retail-industry. It will also increase the competition for manufacturers and the competition between retailers to serve their consumers with the best products possible. According to Hoch (1996), the main difference between private labels and national brands is the fact that the private labels are represented in many different product categories under the same name and thus can be seen throughout the store. Furthermore, Montgomery & Wernerfelt (1992), Sullivan (1992) claim that to have a consistent name reinforces the private label brand and is creating both positive and negative spill over and item extension opportunities. Argued by Hoch (1996), in contrast the national brands are most often marketed under different brand names even though they are produced and owned by the same supplier. Moreover, the private labels are guaranteed full distribution and good shelf spots while the suppliers must negotiate about the shelves, which may be very costly (ibid.).

How much market share private labels have differs across product categories. Private labelled frozen vegetables; delicatessen, dairy products and dry foods hold high market shares, while the market share is low for fresh products, confectionery and beverages (European Commission 2011).

3.2 PREVIOUS RESEARCH

Below previous research within the field of private labels studies will be presented. These will be presented through the most common themes in private label research: the phenomena in general, the consumer, the market, the supplier and the relations and balance of power in the FMCG industry.

Research on *the private label phenomena in general* has often referred to models made by Laaksonen (1994), Laaksonen & Reynolds (1994) and extended by Burt (2000b). The model sets the tone for how private label development is measured in Europe. Johansson & Anselmsson (2005), note that the development of private labels described in Laaksonen's model of four generations of private labels is a development not yet visible on the Swedish FMCG market. It explains the development of private labels from the perception of private labels as low-cost options with lower quality than the national brands to increasingly being replaced by a strategy in which private labels are considered as "real" brands (Laaksonen 1994; Laaksonen & Reynolds 1994). The UK private label market faced this development already in the 90's (Hughes 1996). The development of private labels has by previous studies been explained in terms of country-specific development phases (ibid.), the sequential development of product characteristics (Laaksonen & Reynolds 1994) and private label success factors in relation to national brands, to name a few.

Another research area that is largely related to the different generations of private labels, and thus different ways of relating to private labelled products, is *the customer perspective*. The studies have focused on consumer perceptions of private labels in relation to national brands (Omar 1994; Omar 1996). In addition, research has been made claiming that the customer's choice of products in categories where there are private labels can not be considered the same as in the categories where there are no private labels (Baitas et al. 1997), and that the view of why people buy private labels can not be seen as monotonous as there are several different types of private labels (Gordon 1994). Anselmsson's & Johansson's (2009) study on the retailer expectations and consumer response of third generation of private labels on the Swedish market showed that there is a weak correlation between the widely accepted correlation between perceived quality and the price one is willing to pay for generation three (G3) private label products. Further, they conclude that the Swedish growth of private label products is driven by price, without any clear connection to quality. However, they found a strong correlation between loyalty to the chain's private label products and store loyalty (ibid.). Literature has stated that generation four (G4) private labels are the main drivers for increased store loyalty (Laaksonen & Reynolds 1994), but Anselmsson & Johansson (2009) claim that their results show that G3 private labels also can contribute to build store image.

Another research theme is finding motives for the *market* to increase the number of private labels (KPMG 2000; McGoldrick 2002). Five goals that private labels have for a FMCG chain have been identified. They are: 1) increase profitability, 2) building and maintaining consumer loyalty, 3) strengthening market position, 4) improve the consistency between the chain's customers, and assortment (ibid.). Further, Burt (2000b) discusses private label as a tool to centralize the management of FMCG chains. According to Johansson's & Burt's (2004), study on the purchasing process in Sweden, Italy and the UK, the processes become significantly more efficient in organizations that are wholly owned and have a centralized management. The profitability private labels can generate (KPMG 2000) and how important it is that the price level is lower on private labels than national brands (Håkansson 2000) are subjects as previous research has highlighted. An important theme is how private labels contribute to greater loyalty for FMCG chains and their image. According to Uusitalo (2001), it is easier for consumers to find meaningful differences between different chains than between the chains of different private labels. Some other researchers are hesitant about that private labels contribute to store loyalty, because they argue that consumers do not choose store based on its private labels (Holm & Lövdén 2002). Some researchers take a generally *negative view* of the chains introducing private labels because they claim that the production of private labels is very resource consuming (Temperly & Kirup 2000). Further, Mills (1995) argues that private labels can lead to significant efficiency gains for retail chains through increased control over the supply chain. These gains, however, only benefit FMCG chains and not the value chain as a whole (ibid.).

Research that has been conducted from a *supplier perspective* is to a large extent about the consequences private labels can lead to for the suppliers of national brands. KPMG's (2000) report showed that as the number of private labels increased, the market share of domestic brands decreased, especially among the small national brands. Another issue that is relevant for the supplier is in which product categories a private label are appearing the most and are performing best. This question has among others been studied by Håkansson (2000), who found that six underlying factors can explain 70 per cent of the variation in private labels: product quality, consistency in quality, sales in the category, category's gross margin, the number of national brands suppliers in the category and the amount of advertising of national brands in the category (Håkansson 2000). Further research highlights the situation that domestic brands fall into when the share of private labels increases. Among other things, the "vicious circle" for national brands is mentioned, which means that fewer resources can be spent on product development and advertising (Cullen 1997; deChernatony & McDonald 1992). Parker & Kim (1997) have with their study noted that competition between private labels and national brands can lead to a partnership where they can both reinforce and support each other.

3.3 MOTIVES FOR PRIVATE LABEL DEVELOPMENT

According to Schreijen (2011), national brands attracted over the years consumers through advertising and promotional efforts and thus gained strength towards the retailers. The suppliers were able to increase their share of the total profits at the expense of the FMCG store's margins. However, retailers began to realize that their direct access to the consumers was very valuable. Based on the desire to increase their share of the margins, strategies such as private labels were developed. Thus, the main motive for introducing private labels is to strengthen the retailers' bargaining power. This especially concerns introductions of private labels aimed to "copy" leading national brands' products (ibid.). The so-called "me-too" products (Laaksonen 1994) are sold at 20-30 per cent cheaper end price, enables the retailers to gain a larger share of the total category profits. The threat from hard discounters has resulted in a pressure on the traditional FMCG chains to introduce products in similar price range. An ordinary action is to develop a private label market as a discount brand (Schreijen 2011). An example of the hard discounters' effect on leading FMCG chains is the leading FMCG chain in the UK, Tesco's introduction of a Tesco discount brand range in 2008. They clearly addressed the operations as a move to regain market shares that they lost to Aldi and Lidl (Rigby 2008). Schreijen (2011) further argues that the German FMCG market, where the hard discounter presence is above average, is evidence that hard discounters trigger private label adaption. In addition to me-too and discount private labels, the retailers can use private labels to position themselves as superior in terms of quality and price. The premium private labels intend to build consumer loyalty through their high-end differentiated products of top quality. For example, the products can have regional or seasonal nature. The higher price may increase the margins but to strengthen the retailer's quality image among the consumers is of higher importance. In a perfect scenario, the premium brands can affect the consumers overall quality perception of the retailer's private label portfolio. (ibid.)

3.3 THE FAST-MOVING CONSUMER GOODS INDUSTRY

3.3.1 A Consumer Demand Chain

Ossiansson & Fuentes (2006) argue that the relationship between the retailers and the suppliers in the FMCG industry historically has been characterized by concurrence and common marketing with a high level of price focus. Self-interest and interdependence have been the driving factors for this relationship, which has resulted in sub optimisation. However, the entry of private labels affected the balance of power and the relationship between the retailers and their suppliers. In addition, the perception of the consumers has been changed. Previously, the retailers believed that the consumers were uninvolved in convenience

goods and therefore assumed that marketing exclusively should be focused on low product prices. Since the 1990s the FMCG chains' relationship to the consumers has strengthened and the perception of the general consumer has turned into a picture of a consumer, which is engaged, demanding and complex in its consumption (ibid.). This has turned the industry into a demand chain (Blackwell, 1997) where focused has switched from focusing on what the suppliers want to produce, to a focus on what the consumers want to buy (Ossiansson & Fuentes 2006).

Investments done within the private label area are towering, since more wholly owned retail products have entered the market (reds. Anselmsson & Johansson 2005). In a survey made by Mårtensson (1994), 67 per cent of the respondents answered that they believe the range and assortment in stores would get worse if retailers held the production responsibility. Moreover, 24 per cent believed that the quality would decrease. According to Mårtensson (ibid.), there is a relation between a retailer and its private labels. If a customer has a positive attitude to the company s/he will automatically have a positive attitude towards the private labels. When s/he then finds a product s/he is satisfied with a positive attitude will be spread to the rest of the assortment under the same brand name. Keller (1998) states that which attitude customers do have towards a brand or label depends on earlier experiences. On this basis a customer can decide which brand or label to buy and which product that will bring satisfaction (ibid.). Dawes & Nenycz-Thiel (2011) found that advertising and marketing differs between private labels and national brands. Generally, national brands focus more on marketing activities at national level, compared to the products owned by its retailers (ibid.). The price has always been very important for private labels, to be able to compete with national brands. Through the removal of high marketing costs private labels can be sold at a lower price for the consumers, which also is more profitable for the market (Burt 2000a).

3.4 MARKET CONDITIONS AND TRENDS TRIGGERING PRIVATE LABEL DEVELOPMENT

3.4.1 Market Concentration

According to Schreijen (2011), the primary trigger for the development of private labels is the supply limitation. The UK and Switzerland are countries with a high FMCG market concentration, with high level of private label adaption (ibid.). Dawes and Nenycz-Thiel (2011), states that a business environment with very few actors can lead to increased number of private labels since large retailers can invest on a larger scale resulting in an increased occurrence of private labels in FMCG stores markets with fewer operators tend therefore to have more private labels. On the European market company consolidations are

often used to create economies of scale. These collaborations create favourable conditions for private label development (International Private Label Consult 2008). Leading retailers in Europe have expanded over the borders, which have led to the introduction of successful private label strategies to new markets. As an example French retailers have entered the market of Spain and Italy, but also more Eastern countries. The increased competition in these areas has now made the local retailers realizing that they also need to develop and introduce private labels into their assortment, to prevent being outcompeted by the foreign firms (ibid.).

3.4.2 Economic Factors

Dawes & Nenycz-Thiel (2011) claim the economic business environment is seen as a very important factor on how well developed the private label market is and how easy it might be to succeed if introducing private labels. Other factors, such as the income level also need to be taken into consideration. Some studies indicate that households with a low-income level are more willing to buy and consume private labels. However, results from empirical studies show the opposite. These studies states that a low-income level leads to less purchased private label products, which would find its explanation in a lower education level and also a stronger belief in the relation between price and quality. The trust in an established brand, such as national brands, is therefore higher compared to the trust in private labels (ibid.). According to AC Nielsen (2006), private labels were more popular within big families and people with a lower income, when they were introduced on the market. It is still true that people with a lower income, (and bigger families), buy private labels, but today one can see that the higher income families almost purchase the same number of private labelled products. This theory is built up from the European market, but is more or less the same globally (ibid.). According to Nielsen (2011), the countries which have started to purchase more private labels since the last economic downturn were the countries most affected by the economic crisis; that is Spain, Greece Portugal and Ireland, which led to an increased market for this type of products. Despite the direct effects of private label sales during economic recessions found in Nielsen (2011) report, Schreijen (2011) argues that in the long term, the recessions' indirect effects on the customers may be of higher importance for the development of private labels. Economic downturns triggers the consumers' price consciousness hence they start to prioritize low prices more than attaching importance over perceived quality. As a result, if the households' food expenses can be reduced, consumers are willing to try new brands and/or private labels. To meet the increased demand for private labels, companies have begun to expand its private label product range (Schreijen 2011). When then the bad times are over some customers go back to normal shopping habits, but some people

keep the private labelled products in the basket even when the economic situation has improved (Nielsen 2011).

