

Response Strategies to Private Labels

Case Company: Henkel, Germany

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ABSTRACT

The aim of the thesis is to examine which strategy that the German consumer goods company, Henkel, can adopt in order to respond to private labels. Moreover, the thesis describes and explores a set of strategies that a national brand manufacturer can use to act towards private labels.

The thesis employs deductive approach and quantitative research method. Information and data in the thesis are collected from both primary and secondary sources. A survey is conducted with 102 German consumers in order to examine their buying habits for shampoos. The results from the survey are the primary source for the study. Secondary data is collected from books, journals, reports, articles and electronic sources.

The theoretical framework of the thesis is based on Hoch's (1996) proposed strategies. Hoch's strategies are put forward in order to help national manufacturers deal with the increase of private labels.

The study results show that Henkel should adopt the strategy of increasing distance from private labels. The strategy is chosen because it can improve brands' perceived superiority and add value to consumers without harming manufacturer-retailer relationships and healthy competition.

Key words: national brands, private labels, response strategies to private labels, consumer goods

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ABBREVIATIONS

NB	National Brand
PL	Private Label
NBM	National Brand Manufacturer
FMCG	Fast Moving Consumer Goods

1 INTRODUCTION

1.1 Background

A private label is a brand owned by a retailer (Desai et al. 2015, 179). A private label product is manufactured by a third-party manufacturer and then sold under a retailer's brand name. Private labels are usually cheaper than their name brand counterparts (Time 2012). Some examples of private labels are: Pirkka of K-Group in Finland, and Ja! of Rewe supermarkets in Germany.

Although the global recession gave private labels an added boost, demand for private label goods has remained strong. Despite the fact that the economy has started to recover, consumers no longer view private labels as a trade-down and, more often, see private label just as another branded option. (Accenture 2011, 1.)

While private labels used to be attractive to consumers mainly because of their lower prices, private label products now are seen as on par with competing national branded products (Accenture 2011, 3). Consumers are looking for quality and value, and private labels fulfill these attributes. Two-thirds of global respondents in a Nielsen survey believe private label products offer extremely good value for money. And 62 percent say purchasing private label products makes them feel like a smart shopper. (Nielsen 2014, 4.) Private labels have become popular, especially in Europe. Seventy percent of European respondents say that private labels are a good alternative to name brands and offer good value for the money. (Nielsen 2014, 15.)

In Germany, private labels are perceived well by 70 percent of German consumers (Lahard 2015). German private labels are behaving like strong brands and big national brand manufacturers (e.g. Unilever, Henkel, L'Oreal) are having difficulties in competing with private labels.

The thesis topic came up when the author was doing her practical training at the case company, Henkel, in Germany. Henkel is one of the leading fast-moving consumer goods companies in Germany, especially in the hair care category. However, when the author visited drugstores in the country, she realized private label shampoos sold well and were given top priority on shelf spaces. Obviously, private label shampoos have taken the market share from other big names such as Head & Shoulders, Schwarzkopf, and L' Oreal. That is why the author believes that the success of private labels should not be ignored and national brand manufacturers should have appropriate response to private labels. The thesis aims to explore strategies that national brand manufacturers can use in order to deal with increased usage of private labels. The strategies are called "response strategies to private labels".

1.2 Thesis Objectives, Research Questions and Limitations

The main objective of the thesis is to understand a set of strategies that a national brand manufacturer can use to act towards private labels. The thesis also analyses the German shampoo market in order to find a suitable strategy for the case company on how to deal with private label shampoos.

Main research question is: What is the most suitable strategy that Henkel can use to respond to private labels in Germany?

In order to achieve this objective, the author developed several sub-research questions:

1. What is a national brand? What is a private label brand?
2. What are the strategic options that a national brand manufacturer can implement to respond to private labels?
3. How is the retail industry in Germany? Which retailers do German consumers prefer when purchasing shampoos?
4. How is private-label performance in Germany? How well do private label shampoos perform?

5. How aware are the German consumers and how do they perceive private label shampoos?

Limitations

There are several researchers who have proposed different strategic implications for national brand manufacturers to act towards private labels. However, in the thesis, the author has chosen to focus on Hoch's (1996) five practical strategies. This is because Hoch has provided the most extensive list of approaches which have been agreed by several other researchers (Kim 2006, 79).

Due to limited time and resources, in the empirical research part of the thesis, it would be impossible to cover all aspects of all product categories in Germany. A product category (or category) is all the products offering the same general functionality. For example, the shampoo category is all the products which can be in any form of liquid, which is used for cleaning hair. Therefore, the author has conducted the research to focus on the shampoo category in Germany (or German shampoo market) only. Moreover, the author collected data in only one region of the whole of Germany in order to represent the analysis of the whole country. The consumers filling the survey, which was mentioned in chapter 5, mainly live in the state North Rhine-Westphalia in Germany. This might cause biases in the research. However, North Rhine-Westphalia is the most populous state in Germany so biases should be reduced. Another limitation is that there is a lack of English academic journals about the German market due to language barrier – most written text was in the German language. As a result, the author had to use Internet sources. But all of the chosen sources are well-known and trustworthy.

1.3 Thesis Structure

The thesis is divided into two parts: theoretical and empirical parts, consisting of six chapters. The figure below illustrates the structure of the thesis.



FIGURE 1. Thesis Structure

Chapter 1 introduces the thesis topic, the background of the study, thesis objectives and limitations, and also research methods.

The theoretical part includes chapter 2 and chapter 3. Chapter 2 explains what national brands and private label brands are about.

Chapter 3 introduces Hoch's five strategic options provided for national brand manufacturers to act towards private labels as well as each strategy's benefits and drawbacks.

The empirical part of the thesis includes chapter 4 and chapter 5. Chapter 4 introduces the case company's background and its strategic priorities in recent years as well as its risks with reference to private labels. Chapter 5

studies the German shampoo market. The core of this chapter is to help readers understand the structure of retail in Germany, which types of retailers are dominant for shampoo products, how private label shampoos perform, and how the German consumers are aware and perceive private label shampoos.

In chapter 6, the empirical data gathered in chapter 4 and chapter 5 will be analysed against the five strategic options in the theoretical part in chapter 3. This is done in order to find out if there is any correspondence between the empirical data and theory within the topic. Moreover, the author will also provide recommendations for the case company. Finally, chapter 7 ends the thesis by giving answers to the research questions, evaluating the reliability and validity of the research and suggesting for further research.

1.4 Research Methodology and Data Collection

In this part, Figure 2 indicates the research methodology of the thesis.

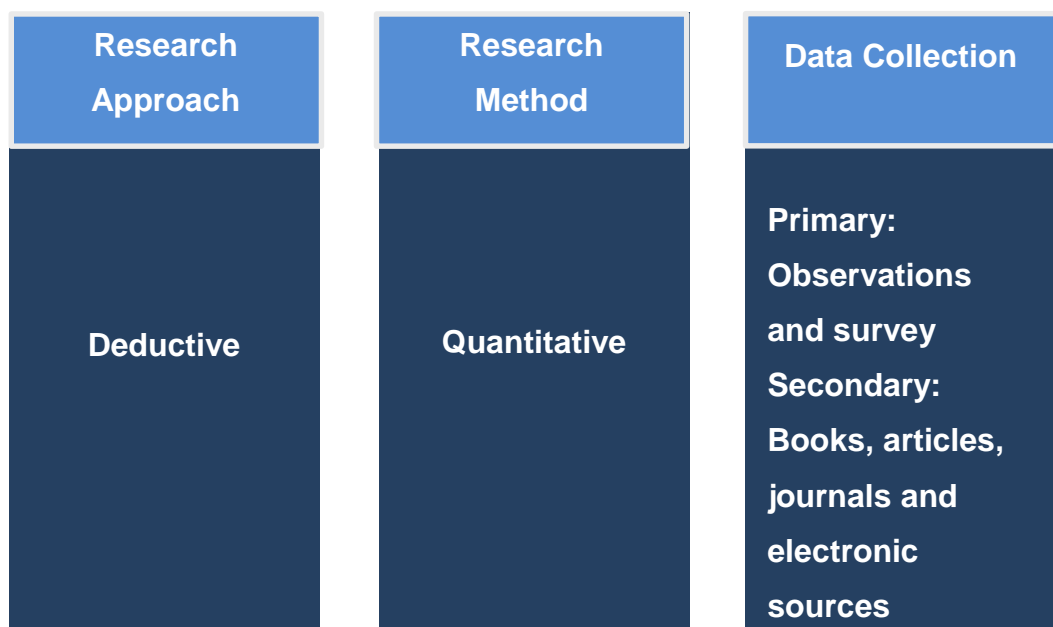


FIGURE 2. Research Approach, Research Method and Data Collection

Research approach

There are two main methods of reasoning, which are deductive and inductive approaches. A deductive approach is concerned with developing a hypothesis (or hypotheses) based on existing theory, and then designing a research strategy to test the hypothesis. On the contrary, an inductive approach would collect data and develop theory from the researcher's data analysis. (Wilson, 2010, 7.)