3.4.3. Food- and Health Trends

The Swedish food agency aims to prevent the most common diseases within the Swedish population and are therefore reporting consumption habits in Sweden. Positive changes have been seen in Swedish consumption patterns and Swedes are today eating more vegetables, fruit, fish and oils (instead of margarine), but the high consumption of salt and sugar remains (Livsmedelsverket 2012). The changes in consumption patterns can all be linked to different trends in society, at least to some extent depending on which trend the market is facing. Changes in consumers' behaviour pattern can rise from both new, trendy diets (Jordbruksaktuellt 2012) and an increased interest in cooking (Sveriges Radio 2013). The market can also be affected by changes in demand for, organic- (Miljöstyrningsrådet 2012) or fair trade products (Sveriges Radio 2014). The FMCG-industry can as well experience national trends, or even global trends. For instance health and wellness have lately become more important in Sweden and the trend about eating on the go has spread globally, which will push the market to serve healthy food in a comfortable way (ICA-handlarna 2013). In the development of new assortments to satisfy the customers factors such as food allergies is as well important to take into account since intolerance in different ways is increasing, otherwise retailers will not reach all customers on the market (Wicklén 2012). To sum it up, all these trends are external factors influencing the market, affecting how retailers are acting and what assortment that will be elaborated for the future.

3.5 POSITIONING OF PRIVATE LABEL'S STATE OF DEVELOPMENT

3.5.1 The Four Private Label Generations

Laaksonen (1994) and Laaksonen and Reynolds (1994) explain the development of private labels in different European countries and are presenting a model, which is illustrating the different stages in the development of private labels. Laaksonen (ibid.) is with this study considered a composer in the area of private label research and his model is describing a development from private labels being low price and low quality copies of the national brands to products with a higher grade of differentiation and innovation. By that he means that the private labels are adding something new to the market or developing the category in which the product belongs and are not copying an existing product (ibid.). In which stage of development, the private label is in is determined by factors such as product, technology, market position and consumer motivation to buy the product (see Figure 1).

Generation 1 - Generic Products

The first generation products are characterized by undifferentiated basic products, with names of a generic nature, without a name of their own and sold at low price. The main pulling power of the products in this generation is its low prices that are significantly lower than the suppliers' counterparts. Despite the low price, these products also bring high profit back to the retailer, partly because of the product quality and thus the low production cost for these products. Through its low selling price, the generics lead to increased customer traffic to the store, which in turn leads to increased sales of the store's other products. The primary risk factor for generation one products is that the store can get a discount image, which is not always beneficial. One advantage of generics is that it can be easy for small suppliers to enter the market because of the simple production technology (Laaksonen 1994; Laaksonen & Reynolds 1994).

Generation 2 - Quasi-brands

In generation two the products are of slightly better quality than in G1 and the products have got the name of the retail chain. These products are differentiated, for example, through their packing, which will enhance the attractiveness of the products. The quality is still lower than the market leader's products, but customers are attracted by the strategy with cheapest price, a strategy that is possible for the retailer to use due to large volumes and the products' high purchasing power (ibid.).

Generation 3 - Me-too

Me-too products have their own brand names, but are copies of existing national brand products that already exist in the retailer's assortment. They are close to the leading national brands in terms of price and quality and are focusing on image-creating product attributes and value for money. The main focus of this generation is not price-related, the product prices are still slightly lower than the competing national brands. Since the products of the G3 is of higher quality and thus requires slightly more advanced manufacturing technology, this product category requires a higher degree of specific investments from both retailers and suppliers. One consequence is a stronger dependence between the two parties (ibid.).

Generation 4 - Extended Private Labels

The products in the fourth generation are innovative and strive towards differentiation and product development. Different sub-brands are developed for different product segment and the price and quality are on the same level or higher than the leading national brands. These products are most often not competing with their price, which indicates that private labels can compete on grounds other than just their price, but also arguments connected to quality. The goal is to provide the customer with value-added

products and thus improve the store image and store loyalty. These products also help the store become more differentiated relative to other FMCG chains. For the manufacture of these products specific relationships between retailer and supplier is required, which can result in comparative advantages for both parties (ibid.).

	Generation 1	Generation 2	Generation 3	Generation 4
Type of brand	Generic No name Brand free Unbranded	Quasi brand Own label	Own label	Extended own brand
Strategy Objective	Generics Increase margin Choice in price	Cheapest price Increase margin Reduce manufacturer power by setting entry price Provide better value product	Me-too Enhance category margins Extend product range Build retailer's image	Value added Increase and retail customer base Enhance category margins Improve image Differentiation
Product	Basic and functional products	One-off staple lines with a large volume	Big category products	Image-forming product groups Large number of products with small volume (niche)
Technology	Simple production process/basic technology lagging behind market leader	Still lagging behind market leader	Close to brand leader	Innovative technology
Quality/image	Lower quality and inferior image of manufacturer brands	Medium quality but perceived as lower than manufacturer brands Perceived as secondary brand	Comparable to brand leaders	Same or better than brand leader Innovative and different product from brand leader
Manufacturer-specific investments	None/low	→	→	High

Figure 1: The strategic use of private labels

Source: Collins & Burt (2003) where rows 1-6 are adapted from Laaksonen (1994).

3.5.2 Strategic Options For Competitiveness Improvement

Hoch (1996) presented in his study a number of strategic options available for improvement of a competitive position, options that are meant to be neither mutually exclusive nor exhaustive. The strategic options will here be presented as the use of Hoch's (ibid.) strategic options for private labels to improve their competitive position on the market in relation to national brands. The viability of each option can be depending on quality and price dimensions as well as the distance between the private label and the national brand. This study will use three out of Hoch's (ibid.) five strategic options. The first one, "Wait

and Do Nothing” is Hoch’s (1996) defensive strategy, where private labels choose to get a feel for the market, without drastic actions to fight the competition. To wait and not take on any drastic measures can be compared with a slow private label development. From a national brand perspective it can mean to wait and observe the market reaction to private labels before choosing a strategy for how to deal with the new competition. On the other hand, from private label’s point of view this can mean letting the development from the different generations presented by Laaksonen (1994) take the time it requires and not implement drastic increases in number of brands or in the existing private label’s product ranges. The second strategy “Increase Distance” is a more aggressive strategy where the retailer can choose between two differentiating options. The activities could either be to focus on products that gives the consumer “more value for the money”, as Hoch (ibid.) expresses himself, or products that are improved and better than the national brands counterparts. The “more for the money”-activity force the private labels to think about both keeping the price at a competitive level, but at the same time to create more value for its customers. The higher value could be gained through for example a new environmental friendly packaging, since the customer would feel more value within the item. Improved products means instead a higher product quality, which is another way for them to separate themselves from national brands. From the retailer’s perspective the increasing distance model can be compared with both Laaksonens’s (1994) first two generations as well as generation four. Either the distance is increased in terms of offering lower prices, as in the first and second generation or by differentiating their products through innovations or improvements, as in generation four. The final strategic option, to “Formulate Me Too Strategy” refers to imitation of existing national brands on the market equal to Laaksonen’s (1994) G3 private labels. The goal is to win new customers through the same products, but at a lower price.

3.7 SUMMARY OF THEORETICAL REFERENCE FRAME

Two parties now compete on the space on the store shelves as well as the mind-set of the consumers. First, the national brands, which are owned by the producer and secondly, the private labels, which on the contrary are products owned and controlled by the retailer (Ossiansson 2004). Private labels are an effect of the changing character of the FMCG industry. Previously, the retailers believed that the consumers were uninvolved in convenience goods and therefore assumed that marketing exclusively should be focused on low product prices. However, since the 1990s the FMCG chains’ relationship to the consumers has strengthened and the perception of the general consumer has turned into a picture of a consumer, which is engaged, demanding and complex in its consumption (Ossiansson & Fuentes 2006). Thus, the industry into a demand chain (Blackwell 1997) where focus has switched from focusing on what the suppliers want to produce, to focus on what the consumers want to buy (Ossiansson & Fuentes

2006). Private label research is historically studied from a general, consumer, market, and supplier perspective. Modern empirical studies on the Swedish FMCG market mainly have studied how suppliers are affected by private label development (reds. Anselmsson & Johansson 2005; Anselmsson & Johansson 2013).

Different motives, triggers and challenges affect the development of private labels, factors that differ depending on what market is being studied. The motive for private label development rose from the retailers' desire to increase their share of the margins, at the expense of national brands. Thus, the main motive for introducing private labels is to strengthen the retailers' bargaining power in the value chain (Schreijen 2011). Except the retailers' managerial decisions and strategies for how to develop their private label portfolios and product ranges, external factors, which the store cannot control, must be taken into account. The economic state in general and the households' financial resources in particular have proven to be two factors affecting the sales of private label products. Moreover, markets with high concentration constitute favourable conditions for the establishment and development of private label products (Dawes & Nenycz-Thiel 2011). In addition, changes in consumers' consuming pattern hence what products are demanded on the market, rise from for example trendy diets (Jordbruksaktuellt 2012), health trends (Svensk Handel 2014) as well as increased interest in cooking (Sveriges Radio 2013). The consumers' perception of private labels in relation to national brands posed the biggest challenge for private label producers. What attitude customers have towards a brand or label depends on earlier experiences (Keller 1998) and what concerns the consumers the most regarding private labels is their quality (Mårtensson 1994).

One often-cited conceptual frameworks within private label research is Laaksonen's (1994) model describing four generations of private label development. Laaksonen's (ibid.) model is describing a development from private labels being low price and low quality copies of the national brands to products with a higher grade of differentiation and innovation (Laaksonen 1994; Laaksonen & Reynolds 1994). In addition, Hoch (1996) studies a number of strategic options available for improvement of a competitive position, options that are meant to be neither mutually exclusive nor exhaustive.

4. EMPIRICAL FINDINGS

The chapter will present the market trends and conditions studied, as well as the result of the qualitative interviews made in the empirical study.

4.1 MARKET CONDITIONS AND TRENDS TRIGGERING PRIVATE LABEL DEVELOPMENT

4.1.1 Market Concentration

Quelch & Harding (1996) argue that the presence of private labels is occurring differently depending on which market that is studied. The private label phenomenon is not developed in the same extent worldwide due to different market conditions. For example, the European market has shown to be more successful for the establishment and development of private labels than in the US. One explanation for the difference between the two markets may be that the concentration on the European FMCG markets is much higher than in the US; that is there are fewer actors on the market in the European countries. High concentration leads to a relationship between the retailers and the manufacturers where the retailers have more power than in low-concentrated markets (ibid.). This is evident on the Swedish market, where the leading companies have high capacity to influence the market with their strategies (Anselmsson & Johansson 2009). Furthermore, AC Nielsen's (2006) report further support this relationship stating that the markets with most private labels are the markets that have the highest concentration of retailers. According to Johansson & Burt (2004), the Swedish FMCG market is dominated by retailer-owned chains, which in organisational terms means collaborations between the individual retail storeowners who integrate "upwards" and owns the central office. In turn the top level manages the central purchasing, marketing, promotions etcetera. This implies decentralized governance where organizations are developed based on the choices made by the individual storeowners, unlike the centralized system typically used in the UK FMCG market (ibid.). With a market share of 50 per cent ICA is dominating the Swedish FMCG market. They are followed by Coop with 21.3 per cent and Axfood with 15.8 per cent. Together these three actors represent just over 87 per cent of the Swedish FMCG market (Delfi 2013). The concentration is relatively high both at the national as well as local level (Konkurrensverket 2011). Concentration as measured by Herfindahl index is measuring absence of competition and the index can take a value between zero, which means perfect competition, and one that denotes monopoly. The average Herfindahl index in 20 European cities measures 0.32, while the Swedish cities represent an index of 0.55 (Konkurrensverket 2009). Even though the other Nordic countries also show similar figures at the

national level, this indicates that the concentration on the Swedish FMCG market in a European perspective is very high (Konkurrensverket 2011).