This thesis used deductive approach since the main focus was on strategies used to face private labels, which have already been covered in academic literature.

Research method

A suitable research method is required to implement the research. There are two main research methods which are qualitative and quantitative methods. Quantitative research emphasizes quantification and analysis of data and is more aligned to deductive reasoning (Bryman & Bell 2011, 150). On the other hand, qualitative research focuses on words in order to create theories and is more aligned to inductive reasoning (Bryman & Bell 2011, 386). In order to get the best results for the research and due to the nature of this thesis, the quantitative method is utilized.

Data collection

It is necessary to collect data to answer research questions. There are two main sets of data: primary and secondary data. Primary data is collected for a specific research problem on hand, using procedures that fit the problem best (Hox & Boeije 2005, 593). Secondary data is information which has been gathered by researchers not involved in the current assessment and has undergone at least one layer of analysis prior to inclusion in the needs of assessment (ACAPS 2012, 3). Secondary data may also provide a vast amount of information that could be useful for the research questions. If there is limited appropriate secondary data, a

researcher will have to rely mainly on data that s/he collects his/herself (Saunders et al. 2009, 258).

In the thesis, primary data is collected from the survey of the target market. The survey included closed-ended questions with the purpose of testing German consumers' shampoo buying habits in the target market. Furthermore, the author's personal knowledge, by working in the case company and by living in the target market for a short period of time, is also employed in the thesis. Secondary data gathered in the thesis are publications such as books, journals, and studies and trustful electronic sources.

2 NATIONAL AND PRIVATE LABEL BRANDS

In this chapter, the theories connected to the first sub research question will be explored.

2.1 Definition of Brand

Despite the fact that brands have been used to mark ownership for centuries, it was not until the second half of the 19th century that brands rose as a mass phenomenon in the business context (Harhoff et al. 2016, 355). In marketing, the word “brand” is used extensively. However, it has several meanings, and cannot be clearly defined (Alvis 2009, 1).

There are diverse approaches to brand definition (Wood 2000, 664). It is suggested that each expert comes up with his/ her own definition, or nuance to a definition (Kapferer 2012, 7). American Marketing Association (AMA) proposed a brand definition in 1960, which focused on tangible elements as points of differentiation:

“A name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of the competitors” (Wood 2000, 664).

This early definition was relatively straightforward. However, it was criticized because it failed to integrate intangible elements into brand theory. American Marketing Association (2007) redefines a brand as “a name, term, design, symbol or **any other feature** that identifies one seller’s good or service as distinct from those of other sellers” (American Marketing Association 1995, according to Alvis 2009, 2).

The renowned advertising copywriter David Ogilvy defined a brand as “the intangible sum of a product’s attributes: its name, packaging, and price, its history, its reputation and the way it’s advertised” (Ogilvy, according to Masterson & Pickton 2014, 557). Walter Landor, another advertising

expert and a pioneer of branding, said, *“Products are made in the factory, but brands are created in the mind”* (Walter, according to Martinez 2012). Therefore, a brand is much more than a product or service (Neumeier 2015). A brand is a collection of perceptions in the mind of the consumer (Colin Bates, according to Murray 2013, 410).

In short, a brand is every sign that is capable of distinguishing the goods or services of a company (Riezebos et al. 2003, 32). Brands often provide the primary points of differentiation between competitive offerings, and as such they can be critical to the success of companies (Wood 2000, 662).

2.2 National Brands

A national brand is a brand name of a product which is distributed nationally under a brand name owned by a producer or distributor (Cram101 Textbook Reviews 2014). When thinking about brands in every day situations, national brands would most likely come to mind. From Coca-Cola and Disney to Marlboro, they would fit under the definition of a national brand. (Keller 2003, according to Hultman et al. 2008, 126.) These types of brands are created by producers and they bear their own chosen brand name (Kumar 2009, 213). As a consequence, the value of the brand is in the hands of the producer. Chernatony and McWilliam (1998) define a national brand as:

“An added value entity conceived and primarily developed by a manufacturer for a specific group of customers and consumers, which portrays a unique relevant and distinctive personality through the support of product development, promotional activity and an appropriate pricing and distribution strategy”. (Chernatony and McWilliam 1988, according to Hultman et al. 2008, 126).

Another simpler definition is: *“brands owned by manufacturers and marketed to wholesalers and retailers within the channel of distribution”* (Pride and Ferrell 2003, according to Saratidis 2012).

This type of brand comes under many names such as manufacturer brands, national brands, well-known brands, and so on (Tamilia et al. 2000, according to Hultman & Ljungros 2003, 3). But throughout the thesis, only the two terms manufacturer brands and national brands are used interchangeably. The producers of these will be referred to as national brand manufacturers or NBM in abbreviation.

2.3 Private Label Brands

It is claimed that retailers have provided their customers with national branded goods for a substantial amount of time, but have in later years also realized the benefits associated with carrying own created brands (Håkansson 2000, according to Hultman & Ljungros 2003, 4). A retailer offers their own created brands to differentiate its offering from competing retailers' offering (Aliwadi et al. 2004, according to Weiß 2015, 12).

The Private Label Manufacturer's Association (2013) has defined private label brands as:

"Products that encompass all merchandise sold under a retailer's brands" (Private Label Manufacturer's Association 2013, according to Weiß 2015, 11).

Basically, a brand which is not owned by a manufacturer but instead by a retailer is called a private label. It is important to emphasize that a product under these brands can be produced by any other manufacturer, but if the brands are owned, maintained and developed by a retailer, it is a private label brand. Similar to national brands, private labels also have different names such as private labels, retailer brands, store brands, own brands (Håkansson 2000, according to Hultman & Ljungros 2003, 4). But, only the word "private label" or "private label brands" will be used throughout the thesis.

Types of private labels

According to Kumar and Steenkamp (2007, 31), on the basis of the perceived dimensions of quality and price levels, there are four types of private labels: Generic private labels, Copycat private labels, Premium private labels and Value innovators (Kumar & Steenkamp 2007, Bakker 2015, 32). The first two types are often used by retailers traditionally to make extra profits, while the latter two are relatively new (Ionescu 2010, 11). They are:

- **Generic private labels (or generics):** The majority of retailers start private labels by introducing generics. A generic does not carry the brand of the retailer who owns the generic. Its package is simple with black letters on a white background and the design is very out of trend in the retail industry. The consumers see it as a very cheap and poor quality product. The retailers sell generics in order to attract low-income and price-sensitive consumers. (Kumar & Steenkamp 1997, according to Ionescu 2010, 11.) Generics are usually 30-40 percent cheaper than national brands and account for a small percentage of the retailer's sales (PwC 2011, 9). The generics are usually placed on less visible places. Moreover, they exist in basic product groups such as paper products and canned foods. Recently, generic private labels become less important and lose shelf space to other types of private labels. (Kumar & Steenkamp 1997, according to Ionescu 2010, 12.)
- **Copycat private labels (or copycats):** Copycats are the products that mimic national brands but are sold at lower prices (PwC 2011, 9). They are very similar to national brands in terms of packaging. The retailers use copycats to drive revenues and profits from national brands to retailers. (Kumar & Steenkamp 1997, according to Ionescu 2010, 12.) Copycats are usually 10-20 percent cheaper than national brands. They are usually placed close to leading national brands to confuse consumers' mind, which makes

consumers compare prices between the two products. (PwC 2011, 9.)