4.1.2 Households' Purchasing Power

According to Bergström (2010), the overall private consumption has decreased since 1975, but it does not mean that the Swedish households now are less likely to consume. Instead the explanation can be found in the higher disposable income in combination with the now relatively lower prices on the retail market. Simply put, today consumers get more for the money. Bergström (ibid.) argues that the incomes will keep increasing the next 10-20 years, and by this said, also the purchasing power will increase and the product demand will rise. The income gaps will because of this get bigger, which will result in an increased demand for both low price- and luxury products (ibid.).

4.1.3 Food- and Health Trends

According to the Swedish Trade Federation (2014), the awareness of health and wellness is increasing among the Swedish population and the consumers are now to a larger extent thinking about their well being when grocery shopping. A recent study conducted by the federation found that almost 50 per cent of the respondents consider themselves healthier now compared to one year ago. This study also confirms that Sweden is experiencing a health-trend since a few years back, for example, running events are sold out faster than ever. The increased awareness makes two out of three consumers purchase more healthy food. Furthermore, the majority claim that this is a motive for buying more organic products (ibid.).

Other trends that affect how people consume and purchase FMCG are health trends, for example in terms of food allergies. Between 2008 and 2009 sales of lactose-free products increased with 50 per cent. This could be thanks to increased marketing activities of these products, and according to doctors, lactose intolerance has become a trend. Anyhow, more laboratory tests are made to diagnose more cases, which possibly is the reason for the increased sales (Wicklén 2012). Valio was the first brand producing lactose-free products, starting in 2012. Ever since then, the product assortment has increased heavily and today these items are as important as the development of ordinary dairy products. The increased demand attracts more parties to join and fight for the potential growth of the product category. The assortment in year 2012 contained of 82 products, whereof 35 were under the Valio-brand, indicating on a further increase in the future for the whole lactose-free assortment on the market (Valio, 2012). Bergström (2010) argues that overall, the expanded assortments can by itself be explained as a trend. The development has led to more product categories, with more products within each and every range. In the FMCG industry

concepts such as Tex-mex, bulgur and thai food were from the beginning relatively unknown. That is not the case any more. Instead, these products are very common within FMCG stores today. To be able to serve customer with a wide range of products is seen as a huge competitive advantage within the industry (ibid.).

Since the 90's meat consumption has increased by 40 per cent in Sweden (Jordbruksverket 2013). This can, according to Jordbruksaktuellt (2012), be due to the increased number of diets including more protein, such as LCHF and GI. Trends like new diets can also be the explanation why more dairy fat is used among Swedes (ibid.). Moreover, the general interest in cooking has increased in Sweden. An indication of this is the large amount of cooking shows, attracting large audiences (Sveriges Radio 2013). In combination with increased cooking interests the demand for organic products is increasing in the Swedish FMCG market. The demand is expected to increase 5-10 per cent annually, thus there is a good growth potential in terms of production (Miljöstylningsrådet 2013). Fairtrade products are also an increased phenomenon in the FMCG industry and during 2013 the consumption reached record levels. Many people chose to join the trend and according to the CEO of Fairtrade Sweden, this is proof that social responsibility becomes of higher importance for the consumers (Sveriges Radio 2014).

4.1.4 Meal Solutions

Rogert (2012) argues that despite the current health trend, the Swedish population eat more fast food than ever and hamburger chains such as McDonalds are selling all time high. The new healthier assortment within hamburger chains in Sweden is attracting new customer segments, since it is now possible to eat both "green" and healthy meals at these fast food restaurants. These changes provide the customers with healthy choices, but in the end it appears that customers anyway chose the old classic meals (ibid.). The consumption of pizza, pies and pasties has also increased during the last years, and in this category well-educated women are the major consumers (Livsmedelsverket 2012). Quick and easy meal solutions are something that is requested in society today and it is not only the retail giants that can offer these types of products. Since gas stations are experiencing the same demand the competition of meal solutions has increased, which implies that more players are entering the fight of the customers (ICA-handlarna 2013). Overall, the consumption within the service sectors has lately increased, which for example includes the increased restaurant visits. The increased competition from the service sector has also led to companies trying to establish sector overlaps. The meal solutions are for FMCG companies one attempt to overlap and move closer to its new competitors (Bergström 2010). Also existing coffee shops are seen as strong competitors, since they are serving as example sandwiches - which are perfectly edible on the go (ICA-

handlarna 2013). FMCG stores, restaurants and convenience stores are therefore becoming more and more alike. This strengthens the competition, which in the long run also will improve the situation for customers (ibid.). Retailers in the UK early realized that private labels could be used not only for competing with national brands in terms of price and quality, but by providing “service offerings”, such as meal solutions (Ossiansson 2004). In FMCG stores there are today a huge choice of different meal solutions, such as salad bars, and all players, including gas stations, are constantly developing their assortments with new products in this category. A change in behaviour has been observed during the last 10 years and a lot of people want to eat on the go, which is time saving and comfortable - two things found to be very important. However, customers are still demanding healthy food, which is something that the market’s players needs to bear in mind even in terms of meal solution (ICA-handlarna 2013).

4.1.5 The Low-Price Trend and The Entry of Hard Discounters

The Swedish national regulations are from a European perspective considered to be relatively high, resulting in high entry barriers for foreign companies. Regulatory barriers concerns establishment, uses of inputs, marketing, distribution, sale of services, after-sales aspects and non-legal barriers. Other reasons why foreign players deter from establishing themselves in the Nordic market may be the small population size, low population density and the peripheral location of the Nordic countries (Konkurrensverket 2011). This may be the reason why out of the major international chains, only Lidl have established stores in the Swedish FMCG market (Konkurrensverket 2009). The international chain have operated in Sweden since 2003 and have today over 160 stores (Lidl 2014b). Their position as a hard discounter on the Swedish market is strong and their low prices have been proven in Göteborgsposten’s (2014) test of the cheapest mini shopping bag test, where their bag won for the fourth time in a row. Moreover, they have recently focused on creating Swedish attributes connected to the chain by introducing Swedish meat to the assortment (Prejer 2013) and sell products under brands with Swedish-sounding names (Lidl 2014). In addition, they have increased their range of organic products (Lidl 2014a; Lantbrukarnas Riksförbund 2014).

Bergström (2010) argues that Sweden is experiencing a general low-price trend, which has led to positive outcomes for the consumers. Soft discount chains like Willys have gained market shares during the past years, but competition is also raised from Lidl and Netto. This has led to an increased focus on low prices within the FMCG industry forcing retailers to offer the consumers low price alternatives. The low-price trend correlates with increased number of private labels on the Swedish market. The same development is also found in other countries, and a shift of power has occurred within the value chain. The retailers with

own private labels have grown big, since they have direct contact with the customers. It is easier to replace suppliers with each other, since many products can be produced by many different providers, often at a lower price than used to (ibid.).

4.2 PARTICIPATING COMPANIES IN THE EMPIRICAL STUDY

The corporate representatives participating in the empirical study as well as short company backgrounds will be presented below.

4.2.1 Studied Companies

Axfood

With a total of 252 stores by the wholly owned Willys and Hemköp, Axfood conducts trade in the Swedish FMCG market. Additionally, Axfood cooperates with a number of proprietor-run stores that are tied to Axfood through agreements, including in Hemköp but also under brands such as Handlar'n and Tempo (Axfood 2014a). With approximately 16 per cent market share Axfood is Sweden's third largest FMCG Company (Delfi 2013).

Coop

Coop is a Cooperation owned by the members with MedMera club card (Hällöv, Coop). Just over 700 stores in five different store concepts are spread across Sweden (Coop 2014a) and contribute to a market share of over 21 per cent and placing them as number two in Sweden (Delfi 2013). The FMCG store concepts are Coop Forum, Coop Extra, Coop Konsum, Coop Online and Coop Bygg (Coop 2014a).

ICA

With more than 1,300 stores (ICA 2014a) and a market share of about 50 per cent (Delfi 2013), ICA Sweden is the leading food retailer in Sweden. FMCG store concepts included in ICA Sweden are ICA Nära, Maxi ICA Hypermarket, ICA Supermarket and ICA Kvantum (ibid.). The business is operated in cooperation with independent ICA retailers. These retailers own and manage their own store, which allows localized concepts and offerings to be found in store. To achieve economies of scale a number of functions such as work on new store openings, procurement, logistics, IT and marketing, are performed on a national level (ICA 2014a).

4.2.2 Interviewees

Johan Neuman	Business Area Manager, Private Labels Axfood
Anna Hällöv	Private Label Director Coop
Hans von Heijne	Private Label Director ICA Sverige AB

4.3 MOTIVES FOR PRIVATE LABEL DEVELOPMENT

The companies' motives for private label introduction differ, especially in terms of whose needs private labels should fulfil. According to Anna Hällöv, Private Label Director at Coop, Coop is a Cooperation owned by its members; that is Coop customers having a Coop member card, MedMera. The amount of members are approximately 3.2 millions. Thus, the company is not a stock company and its operations shall accomplish what the owners express is giving them value. In the late 70's the owners lacked a low cost alternative in the stores with good basic commodities. This initiative resulted in Blåvitt. When Änglamark in 1991 was introduced, members at that time lacked good and reliable food on the market, thus the brand was developed by an inquiry of the members. The company's aim is to deliver economic value and a better life for its members by offering affordable products and products prominent within ecology, environment and health. Establishing private labels was in line with members' wishes and was therefore initially the primary motive behind the development of the company's private label products. According to Coop, private labels are also a way for the company to build brand image, differentiate themselves on the market and increase product profit margins by, for example, cut intermediaries in the value chain (ibid.). In contrast Axfood's motive behind the establishment of private labels was mainly to secure access to imported goods such as dried fruit and preserves, according to Johan Neuman, Business Area Manager of Private Labels at Axfood. *"The asset was limited, and to ensure that we had goods we built up our own import business hence we needed a brand to label goods"* he explained. However, today private labels aim to contribute to the company's profitable growth; growth because private labels can create distinction, more interesting assortment and thus more popular stores and higher sales - profitability due to better margins and due to increased competition and increased self-knowledge about products and production conditions (Neuman, Axfood). Hans von Heijne, private label director at ICA Sweden AB describes the motives for investing in private labels from two perspectives: the customers' and the business'. From a customer perspective ICA wanted to differentiate themselves and give the consumer a wider choice, in addition to the national brand products that already existed. They could offer products at a lower price while also producing goods that were not available in the range - just to create value for the customer. In contrast, from a business perspective ICA wanted to use private labels as a tool

to expose their suppliers for a competition pressure. To expand its private label portfolio it could be a good bargaining tool. At the same time this contributed to more control over the value chain, as well as larger gains compared to those generated by the national brands. Further, von Heijne argue that the competition has increased in the way so companies today need to create more unique positions and work with price and profitability, something that is done through private labels.