- Premium private labels: The copycats are used to compete national brands, but it does not help a retailer differentiate with other retailers. The consumers do not have any reasons to buy from a certain store. Therefore, in order to gain more store loyalty, premium private labels are introduced. This introduction is one of the hottest and newest trends in retail. (Kumar & Steenkamp 1997, according to Ionescu 2010, 13.) The premium private labels are positioned in the high quality, high price segment ranging in quality as equal or superior to the leading national brand (Sayman et al. 2002, according to Bakker 2015, 31). To develop a successful premium premium private label, retailers should conduct extensive analysis of production, marketing, markdowns to risks. The retailers also need to source with manufacturers that can offer good quality rather than those that offer low-costs. (PwC 2011,9.)
- Value innovators: The fourth type of private labels have been first introduced by the discounter Aldi in Germany. Value innovators are quality products being sold at lowest prices. This approach focuses on eliminating all unnecessary costs as much as possible, so that a good quality product can be sold at a very low price (Kapferer 2012, according to Bakker 2015, 32.) While premium private labels are positioned as best products on a market and in some cases have higher prices than national brands, value innovators are sold at an unbeatable quality/price ratio (Kumar & Steenkamp, 1997, according to Ionescu 2010, 62).

3 HOCH'S FIVE STRATEGIES IN RESPONSE TO PRIVATE LABELS

In this chapter, the theories connected to the second sub-research question will be explored. There are several scholars and authors who have contributed to this research topic and provided strategic implications for national brand manufacturers to react towards private label threats.

Stephen Hoch (1996) has developed further this topic by listing five strategies to help national brand manufacturers bolster their competitive position in the private label arena. Hoch mentions that the strategies are neither mutually exclusive nor exhaustive, they represent the most common strategic options open for use (Hoch 1996, according to Verhoef et al. 2002, 1311). The figure below displays Hoch's five strategies which are based on two dimensions: quality and price. The strategies are: (1) wait and do nothing, (2) increase distance from private labels, (3) reduce the price gap, (4) formulate a "me-too" strategy – introduce value flanker, and (5) produce regular or premium private labels.

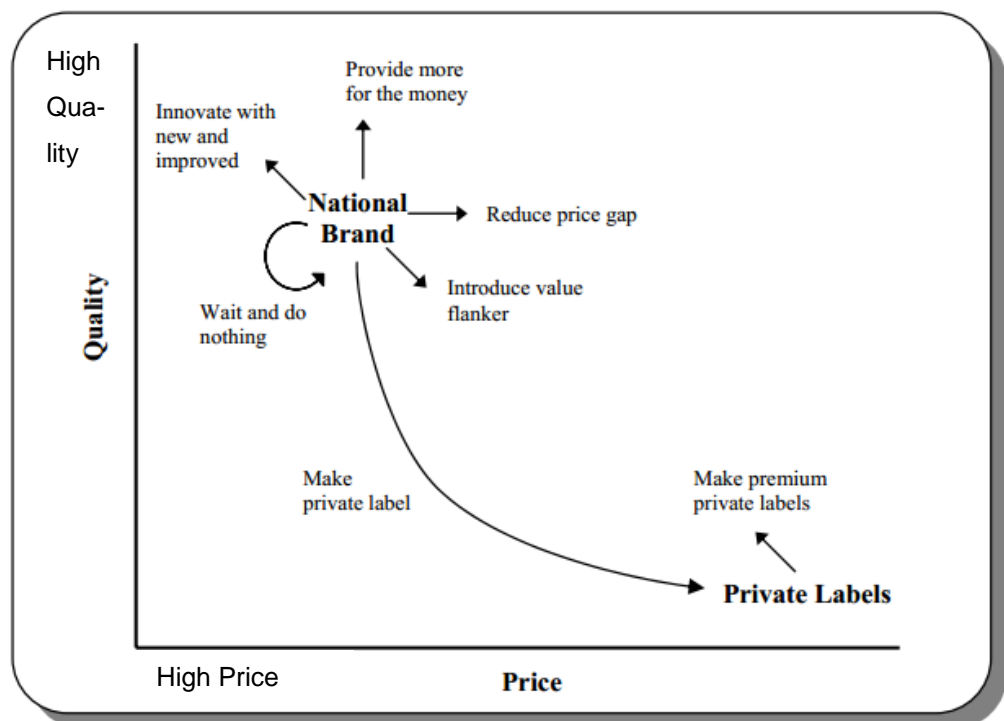


FIGURE 3. Hoch's Strategies for The National Brand Manufacturers
(Source: MIT Sloan Management Review)

3.1 Wait and Do Nothing

The first strategic option suggested by Hoch (1996) is “Wait and do nothing” strategy. It basically recommends national brand manufacturers to do nothing and wait for the Private Label (PI) trend to end. Strategic reactions to private labels require substantive and long-term commitment, which cannot be easily reversed (Hoch 1996, according to Verhoef et al. 2002). If markets are characterized by high volatility and fluctuation, it may be unwise for a national manufacturer to react quickly and aggressively, and national brand manufacturers may want to wait and see what happens to private labels’ development in the brand’s category (Waarts and Wierenga, 2000, according to Verhoef et al. 2002, 1313). This wait-and-see strategy does not necessarily result in bad performances. Sometimes waiting to react on a new product introduction, until the company feels able to react with an innovative new product, can be rather successful (Shanker et al 1998, according to Verhoef et al. 2002, 1313).

This strategic option is concluded from Hoch’s assumption that there is a clear connection between aggregate private label shares and consumers’ disposable income. The higher the disposable income, the lower the private label market share, and vice versa. This hints that when the economy is bad, private labels are popular, but when times are good the opposite is true, which explains why it might be a wise move for national brand manufacturers to wait until the private label popularity changes. (Hoch 1996, according to Hultman & Ljungros 2003, 15.)

A benefit of this strategy is that it can *help avoid large and long-term investments that are not easily reversed* (Hoch 1996, according to Hultman & Ljungros 2003, 29). However, Hoch warns that if retail concentration continues to increase, if the weaker private labels begin to perform like the best or drop out during industry consolidation, and if alternative formats continue to take business away from traditional supermarket retailers while investing in their own private labels, the wait-and-see strategy is very precarious to NBMs (Hoch 1996, according to

Hultman & Ljungros 2003, 30). Moreover, this strategy is likely to lead to decreasing profit and losing market share by national brands as private labels' quality continues to improve (Sayman et al. 2002, according Kim 2006, 78).

3.2 Increase Distance from Private Labels

The second strategy suggested by Hoch (1996) for national brand manufacturers is to distance themselves from private labels. The distancing moves could be to "new and improved" or "more for the money" which both involve a separation in both quality and price from private label competitors. (Hoch 2003, according to Hultman & Ljungros 2003, 16)

The first tactic "new and improved" tends to be very effective to secure National Brand (NB)'s long-term position in the market against private labels (Kim 2006, 80). When product life cycle is short, innovation will help reduce private labels' market share (Verhoef et al. 2002, 1312). This tactic suggests gaining competitive advantage over private labels through innovation, and introducing "new and improved" products or product elements which allows an increase both in quality and price. Continuous product improvement and development through innovation help national brand products maintain its superior quality perception by consumers. This is key to appeal to consumers' willingness to pay more for the additional value embedded in national brand products. National brand manufacturers need to understand consumer trends and shift in taste and preference in their product development process. (Hoch et al. 1996, according to Kim 2006, 77.)

The second tactic "more for the money" suggests national brand manufacturers to maintain current prices while giving the consumer additional value (Hoch 1996, according to Kim 2006, 78). This strategy is based on previous statistical analysis showing that although consumer behavior is influenced by several product factors, e.g. price, quality, and packaging and retail factors such as location, price range, assortment,

quality and quality consistency are still more dominant and important than price when repurchasing a product (Hoch 1996, according to Hultman & Ljungros 2003, 16). This means that if a product has improved quality but still keeps the old price, it can be perceived as having more value by consumers (Kim 2006, 78). However, these influential factors depend on categories involved. Quality is more important when it comes to more expensive and diversified categories such as cheese and diapers. On the other hand, price is more important when the products are not easily differentiated on quality, e.g. milk or salt. Therefore, national brand manufacturers can apply this strategy based on its careful market research and categories involved. An example of this tactic practice could be simple improvements such as improved packaging e.g. environmental-friendly package. (Hoch 1996, according to Hultman & Ljungros 2003, 16.)

This strategy has two main benefits. The first benefit is that it provides consumers added value (Hoch 1996, according to Hultman & Ljungros 2003, 29). The second benefit is that it helps enhance national brands' perceived superiority in consumers' eyes as well as raises the cost for private label imitators who have to catch up (Quelch & Harding 1996, according to Hultman & Ljungros 2003, 29). However, the strategy is more suitable for goods that are a bit more expensive and diversified (Hoch 1996, according to Hultman & Ljungros 2003, 30).