Both ICA and Axfood explain that they study other markets to varying degree depending on the product category (Neuman, Axfood; von Heijne, ICA). According to Axfood, UK is of interest if you want to investigate meal solutions, while Germany is the market of interest if you want to study low-priced products (Neuman, Axfood). Coop, however, started a comprehensive one-year strategic project in 2011, when Anna Hällöv became head of the private label unit. Then, an extensive environmental analysis including countries such as the UK, Spain, France, Italy and Switzerland, was executed.

4.4 PRIVATE LABEL DEVELOPMENT CHALLENGES

Several areas are challenging regarding private label development, according to Axfood. However, absolutely critical is that the company make the right quality requirements, and that their suppliers meet them, hence Axfood can assure the customers that their products are of good quality. This is an action Axfood absolutely must not fail according to Neuman.

Another challenge is customers' perception of private labels in comparison to national brands. Coop highlights two main challenges with private label development. First, customer acceptance; that is to get the customer's confidence for both probationary and repurchase of private labels. Secondly, to get the stores to work with private labels - understanding of how private labels both drive profitable sales, brand and the opportunity for differentiation (Hällöv, Coop). According to ICA, the perception is depending on product category. When ICA asks the customers about private labels ICA's respondent states that they often have three concerns regarding private labels. First, the customer thinks that private labels just are copies of already existing products. ICA wants therefore to produce unique products for the market. Secondly, the customer also believes that private labels hold worse quality. However, this is something that is changing, since many customers realize that the quality can be as good as national brands. Third, some customers also think that private labels will threaten the Swedish food industry. It is therefore important that ICA is focused on providing products that come from Sweden, at the same time as helping small businesses to develop and bring their products to market (von Heijne, ICA). According to Axfood and Coop, private label share varies depending on product category (Neuman, Axfood; Hällöv, Coop).

Further, Neuman explains “...consumer chooses their private label products to different extents depending on the preferences of the individual category”. Axfood has the highest private label market share in categories such as household products (toilet paper/paper towels, laundry/cleaning, batteries etcetera) and frozen food, while body care and confectionery are examples of categories with very low private label market share (Neuman, Axfood). The different category preferences make it difficult to generalize what customers’ overall perception of private labels is in comparison to national brands. However, through its members, Coop collect information about this type of question to know which private labels and categories that are doing well compared to national brands. What they do know is that Änglamark and its organic products are incredibly strong. The Swedish people have during two occasions (2012, 2013) named Änglamark “Sweden’s Greenest Brand”. According to Coop, Änglamark has a great position on the market even compared to national brands, such as Renee Voltaire. Coop’s brand has a very wide range with many different product categories. In some categories, such as potato chips, coffee and soft drinks, Coop have to increase the trust in their own brands since well-established, non-retailer owned brands have more trust thanks to more marketing resources. However, Coops dairy products perform very well, and Coop’s milk is sold in same amount as Arla’s, according to Coop. Prima does not have the same good position on the Swedish market, since Coop have not focused on marketing for its good quality they actually hold. At ICA they try to find loopholes to fill out, especially in those categories where ICA’s private labels account for a very small share of the total category sale, such as confectionery. To find these loopholes ICA acts defensively to feel the market and then they will produce similar products as national brands, but at a lower price. However, in the categories meat and frozen products, where ICA is the leader the strategy is instead to create new brands with differentiated and innovative products. Therefore, a group at the private label department is dedicated solely to innovation (von Heijne, ICA). Another challenge according to Coop’s respondent, is that it is hard for private labels to teach customers a new way to dine. As an example tacos or pulled pork are used. National brands have great customer trust, and can more easily build up product maturity of the customer. When products categories like this occur it is better for Coop to apply a strategy where to act very defensively and later on offer the same product, but under their own private label.

Coop’s respondent also highlights the importance of not overuse private labels in-store, since customers that still want to buy private labelled products very likely will switch store. In this case it is of course important to have the knowledge of which products that are very brand-sensitive, and which products that can be sold under a private label (Hällöv, Coop). The economic environment also affects customers’ perceptions. Countries affected by economic crisis change their perception about private labels, which has

been evident in Spain where Mercadona out-competed big national brands during the last economic downturn (von Heijne, ICA).

Furthermore, ICA highlights the issue of how to market private labels as one of the biggest challenges in the development process. ICA mentioned that the right marketing balance gets more important when ICA develops more unique products. A product with an already close substitute on the shelf is easier to advertise, than a brand new product. New, unique products therefore need more external marketing activities. The external marketing can be done through newspapers, television or through ICA's own distributions channels, such as the magazine "Buffé". The latter makes it possible to not burden the private labelled products with high costs, which in that case had affect the final product price. In an early stage, when no customer maturity has arisen, the concerned products are in need of more marketing since these types of products do not have any forerunners. (von Heijne, ICA)

4.5 THE PRESENT SWEDISH PRIVATE LABEL MARKET

4.5.1 The Swedish Private Labels Generation State

Axfood's main private labels are Eldorado and Garant. Garant includes both mid range products with minimum quality as a leading supplier, as well as more niche sub-brands with clear added value, such as Garant Organic Products. Therefore, Neuman categorize Garant in Laaksonen's (1994) G3-G4. In contrast, Eldorado is considered a G2 brand due to its low-cost strategy (Neuman, Axfood). Similar to Axfood, Coop place their discount brand, X-tra, in G2 and their mid range brand Coop in G3. Coop's organic private label, Änglamark, and their top quality brand, Prima, are considered equal to G4 (Hällöv, Coop). ICA uses the master brand strategy, which means that all of their private label products contain the company name. They consider themselves having one private label instead of several with own names in accordance with so-called multi-brand strategy that companies such as Axfood to some extent uses. However, ICA's private label can be divided into different sub-brands, which to varying degree are consistent with Laaksonen's generation model. Von Heijne states that ICA generally focuses on G3 and G4. However, many of the sub-brands are trans boundary in terms of Laaksonen's generations. Although ICA Basic can be compared with G2, von Heijne claims it also reminiscent of the G3 because the products are developed by looking at the lowest price on the market and applying a me-too strategy fixed at a lower price. Further, von Heijne says ICA's organic private label - ICA I Love Eco is not, by definition, G4, but to a large extent can be considered as G3.

4.5.3 Private Label Market Share Per Company

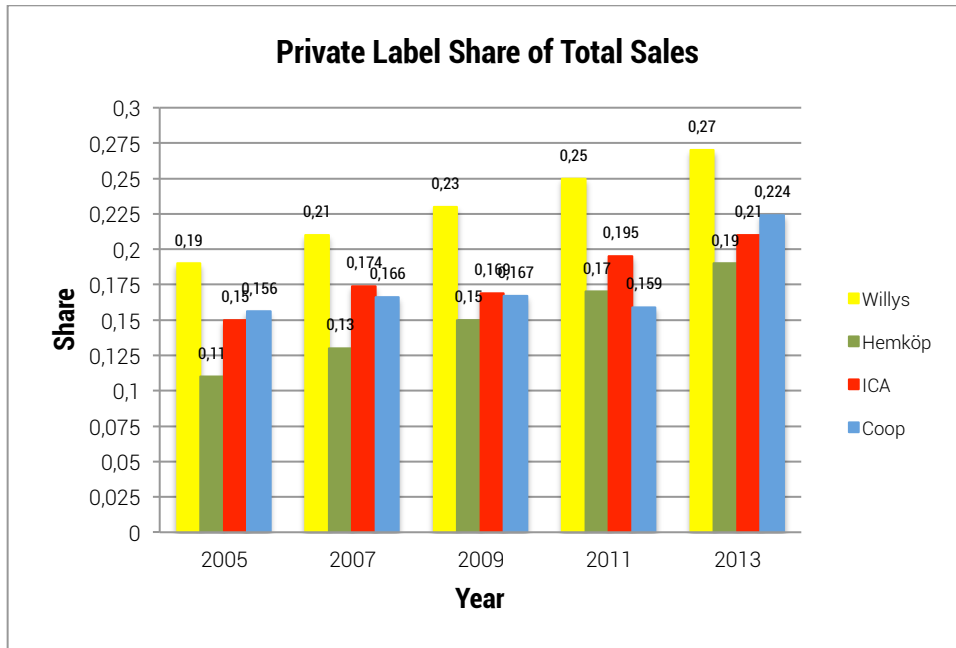


Figure 2: Private Label Share of Total Sales

Sources: Willys & Hemköp: Neuman, Axfood, ICA 2005: ICA, 2007, ICA 2007: ICA, 2008, ICA 2009: ICA, 2010, ICA 2011 & 2013: von Heijne, ICA, Coop: Hällöv, Coop

Figure 3 shows that during the studied period Willys has been a steady leader in private label market share of total sales per company. ICA's and Coop's private label market share have been very equal and stable at around 16 per cent. However, since 2009 ICA have had a steady growth while Coop's private label market share declined in 2011 but passed ICA and reached 20 per cent in 2013. Except in 2011, Hemköp's private label market share has been the lowest, still the growth trend is positive.

According to von Heijne, the European average is 0.3 per cent per year, but the past year the foremost Swedish FMCG chains; that is ICA, Coop and Axfood, had a growth rate that was slightly above average, at about 1.5 per cent. There is no specific explanation for this other than the total private label product portfolio grew within the companies. However, this year the growth rate of private label's market share seems to decline slightly. Furthermore, von Heijne argues that the growth is heavily dependent on the customers' market maturation.

4.6 FUTURE PRIVATE LABEL FOCUS AREAS

4.6.1 Future Corporate Focus Areas in Private Label Development

All three companies declare that development in terms of *extended assortment* will be made in their G3 brands; that is Coop, ICA and Garant (Hällöv, Coop; von Heijne, ICA; Neuman, Axfood). However, in comparison to Coop, ICA and Axfood will also endeavour to increase the range of their more niche brands, the G4 brands (von Heijne, ICA; Neuman, Axfood). ICA explain that the reason for further investments in their mid brand ICA is due to its large proportion of sales. Therefore, the company is keen to nurture and develop it (von Heijne, ICA).

In terms of *product development*, all three respondents answered that they in the future will focus on G3 and G4 private labels. ICA will mainly focus on their ICA brand (including organic products) and on the more niche brands. Von Heijne thinks that the category meat will be very important in the future, since ICA's own meat assortment is currently selling very well and development will occur in both the G3 and G4 product segments. In addition, von Heijne highlights intolerance areas as something they want to develop and focus on.

At the time neither Coop nor Axfood plan to introduce any *new private labels* (Hällöv, Coop; Neuman, Axfood), however Coop declares that if the subject will arise in the future, investments will be done in G4 brands (Hällöv, Coop). ICA focus to offer more value-added products regardless of whether they belong to the segments mid or premium. Furthermore, products in mid-range are scaled from mid-low to mid-high products. These divisions are made in order to get clearer value added offerings. Two examples are gluten-free and 'Excellent Swedish Meat'. Hence any new brands will belong to G3 or G4 (von Heijne, ICA).