3.3 Reduce the Price Gap

The price of private labels is substantially lower than that of comparable manufacturer brands. Hoch (1996) claims that the shelf prices for private label brands are usually 25-30 percent less than those for the national brands. Therefore, an alternative option for national brand manufacturers is to simply lower their prices in order to reduce the price gap that exists. Research has shown that consumers are more willing to purchase national brands if the price gap between national brands and private labels would not be so high. Hoch (1996) also says that leading brands are much less sensitive to price gap than private labels. Sales tend to remain constant

irrespective of the gap. The above fact implies that it would be best if a national brand manufacturer can persuade the private label manufacturers to raise their price levels so that national brand manufacturers could maintain their original prices and profit margins. (Hoch 1996, according to Hultman & Ljungros 2003, 16.)

An advantage of this strategy is that it can help national brand manufacturers gain market share. However, this good result is very difficult to accomplish and national brand manufacturers should consider this strategy carefully, since lowering their own prices may result in a loss in brand value and identity. (Hoch 1996, according to Hultman & Ljungros 2003, 16). On the other hand, trying to persuade the private labels to raise their prices may harm the relationships between retailers and national brand manufacturers (Hoch 1996, according to Verhoef et al. 2002, 1312).

3.4 Formulate A “Me-Too” Strategy – Introduce A Value Flanker

This is a strategy that is opposite to the “increase-distance” strategy mentioned above. This option suggests national brand manufacturers to imitate and move closer to private labels. This option might be used when a brand is in desperation and having resource constraints. (Hoch 1996, according to Hultman & Ljungros 2003, 16). National brands can imitate private label products by producing a lower priced, possibly lower quality product called “value flanker” to crowd out the private labels or limit the private labels’ chance to move upscale (Hoch 1996, according to Verhoef et al. 2002, 1312).

The first advantage of this strategy is that it helps a national brand manufacturer avoid price competition that may reduce both national brand manufacturers’ and retailers’ profit margins. Secondly, this strategy gives national brand manufacturers a chance to preserve their premium image. Thirdly, using this strategy helps national brand manufacturers utilize their excess manufacturing capacity. Capacity utilization is even more essential for a company who needs to invest a lot in manufacturing that requires

continuous process technology. (Hoch 1996, according to Hultman & Ljungros 2003, 17.)

Nevertheless, there are also drawbacks in this strategy. National brand manufacturers might also need to pay additional advertising expenses for the introduction of the value flanker since it probably would have another brand name. (Hoch 1996, according to Hultman & Ljungros 2003, 17). It is also difficult to get shelf space from the retailer (Hoch 1996, according to Verhoef et al. 2002, 1212-1213). In conclusion, this can be an expensive strategy while it is not certain that the new and cheaper products would provide favourable profit margins for national brand manufacturers. (Hoch 1996, according to Hultman & Ljungros 2003, 17.)

3.5 Make Regular or Premium Private Labels

The final strategy proposed by Hoch is to collaborate with retailers and to produce private labels directly for them. A national brand manufacturer can manufacture an item that is sold at a lower wholesale cost than it would charge for its own brand names. This strategy could be achieved by either cutting down raw material and/or processing costs or reducing marketing costs such as distribution, advertising or sales promotion costs. (Hoch 1996, according to Hultman & Ljungros 2003, 17.)

The first advantage of this strategy is that it helps national brand manufacturers utilize their excess capacity (Hoch et al. 1996, according to Hultman & Ljungros 2003, 29). The second advantage is that this strategy creates a win-win situation between the manufacturer and retailer and strengthens their relationship. (Hoch 1996, according to Hultman & Ljungros 2003, 29.) However, a number of authors also suggest that national brand manufacturers should consider this strategy carefully, because it has several risks and the advantages are generally overestimated (Quelch & Harding 1996, according to Verhoef et al, 2002).

Quelch & Harding (1996) say this strategy has three drawbacks. Firstly, it makes an organization's strategy become confused. Secondly, additional

manufacturing and distribution complexities can add costs rather than reduce them. Finally, the strategy makes national brand manufacturers maintain two sales relationship with each retailer. (Quelch & Harding 1996, according to Hultman & Ljungros 2003, 30-31).