4.6.2 Future Private Label Products

While Axfood wished not to answer what future products they wanted to see in their private label assortments (Neuman, Axfood) ICA and Coop both mentioned the customers' increased demand for meal solutions, thus they are both interested in product development within this category (von Heijne, ICA; Hällöv, Coop). Von Heijne explains that the competition now is set in a broader context. Today the expression "share of stomach" is used, which refers to the challenge that consumption of food also takes place outside the supermarkets. He further explained that cafes, restaurants and fast food places therefore are competitors and he believes that more money are spent on these types of amusements since meal solutions have begun to be requested also in ICA stores. ICA want the customers to see the stores as a

solution for a quick fixed meal, instead of just a FMCG store. Von Heijne raised examples from other markets where chairs and tables can be found, enabling the customer to enjoy meals in-store. In Sweden many stores have started with salads bars, which immediately compete with traditional salads bars, since the in-store solution enables customers to compose their own salads to a cheaper price. Overall, ICA will in the future focus on products that create value for the customer (von Heijne, ICA). Coop will focus on their niche-vows and focus will be to find solutions for the products that members lack in the stores today. Coop has 3.2 million members, and their wishes can therefore represent the whole country in a good way. Similar to ICA Coop has found that people today are demanding effective and quick meal solutions hence Grab-and-go food is requested in stores. Furthermore, Coop want to focus on good quality food that contains less salt and sugar as well as offering Swedish meat and products with clear clarifications of product origin. Coop have passed the discount generation, and will in the future not focus on products with just low price. Today the products need to be price worthy, and Coop are therefore focusing on creating value for the customers and the members (Hällöv, Coop).

4.6.3 Hard Discount Chains

All three companies express respect for discount chains (Neuman, Axfood; Hällöv, Coop; von Heijne, ICA). When Lidl came to Scandinavia ICA owned, together with Danish Supermarket a soft discount chain named Netto. During that time ICA also held the supermarkets Rimi. When Lidl entered the market ICA ended the cooperation with Danish Supermarket and closed down all Rimi-stores. ICA believed that these were too weak and ICA wanted to prepare all ICA-stores for the competition with Lidl. One consequence was that they changed the name of its discount brand Euroshopper to ICA Basic, to make the brand more Swedish-sounding and to show that there is also a Swedish low-cost alternative on the market (von Heijne, ICA).

Lidl is today still small; nevertheless ICA keeps them in mind. It is important for ICA to compete with price, but it is also important to be able to offer the consumers good deals (von Heijne, ICA). Coop believe that Lidl cannot just compete with their low price, since Willys is positioning themselves as “the cheapest grocery bag in Sweden”. Therefore, Coop believe that Lidl have to attract customers in other ways. For example, Lidl have begun to focus more on Swedish meat, more products with Swedish names and organic food. Thus, Lidl tries to create more value for the customer, as Coop, ICA and Axfood already have done. Hällöv believes that Lidl is very skilled in the development of private label products at the moment, and thinks they are going to improve their market position in the coming years. Lidl, which is very big on other foreign markets, holds large volumes of scale. However, Coop do not think that other

hard discounters will be able to establish themselves on the Swedish FMCG market, since its already saturated with FMCG chains and leaves seemingly no room for new players (Hällöv, Coop). Von Heijne believes that the customer acceptance and the share of private labels will increase on the Swedish market. However, he argues that Sweden and the other Nordic countries are far behind in terms of development of private labels. The UK, the Netherlands, France and Germany all hold more private label shares on their markets and he argues that the reason is the high competition with low price-chains. For example, discount chains such as Lidl and Aldi are not nearly as strong in the Swedish market as they are in the rest of Europe (von Heijne, ICA).

4.6.4 Corporate Future Prospects

According to von Heijne, private labels will definitely grow stronger in the future, and ICA wants to grow together with its customers. By finding the categories in which the customers lack products or more offers customer satisfaction and private label development can be accomplished. To find these categories ICA implement different surveys to search out what products are missing on the store shelves (von Heijne, ICA). Coop agree with ICA, both in terms of the bright future prospects for private labels as well as the procedures for how to increase the assortment. Coop want to focus on developing products together with the owners through large surveys that are continuously made. Coop also expresses the importance of knowing the market and at the same time knowing what the customer wants, to be able to develop the right products. Overall, the respondent for Coop believes that Coop have great potential for good development in the future, as the growth in recent years has been great (Hällöv, Coop). Today Axfood have a private label share of 25 per cent and the future goal is to remain at least on the same level (Neuman, Axfood).

4.7 SUMMARY OF THE EMPIRICAL FINDINGS

	Empirical Findings
Motives	<ul style="list-style-type: none"> ▪ Create value for the customers ▪ Build brand image ▪ Differentiation ▪ Increase profit margins ▪ Provide innovative and attractive products ▪ Increased power within the value chain
Triggers	<ul style="list-style-type: none"> ▪ High market concentration ▪ Different food- and health trends ▪ Increased demand for meal solutions ▪ Low price trends and hard discounters
Challenges	<ul style="list-style-type: none"> ▪ Quality assurance ▪ Customers' perception of private labels ▪ Improve private labels in categories where national brands are superior ▪ To find the right balance between private labels and national brands in store ▪ Changing preferences ▪ Private label marketing
The Swedish market today	<ul style="list-style-type: none"> ▪ No G1 private labels ▪ Focus on G3 ▪ Well-developed organic private labels ▪ Strategies used are "me too", "increase distance", and "wait and do nothing" ▪ Varying focus on G4
The future Swedish market	<ul style="list-style-type: none"> ▪ Focus on G3 and G4 ▪ Niche and value adding products ▪ Intolerance products ▪ Meal solutions ▪ Hard discount chains

5. ANALYSIS

In the chapter an analysis of the motives, triggers and challenges for private label development is made. Furthermore, the empirical findings concerning private label strategies and in what generation the Swedish private label market is in today are analyzed. The empirical findings from both the market studies as well as the qualitative interviews will be connected to theories studied and the analysis will aim to guide the reader towards answers of the questions of research.

5.1 MOTIVES FOR PRIVATE LABEL DEVELOPMENT

The development of private labels is initially based on one or several motives for why a company shall introduce private labels on the market. The empirical study found that the companies' motives to some extent differed. Blåvitt was Coop's first private label, and was introduced because of the lack of a low price alternative in the FMCG stores. Later on Änglamark was introduced since consumers were demanding reliable food. Coop started to produce private labels after customer demand (Hällöv, Coop), which indicates on the increased power the consumers do have nowadays within the retail sector (Ossiansson & Fuentes 2006). Private labels also help a company to build brand image (Hällöv, Coop), and Ossiansson & Fuentes (2006) argue that since private labels are seen in many different product categories they are exposed all over the store. The private label is therefore more connected to the store, compared to national brands (ibid.). Furthermore, Coop claim that private labels create better margins and help a retail company to differentiate themselves against other chains (Hällöv, Coop). The differentiation process is vital for a company today because of the higher competition and the need of attractive products, evidenced by the increased consumer power, argued by Ossiansson & Fuentes (2006). To cut intermediaries in the value chain can reach better margins (Hällöv, Coop), and the increased power and insight for retailers in the value chain can probably boost the development of private labels. The retail companies began to realize the value of the close consumer contact (Schreijen 2011), and to be able to affect the product line, production process and quality may be very favourably for a retailer today.

The motives for private labels at ICA include differentiation and the creation of a wider assortment for the customers. Products at a lower price and products that national brands not are offering are also provided through private labels. From a business perspective private label introduction was a way for ICA to expose the suppliers and get more power within the value chain (von Heijne, ICA). According to Schreijen (2011), the "me-too" products sold by companies make them gain a larger share of the overall profit. Axfood's motives were instead a way for the company to secure access to imported goods,

however, today the motives are more profit-related. Private labels can contribute with more interesting products to the market, and increased knowledge about which products the market is demanding (Neuman, Axfood).

Companies with private labels are often involved in many parts of the production process for the products (Ossiannsson 2004; Burt 1992), and are according to Schreijen (2011) seen as a chosen strategy to strengthen the bargaining power. More control can contribute with more successful products, since control often brings more safety and since companies nowadays value consumer opinions highly (Hällöv, Coop) the right product assortment is necessary. Private labels are seen as a marketing tool (Hoch 1996) and ICA, Coop and Axfood are probably using low prices or new innovative product as loss leaders. Schreijen (2011) argue that the private labels are very important for companies since these products freely can be exposed in the stores at the best shelf spaces and therefore compete seriously with national brands. The competition from hard discounters also results in a pressure for groceries to have low-price products within the assortment (ibid.). Based on the company respondents' answers' it can be assumed that Eldorado, X-tra and ICA Basic are the companies attempts to offer low-priced alternatives and as a response to the increased concurrence from discount chains. Parallel with the demand for low price products, high quality products are also requested on the market. (Bergström 2010) Since Änglamark has been on the market for over 20 years (Hällöv, Coop) it is likely that Änglamark has established an image of high quality among the customers. As a result, positive spill over can be spread (Mårtensson 1994) to the rest of Coop's private labels increasing the overall quality perception.

5.2 PRIVATE LABEL DEVELOPMENT TRIGGERS

5.2.1 Market Concentration

Theory has shown that high market concentration constitutes a good business environment for private label development (Schreijen 2011; Dawes & Nenycz-Thiel 2011). According to Dawes & Nenycz-Thiel (2011), a market with few actors can lead to increased number of private labels since large retailers can invest on a larger scale resulting in an increased number of private labels in the FMCG stores. Thus, the indirect effect of high market concentration is large economies of scale, which in turn is beneficial for private label development (ibid.). While market consolidations are common on the European market it is more rare in Sweden. Still, due to a small number of players, where the three largest companies together hold 87 per cent of the market (Delfi 2013) large economies of scale are created. An effect of a high concentrated market is according to Quelch & Harding (1996) that retailers have more power over their suppliers than in markets with low concentration. Moreover, previous studies argue that introducing

private labels lead to a switch of power in the retailer-supplier relationship (Schreijen 2011; Ossiansson & Fuentes 2006). It appears, therefore that high market concentration leads to large economies of scale, which in turn leads to retailers increased power over their suppliers and thus enables competitive private labels to be developed. According to AC Nielsen (2006), markets with most private labels are the markets that have the highest concentration of retailers. In Swedish cities the high Herfindahl index of 0,55 show that Sweden is one of the most concentrated FMCG markets in Europe, since the European counterpart measured in 20 cities is 0,32 (Konkurrensverket 2009). Anselmsson & Johansson (2009) argue that this indicates that the Swedish FMCG market is an optimal business environment for private label development, and the few players can to a wider extent influence the market with chosen strategies.

5.2.2 Households' Purchasing Power

According to Dawes & Nenycz-Thiel (2011), the correlation between income level and willingness to buy private label products differs. Some studies argue that households with low income-level are more willing to buy private labels than households with high incomes. On the contrary, previous empirical studies show the opposite: that the lower income level the lower willingness to purchase private label products. However, AC Nielsen's (2006) market study on the development of private labels showed that private labels were more popular within big families and people with a lower income. The fact that companies take families and everyday living into consideration when developing private labels is evident. For example, Coop's discount private label X-tra consists of a child-friendly assortment (Coop 2014b) and ICA's counterparty ICA Basic shall provide customers with cheap food for everyday living (ICA 2014b).

5.2.3 Food- and Health Trends

All three companies mentioned that one motive for using private labels is the opportunity to produce new, interesting and innovative products for the customers (Neuman, Axfood; Hällöv, Coop; von Heijne, ICA). It is important in a competitive environment to serve the consumers with right products, and when a company is assured of what is demanded, they can move forward and start producing it. This can be connected to the different trends occurring in the society. In Sweden the demand for intolerance-products (Wicklén 2012), healthy food (Svensk Handel 2014) and smart meal solutions (ICA-handlarna 2013; von Heijne, ICA; Hällöv, Coop) has increased lately. Through private labels a company has the chance to actually fill these needs with innovative products (Laaksonen 1994; Laaksonen & Reynolds 1994) focused on the trends, all by themselves. In this way private labels compete with national brands to be first on the market. Trends are perfect for companies to utilize when developing their private label assortment. Instead of producing products out of the blue, trends may be used as indicators of demanded

products. The increased demand for intolerance products (von Heijne, ICA) and organic food (von Heijne, ICA; Hällöv, Coop) are two examples of categories companies want to focus on, which indicates on the utilization of trends as a demand indicator. Based on the study's theoretical background and empirical findings it can be concluded that market surveys and research need to be complemented with trend spotting, otherwise companies will be far behind in the development of private labels.

5.3 PRIVATE LABEL CHALLENGES

5.3.1 Quality Assurance and the Customers' Perception of Private Labels in Comparison to National Brands

The most critical challenge according to Axfood is to make the right quality requirements and to make sure that the suppliers meet them. What they want to achieve with the requirements is to convince the customers that their products are of good quality (Neuman, Axfood). The importance of the customers' opinions and perceptions within the industry has according to Ossiansson & Fuentes (2006) increased since the 1990's transforming the Swedish FMCG industry into a demand chain (Blackwell 1997). Coop further highlighted the challenge of the customers' perception of private labels in comparison to national brands, for private label developing (Hällöv, Coop). According to ICA, two concerns the customers have with private labels are that they believe that private labels hold worse quality than the national brands and that private label products are just copies of national brand products. However, different factors affect the perception. For instance, ICA claim that it is depending on product category (von Heijne, ICA) and Mårtensson (1994), argue that there is a relation between a retailer and its private labels. If a customer has a positive attitude to the company s/he will automatically have a positive attitude towards the private labels. Thus, if a customer finds a satisfying product it can lead to positive spill over in terms of positive attitude towards other products with the same brand name (ibid.). This means that if the retailers manage to gain the customers trust in their products, positive spill over may have a triggering effect on the sales of product categories in which private label share traditionally is low. The challenge can thus turn into the private labels main advantage since one significant difference between private labels and national brands is according to Hoch (1996), that the first is represented in many different product categories under the same name.

Some categories in which customers are least positive towards private labels are body care, confectionery (Neuman, Axfood), potato chips, coffee and soft drinks (Hällöv, Coop). According to Coop, well-established, non-retailer owned brands have more trust in certain categories due to more marketing

resources. However, in some categories private labels perform well, which make it difficult to generalize what customers' overall perception of private labels is in comparison to national brands. Furthermore, it was highlighted that retailers cannot overuse private labels in-store, since customers that still want to buy national brand products very likely will switch store. Therefore, it is of high importance that the retailers have knowledge about what products that are very brand-sensitive, and what products that can be sold under a private label (ibid.). ICA are using two main strategies for private label development. The different product categories are divided into private labels with a low share of the market, and products, which have a leading position on the overall market. A private label product with a very low market share is for example confectionary. Since confectionary, in this case is seen as underdog, ICA choose to act very defensively to feel the market. When the right time has come they will start producing the same products already existing on the market, but at a lower price to therefore fill out the market with low price-alternatives. Thus, the loophole here is confectionary at lower prices (von Heijne, ICA). Moreover, it can be concluded that ICA use a combination of two of Hoch's (1996) strategies. The first one is "wait and do nothing", which is about to feel the market and keep a low profile. Why ICA chooses to use this strategy can probably be explained by the uncertainty a company can feel for a category with distinct competition. On the contrary, frozen products and meat have a very high market share at ICA. Since these products are very successful there is no meaning of acting slow and see what the competitors will do next (von Heijne, ICA). A forerunner needs to serve the market with innovative products before anyone else and ICA is, within this product category, using Hoch's (1996) "increase distance"-strategy to accomplish it. The products produced by ICA will, according to Hoch (ibid.), create more value for the money or product improvements. This is probably one way for private labels to differentiate themselves and increase the distance to other brands and products on the market.

Coop's respondent mentioned the challenge for private labels to learn people to eat new type of food, for example tacos. It was argued that national brands have more power to influence on consumption patterns and they also hold more consumer trust. When a new dinner-trend has reached Sweden, Coop want the well-established national brands to be first on the market. The market will then try the products, which either will be favoured or rejected. The favoured products will later on be interesting for Coop. During the time of observation and usage of the defensive strategy, both market and consumers have reached maturity. At this stage Coop will start producing the same products at a now lower price (Hällöv, Coop). This chosen strategy is in line with Hoch's (1996) "wait and do nothing" strategy. The laid back attitude with no drastic actions will lead to knowledge and understanding for the market, which in the long run can make the companies fill out those loopholes, not already filled out by national brands. The

understanding for the market can probably lead to companies introducing their own private labels in the same category at the right time, in the right way, and at the right price.

5.3.2 Vertical Challenges

In addition, the companies highlight vertical challenges. Coop describe the challenge of getting the stores to work with private labels; that is understanding of how private labels both drives profitable sales, brand and the opportunity for differentiation (Hällöv, Coop). Seen in a wider perspective, of the whole FMCG industry, ICA claim that customers think that private labels threaten the Swedish food industry. From a corporate level they therefore focus on providing products with Swedish origin and to help small businesses to develop and bring their products to the market (von Heijne, ICA). Many previous studies have addressed the suppliers' perspective and what the consequences are for the suppliers when private labels are introduced on the market (KPMG 2000; Håkansson 2000; Cullen 1997; deChernatony & McDonald; Corstjens & Corstjens 1995). Another vertical challenge was mentioned by ICA. When new, innovative products are introduced on the market, marketing becomes more important. ICA's respondent means that new products for the first time on the market cannot count on that national brands have created customer maturity (von Heijne, ICA). Therefore, more money is needed on advertising. However, a clash will here occur since marketing costs are not meant to remarkably burden the end price of the private labelled products (Burt 2000a). ICA therefore meet the challenge to find a way for how to market the private labels without harming the price negatively (von Heijne, ICA). This may in the future still be challenging and something that companies need to find a solution for. If advertising however is needed, the companies need to find other activities for cost cutting. One solution could be an increased amount of internal marketing channels, such as ICA's magazine Buffé (von Heijne, ICA).

5.4 THE PRESENT SWEDISH PRIVATE LABEL MARKET

Laaksonen's (1994), Laaksonen & Reynolds (1994) model "the strategic use of private label development" describes different generations of private label development. By sorting the studied companies' private labels, a conclusion can be drawn about in which state the Swedish private label market is in today.

None of the participating companies in the empirical study state they have a G1 private label in their brand portfolio. This indicates that the presence of the generic products characterizing G1 (ibid.) is low in the Swedish FMCG market. Instead the companies are offering discount private labels equal to G2 private labels. According to Laaksonen (1994) and Laaksonen & Reynolds (1994), these products are more

differentiated and more focus are put on the packaging design. In addition, they are more clearly linked to the FMCG chain for example in terms of brand name (ibid.). However, among the studied companies only ICA's discount brand include their own name - ICA Basic (von Heijne, ICA). Axfood's low-cost strategy brand is called Eldorado (Neuman, Axfood) and Coop's counterpart, X-tra (Hällöv, Coop). ICA Basic was previously marketed under the name Euroshopper. The renaming was a strategic move to strengthen ICA's competitiveness against discounters such as Lidl (von Heijne, ICA).

The private labels with the largest assortment are the chains' G3 private labels, the so-called Me-too products. The brands ICA, Garant and Coop include products of quality equal to the market leader but sold at lower price and thus create more value for the money (von Heijne, ICA; Neuman, Axfood; Hällöv, Coop; Laaksonen 1994; Laaksonen & Reynolds 1994). However, the empirical study indicates that the G3 strategy is applicable for private labels traditionally compared with G2 or G4. For example, ICA claims that ICA Basic is reminiscent of the G3 because the products are developed by looking at what is the lowest price on the market and applying a me-too strategy fixed at a lower price. Further, ICA believe their organic private label - ICA I Love Eco is not, by definition, G4, but to a large extent can be considered as G3 (von Heijne, ICA). The "me-too"-products in G3 can therefore be connected with the "me too"-strategy in Hoch's (1996) model. Hoch (ibid.) means that private labels can imitate already existing products, and thereby gain some markets share in terms of new customer.

Laaksonen's (1994) model lacks a clear definition in which generation organic private labels belong. While Axfood are categorizing their organic brand Garant Ekologiska varor as a niche brand (Neuman, Axfood) hence would by definition belongs to G4 (Laaksonen 1994; Laaksonen & Reynolds 1994), ICA argue that ICA I love eco to a large extent can be considered a G3 brand (von Heijne, ICA). Similar to Axfood, Coop regard their organic brand Änglamark as a G4 brand (Hällöv, Coop). Moreover, both ICA and Coop intend to offer the customers more food with low levels of fat, sugar, salt and other additives. ICA's private label ICA Gott liv has these characteristics (von Heijne, ICA) while Coop are talking about these actions in general terms (Hällöv, Coop) indicating that it will concern all the company's private labels. The guidelines for in which generation of private label development in Laaksonen's (1994) model these kind of private labels should be placed are not clear. Question can therefore be raised whether Laaksonen's (ibid.) generations lack in specific descriptions or do not at all deal with these kind of private labels.

Private labels with clear associations with G4 are Axfood's Aware (Axfood 2014b), Coop's Prima (Hällöv, Coop) and ICA's ICA Selection (von Heijne, ICA). The two latter are equal in terms of concept

where the assortment includes hand picked products of highest quality (Laaksonen 1994; Laaksonen & Reynolds 1994). However, the companies did not highlight these premium private labels in terms of future investments and developments plans. The sales of Coop Prima are low and according to the company itself it's due to poor marketing efforts (Hällöv, Coop). "Increasing the distance" is according to Hoch (1996) seen as a more aggressive strategy for private labels. "More value for the money" or "more for the money" can presumably be reached through either lower prices or higher quality. The connection to Laaksonen's (1994) model is therefore made both to G1, G2 and G4. According to ICA's respondent, they will focus on products adding value for the customer, independent on product generation (von Heijne, ICA). Thereby, at least ICA are most interested in using the "increase distance"-strategy in terms of "more value for the money" to create attractive products.

The retailer association of the private labels varies among the companies studied. ICA use a master brand strategy meaning that all of their private labels include the company name (von Heijne, ICA). Also Axfood are to some degree using a master brand strategy. Their private labels do not include the group name, probably since the private labels are sold in different store concept with different names - Willys and Hemköp. However, in the empirical study their G3 brand Garant and their G4 brand Garant Ekologiska varor were described as one single brand instead of two (Neuman, Axfood). The intention behind the master strategy is according to Mårtensson (1994) probably the possible positive spill over one private label can bring to another. The effects of companies speaking about their private labels as a single brand are, however, that the private labels are to be considered trans boundary in terms of Laaksonens (1994) model.