Hoch (1996) concludes that no strategy is better than the other and each strategy can and will work under the appropriate circumstances (Hoch 1996). National retail industry and national buying habits play an important role in the take-up of private labels (PwC 2011, 4). Moreover, any new strategy applied should not conflict with current strategic priorities of a company. Also, private label performance should be estimated. Therefore, in order to define a solution for the case company, the author will proceed with four steps that are illustrated in the flow chart below. Due to the fact that German shampoo market is the largest in Europe by volume (CEMS 2001, 4), the author will focus on analyzing the shampoo category at the empirical data part, especially in chapter 5.

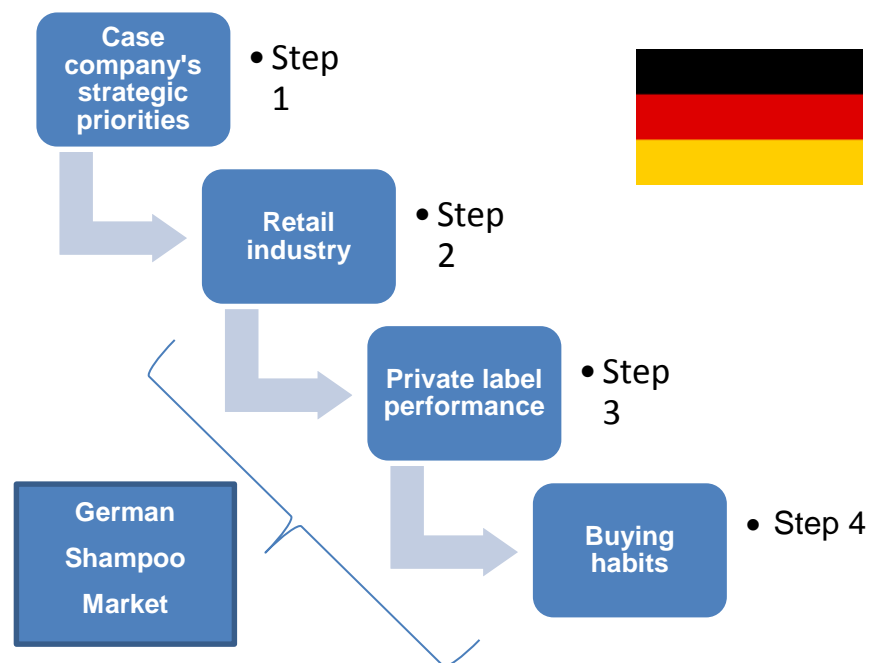


FIGURE 4. Next Steps in Analysis of the Thesis

4 CASE COMPANY

The case company is Henkel AG & Co. KGaA (abbreviated as Henkel). The information in this section is collected from the case company's official website and its Annual Report 2015.

4.1 Company Profile

Henkel is a Germany-based manufacturer which is active in the consumer and industrial business. It was founded in 1876. Henkel products and technologies are now available all over the world. The company has 50,000 employees coming from more than 120 nations and locations around the world. Henkel is presented both in mature and emerging markets. Total sales of Henkel are 18,089 million EUR in 2015. (Henkel 2016.)



FIGURE 5. Henkel's Office Map (Source: Henkel's Official Website)

Henkel is organized into three business units: Laundry & Home Care; Beauty Care and Adhesive Technologies. In the Laundry & Home Care business unit, the company's products include heavy-duty detergents, specialty detergents and cleaning products. The portfolio of the Beauty

Care business includes hair cosmetics, products for body, skin and oral care, and products for hair salon business. (Henkel 2015a, 57.) Twenty-one percent of its sale come from Beauty Care business unit (Henkel 2016).

The Henkel Beauty Care business unit has products which are available in 150 countries worldwide. The business unit is active in the branded consumer goods as well as the professional hair salon business. In the branded consumer goods business, Henkel wants to continue expanding their innovation in the mature markets. In Germany, the shampoo brand portfolio includes Schwarzkopf, Syoss and Schauma. The Schwarzkopf brand represents quality, expertise and innovation. The Schauma product line focuses on classic hair shampoos, conditioners and hair treatments for the perfect all-around hair care (Henkel Brands and Businesses, 2016.) While Schwarzkopf is positioned as a modern, expertized and sophisticated brand, Schauma is positioned as a traditional, classic brand which delivers basic hair care functions. The Syoss brand is trusted by professional hairdressers, stylists and colorists.

4.2 