Overall the empirical study shows that main focus is put on nurturing and developing G3 and G4 private labels. G3, because these private labels are the largest in terms of assortment and sales and G4 since all companies agree that in order to stay competitive it is important to find differentiating concepts. The more products and categories private labels are prominent in the better. But, to look on the bright side all three companies use the "increase distance"-strategy, which indicates on the companies' willingness to reach a new level for private labels. They want to develop products in accordance with trends and new demands, which can create high value and satisfaction for the consumer. The competition forces companies to move from the "me too"-strategy, and it is therefore important that companies in Sweden focus on innovation, improvements and customer benefits. Otherwise, private labels would already have peaked as phenomenon.

5.5 FUTURE PRIVATE LABEL TRENDS ON THE SWEDISH FMCG MARKET

The general view of the future seems, according to the companies, to be very bright. Today, Axfood have a private label share of 25 per cent, which for the future is considered a minimum level of private label market share (Neuman, Axfood). According to ICA's respondent, private labels will grow stronger in the future and ICA really wants to grow together with their customers. Together with the customers, ICA want to find the categories where products are lacking, and through that way further develop new products (von Heijne, ICA). Also Coop state that they want to develop products together with the customers, to be able to actually produce the right products demanded. The respondent believes that Coop's private labels have a great growth potential in the future, since recent years have been very successful (Hällöv, Coop). However, the companies mention some common themes connected to the future private label market in Sweden, which hereby will be presented.

5.5.1 Meal Solutions

The fact that private labels could create a new dimension to the FMCG market by offering not just products, but service offering, was early noted in the UK FMCG market (Ossiansson 2004). Thus, the consumer demand was consider in a broader term where retailers started to compete with service providers. The grab-and-go concepts with quick meal solutions are demanded from the consumers' side (ICA-handlarna 2013). Ossiansson (2004) claims that in private labelled meal solutions, UK is the country that has progressed the furthest. However, the concept seems to have hit the Swedish market as both Coop and ICA in the empirical study mentioned meal solutions as one of their main focus areas for the future (Hällöv, Coop; von Heijne, ICA). This indicates that they, due to the UK success, will follow in their footsteps. Coop's respondent develop her reasoning by saying that Coop will try to find a solution for the products that are missing in the assortment today (Hällöv, Coop). ICA will in the future try to make their stores more as a place not solely for food shopping but also direct consumption and dining (von Heijne, ICA). In combination with the demand for meal solution, offering in-store dining solution can be a successful future strategy for FMCG retailers in general. The food served by the retailers in stores shall advantageously be private labelled food, increasing the retailers' profit margins. In addition, this development may be inevitable since some retailers already today consider cafes and restaurants as business competitors.

5.5.2 Future Food- and Health Trend Focus Areas

Swedes are nowadays requesting healthier, more reliable and organic food and the on going health trend in Sweden (Svensk Handel 2014) may be the reason why Coop wants to focus on products with less salt

and sugar in the future. As an overall view of the future the respondent from Coop states that Coop have left the development of new discount products and will instead now focus on products which create value for the customer (Hällöv, Coop). The same future focus is stated by ICA (von Heijne, ICA). The added value seems to be created through good quality products, which also satisfy the customers demand with something extra, as for example an organic niche or locally produced ingredients.

All three companies have organic products represented in their private label portfolio already, but ICA for example, mean that organic products will be of major focus in the future (von Heijne, ICA). In addition, the increased demand for intolerance products was highlighted by Wicklén (2012). None of the companies have a wide developed intolerance assortment yet. ICA however, mentioned this loophole, and declared that the company will put efforts into widening their intolerance assortment. It can be assumed that also the other competing FMCG companies, such as Coop and Axfood will follow ICA in this development.

5.5.3 The Low-Price Trend and The Entry of Hard Discounters

The demand for low price products has showed to arise during recessions. Countries around Europe have demanded more private labels since the last economic crisis, since these products generally are cheaper (Nielsen 2011). Even though Sweden was not heavily affected by the crisis, Sweden is, according to Bergström (2010), experiencing a low price trend within the retail market today. This indicates that Sweden perhaps to some extent indirectly has been affected by the economic downturn in line with the assumptions Schreijen (2011) present in his report. However, there are other underlying factors, which may have an impact on the low-price trend. One explanation could be that the population of Sweden starts to mature in terms of acceptance towards private labels and belief concerning its quality has increased (von Heijne, ICA). In addition, the general increased interest in food and thus the increased awareness of food (Sveriges Radio 2013) may not only have led to people eating more healthy food, but also that households are starting to review their food costs. They may then realize that there are cheaper alternatives to the products they usually buy. Moreover, many new trends advocates intake of products that are often expensive, which may cause customers, in order to afford to follow the diets, to seek out low-cost alternatives. Individually or altogether these factors may have created the Swedish discount trend. Another hypothesis is that the discount relation is circular, where the entry of hard discounters into Sweden has led to the traditional chains being forced to developed low-cost private labels (Schreijen 2011; von Heijne, ICA), which in turn has meant that customers now have access to cheaper alternatives to products they usually buy, in several product categories. Noticeable is also that the traditional FMCG

chains increased discount assortment may be the reason why Lidl, being the only international hard discounter chain on the Swedish market, has started to provide the customers with more value added such as locally produced food (Prejer 2013; Lidl 2013; Hällöv, Coop) and has given their private labels Swedish names (Lidl 2014c; Hällöv, Coop).

While the entry of hard discounters is considered a threat against the growth of private labels on some markets (PLMA International 2014), others instead indicate that they may contribute to the opposite effect (Schreijen 2011; von Heijne, ICA). Hard discounters have put a pressure on the traditional FMCG chains to introduce discount private labels, which are able to compete in the same price category as the hard discounters (Schreijen 2011). Tesco's introduction of a Tesco discount brand range in 2008 was for example a clearly addressed operation executed with the aim to regain market shares that they lost to Aldi and Lidl (Rigby 2008). Similar actions were made by ICA (von Heijne, ICA) when Lidl entered the Swedish FMCG market in 2003 (Lidl 2014b). By changing the name of their discount brand Euroshopper to ICA Basic they made the brand more associated with Sweden and to show that there is also a Swedish low-cost alternative on the market (von Heijne, ICA).

If studying low-priced products, Axfood state that the German FMCG market is of high interest (Neuman, Axfood). The German FMCG market has a large amount of hard-discounters while simultaneously being a market with high markets shares of private labels (Schreijen 2011) illustrating an interesting example of a successful coexistence between private labels and hard discounters. ICA believe that the customer acceptance and the share of private labels will increase on the Swedish market. The UK, the Netherlands, France and Germany all hold more private label shares on their markets and it is argued that the reason is the high competition with low price-chains (von Heijne, ICA). However, the risk of a wide expansion of hard discount chains on the Swedish market is considered low, since it is already saturated with FMCG chains and leaves seemingly no room for new players (Hällöv, Coop). Moreover, the Swedish national regulations are from a European perspective considered to be relatively high, resulting in high entry barriers for foreign companies. This may be the reason why among the major international chains, only Lidl has established stores in the Swedish FMCG market (Konkurrensverket 2009). Other reasons why foreign players deter from establishing themselves in the Nordic market may be the small population size, low population density and the peripheral location of the Nordic countries (Konkurrensverket 2011). In turn, Coop believe that Lidl cannot just compete with their low price, since Willys is positioning themselves as "the cheapest grocery bag in Sweden". Therefore, Coop believe that Lidl have to attract customers in other ways. For example, Lidl have begun to focus more on Swedish meat (Prejer 2013), more products with Swedish names (Lidl 2014c) and organic food (Lidl 2014a; Lantbrukarnas

Riksförbundet 2014). Thus, Lidl try to create more value for the customer, as Coop, ICA and Axfood already have done. Lidl, which is very big on other foreign markets, holds large volumes of scale (Hällöv, Coop). A possible scenario is that the number of hard discount chains will not increase on the Swedish FMCG market but Lidl, which already has a steady establishment on the market will approach the leading chains in terms of product concepts. By adding more value to the customers' purchasing experience they will in the future pose an increasing threat against the leading FMCG chains, especially Willys.

6. CONCLUSION & DISCUSSION

In this final chapter the conclusions drawn from the market studies, theories and the empirical findings analyzed in the previous chapter, will be presented. The conclusions aim to answer the study's questions of research. Furthermore, the study's contributions for the field of study are presented and finally suggestions for future studies are given.

6.1 QUESTIONS OF RESEARCH REVISITED

What Are the Motives, Triggers and Challenges for the Development of Private Labels on the Swedish FMCG Market?

Through the research, different motives were found for the development of private labels on the Swedish FMCG market. Firstly, private labels help companies to serve customers with the right products, which therefore contributes with customer satisfaction. With private labels a company can take the customers' requests into consideration, and together with the private label department develop the demanded products, based on customers requirements. Private labelled products also contribute with increased profitability, since private labels in general have higher margins and are therefore seen, as an essential motive for companies to focus on wholly owned products. Furthermore, private labels assist with a greater insight for companies in the values chain, which result in more power and influences from the company's side. This power and increased insight can be used to create unique products for the customers, which lately has been more important because of the increased competition on the Swedish FMCG market.

The study has found that health trends and diets, as well as a generally increased interest in cooking, trigger private label development. In order to fulfil the needs of the customers' the companies pay heavily attention to current market trends and adapt their private label portfolio and assortment along them. Increasing organic product ranges is one example, simplified and more healthy recipes with less salt, sugar and other additives, is another. Food TV-shows has made the Swedes more eager to cook and more aware of what the food contains. In addition, due to the high concentration in the Swedish FMCG market, the leading players possess large economies of scale, enabling effective development of private labels. Moreover, the saturated and high concentrated market in combination with the country's high entry barriers impedes the entry of small and international actors to consolidate in the market.

Challenges for private label producers are usually related to customer perceptions. The study showed that it is important that companies can ensure that their private labels are of good quality, for example by putting requirements on suppliers, but ultimately it is about the customer perception of private labels in relation to national brands. Firms highlight some product categories as particularly challenging: body care, coffee and confectionery. Furthermore, it can be concluded that private labels entail vertical challenges, such as how to work with private labels on store level, how to expand the private labels without affecting the entire industry in a negative way, and how private labelled products can be marketed without generating excessive load on the end price. A future challenge will be to lift the development to a new level by finding solutions to products that are not currently on the market and create a demand for unique products that customers today do not know that they request. Furthermore, there may be products available on foreign markets, which can be interpreted by private label producers and offered on the Swedish FMCG market.

What Will the Future Swedish Private Label Market Be Characterized By?

Based on the theory, market studies and the qualitative interviews a conclusion can be drawn about that Sweden today is found in the third and fourth private label generations. Focus in Sweden will mainly be put on unique offers in accordance with generation four, but also a wide variety of products in generation three will in the future be further developed. Major focus is put on increasing the distance to national brands by offering new and unique products. The study indicates that the competition in the food industry today is considered trans boundary where FMCG stores compete with service providers such as cafés and restaurants. As a result, the FMCG stores will focus on developing and offering the customers private labelled meal solutions. Furthermore, the increased interest for meal solutions, may lead to in-store dining, similar to existing concepts in other FMCG markets. The stores may build in-store café looking areas where you can buy, but also eat your lunch or dinner, before continuing your grocery shopping. The future private labelled products and assortment will be concentrated on the development of more organic-, and intolerance products. The intolerance products range has high potential for development and improvements, as the demand increases for example in relation with the increased number of lactose intolerant customers. On the British market the increase of hard discounters has posed a significant threat against the leading FMCG chains. However, even though Lidl, the only international hard discounter established on the Swedish market, is predicted a bright future in terms of concept- and product development, the overall hard discounter threat is considered low on the Swedish FMCG market. The overall focus for private labels will therefore in the future be to develop new, innovative and unique offers

for the customers on the Swedish market. The private labels will continue to have the huge competitive advantage in having the same brand name spread over product categories in comparison to national brands. The coherency enables positive spill over, but simultaneously a challenge will be to reduce the amount of negative spill over that the strategy is even more subject to, due to the general low consumer trust in private labels. The future challenge will be to find more concepts and new loopholes to fill out, and in this way stay competitive. Other markets could therefore be used for inspiration, but unsuccessful investments made by them can also deserve attention, with the purpose to avoid suffering a similar fate. Whether the discount chains should be seen as a challenge, as on the UK market, or as triggers, similar to the German market, in the Swedish FMCG market, the study has not been able to state. However, it is proposed that the discount trend is here to stay, since the relationship between the traditional chains' private labels, new trends and hard discounters' establishment in the Swedish market eventually has a circular connection. Furthermore, the study indicates that an increased number of private labels from the traditional chains' side has led to the discount chain Lidl now is focusing on providing customers with more value-added offerings.

6.2 CONTRIBUTIONS

The study has contributed with a new approach for how to study the development of private labels. By studying motives, triggers and challenges the thesis contributes with a wider understanding of where in the private label development Sweden stands today, and what the future possibly will be characterized by. Despite limitations, the study has also contributed with up-to-date private label development trends from a retailer and market perspective. This could potentially be used to promote the understanding of what is needed in the future to stay competitive. Previous research during the 21th century has mainly focused on the competition between private labels and the national brand suppliers. Moreover, research has studied the consequences private label development has led to for the suppliers. In addition, empirical studies have been conducted examining what strategies are used by the suppliers for how to relate to the expansion of private labels. In contrast, this study expands the view by adding the retailer and market perspective on the development process.

6.3 SUGGESTIONS FOR FUTURE RESEARCH

Since the level of market concentration seems to have an impact on the private label development within a country it would be interesting to investigate this relationship more closely, and furthermore to compare different countries with each other. Another angle for further research is to compare the conditions on the

European private label market with the U.S. or Asian counterparts. It has been noted that the market share of private labels increases in countries that are heavily affected by economic recessions. However, it is of interest to study if this relation also is compatible on markets with stable economy. A study from a consumer perspective investigating the motives for buying private labels can be conducted in order to clarify whether the economic situation has an impact of the purchasing decision.

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8. APPENDIX

The appendix will include tables of the studied companies' private label portfolios as well as the interview guide with the questions asked in the empirical study.

8.1 PRIVATE LABEL SHARE BY COUNTRY

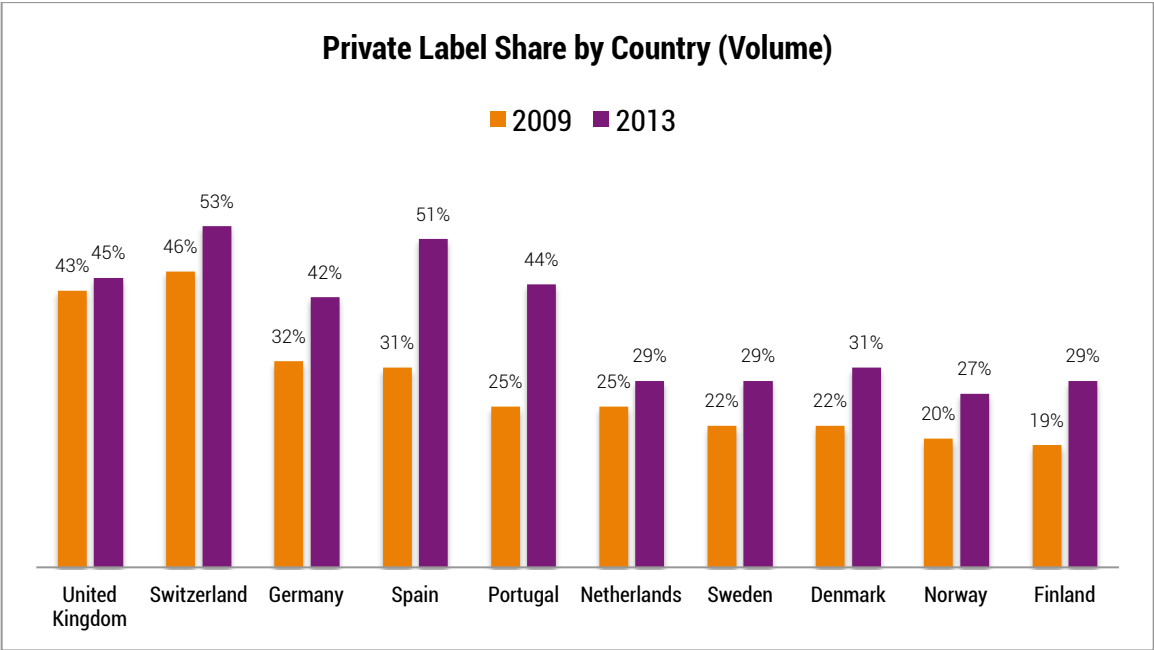


Figure 3: Private Label Share by Country (Volume)
Sources: 2009: Nielsen (2011), 2013: PLMA International (2013)

8.2 STUDIED PRIVATE LABELS

Coop

X-tra	Basic products for a really good everyday living. The x-tra products are cheap thanks to high-volume and simple packaging. The product range is child-friendly consisting of for example meatballs, pasta and chicken
Coop	High quality at a really good price with a wide range for everything from everyday to party. Carefully selected products and a family friendly assortment
Coop Änglamark	100% organic. A good choice for you and the environment - at a reasonable price. Sweden's largest organic line. Environmentally classified goods according to requirements, such as the Swan, MSC, etcetera. Änglamark is the widest organic brand on the Swedish FMCG market with over 450 different items to choose from.
Coop Prima	Delicacies of the best quality with focus on food enjoyment and inspiration. Handpicked products labelled with country of origin. Products developed with the help of the Coop members.

Table 1: Coop's Private Label Portfolio

Sources: Coop (2014b), Hällöv, Coop

Axfood

Eldorado	Eldorado is Axfood most affordable private labels. The whole series now face a new start with new packaging and taste tests are done to evaluate each product. Good products at a low price has been Eldorado's hallmarks since 1969.
Garant	Garant is a Group-wide brand that was launched in 2009 and sold in all Axfood chain stores. Garant product belongs in the medium segment, ie the quality has at least the same quality as leading brand products, but with a lower price.
Garant Ekologiska Varor	Garant Organic products are a series of products for ecological living. The range of high quality at a reasonable price. All our organic products come from a certified production, the products are labeled with KRAV or EU Organic. The range contains about 140 products.
Aware	The private label Aware is a series of Fairtrade products sold at Hemköp and Willys. Examples of products are coffee, tea, chocolate and orange juice.

Table 2: Axfood's Private Label Portfolio

Source: Axfood (2014b)

ICA

ICA Basic	ICA Basic is the cheapest products in ICA's assortment. They live up to the company's high ICA requirements, but thanks to the simple packaging, high volume and a quality that is good enough for everyday, they can keep the price down. No features, just good food.
ICA	The ICA products are not only affordable and great products for all occasions. They are also carefully controlled in order to live up to the company's high standards for taste and quality.
ICA I love eco	With ICA I love eco, ICA wants to inspire the consumers to an organic lifestyle that taste and do good. About half of all ICA's groceries, besides fruits and vegetables, are produced in Sweden, often by smaller companies. One example is Halland Berte grinder which produces ICA organic flour.
ICA Gott liv	With ICA Gott liv, ICA want to make it easier for the consumers to make healthier choices when they are standing at the shelf, without having to change lifestyle. Jam in the porridge, eggs for breakfast and muesli mix in yogurt? Just a little healthier. Many products are typical breakfast foods, but there are also good snacks. Moreover, it includes a wide supply of dried fruit, nuts and snacks, making it easy to resist candy when blood sugar lows. The rules for additives in ICA Gott liv is hard. They follow the EU regulations for organic products with just a few additions.
ICA Selection	ICA Selection is our finest goods, especially chosen by us at ICA. They are made of first class raw materials by producers who are uncompromising when it comes to taste and quality.

Table 3: ICA's Private Label Portfolio

Source: ICA (2014b)

8.3 INTERVIEW GUIDE

Interview Guide - Private Label Directors

Abbreviations, which will be used in the interview:

PL - Private Label

FMCG - Fast-moving Consumer Goods

1. About the Interviewee

1.1 What is your position within the company?

2. About the Company's Private Labels

2.1 When were your private labels introduced on the Swedish market?

2.2 Why did you choose to invest in PL?

2.3 Have you taken into consideration the development of PL in frontrunning countries and its markets when you have developed your private labels?

2.4 How many per cent of the company's total sales in Sweden does your PL represent today (2013)?

a) What has this number been in 2005, 2007, 2009 and 2011?

2.5 To what or whom generations would you place your PL? (See the figure below for definitions of the different generations)

	Generation 1	Generation 2	Generation 3	Generation 4
Type of brand	Generic No name Brand free Unbranded	Quasi brand Own label	Own label	Extended own brand
Strategy Objective	Generics Increase margin Choice in price	Cheapest price Increase margin Reduce manufacturer power by setting entry price Provide better value product	Me-too Enhance category margins Extend product range Build retailer's image	Value added Increase and retail customer base Enhance category margins Improve image Differentiation
Product	Basic and functional products	One-off staple lines with a large volume	Big category products	Image-forming product groups Large number of products with small volume (niche)
Technology	Simple production process/basic technology lagging behind market leader	Still lagging behind market leader	Close to brand leader	Innovative technology
Quality/image	Lower quality and inferior image of manufacturer brands	Medium quality but perceived as lower than manufacturer brands Perceived as secondary brand	Comparable to brand leaders	Same or better than brand leader Innovative and different product from brand leader
Manufacturer-specific investments	None/low	→	→	High

Source: Collins & Burt (2003) where row 1-6 are compiled from Laaksonen & Reynolds (1994)

2.6 What generation best reflects the form of PL you invest the most in?

- a) In terms of extended product range
- b) In terms of differentiation/development
- c) In terms of new PLs (i.e. completely new brands)

2.7 What has been the biggest challenge regarding the development of your EMV?

3. About the Competition on the Market

3.1 Which operators do you see as your biggest competitors in the FMCG market?

3.2 Which or what options below best reflect how you act in order to maintain or enhance your private label market position against national brands?

- a) Acting defensively and feel the market (slow development of private label products)
- b) Manufacture similar products as the national brands, but at lower prices
- c) Create added value for the customer
- d) Creating new brands with differentiated and innovative products
- e) Otherwise

3.3 Further describe the option selected above

3.4 How do you think the competition has changed since the private label phenomenon was introduced on the Swedish market?

3.5 How do you think your PL stands out compared with well-established national brands?

4. About the Future

4.1 What future products would you like to see in the assortment of your private labels?

4.2 According PLMA (Private Label Manufacturers Association), UK supermarket chains are worried about hard discount supermarkets', such as Aldi and Lidl increased market share. Do you see the discount chains as a threat to you and to the Swedish FMCG market in general? Please elaborate on your answer.

4.3 Finally, what do you think about the future regarding your private labels?

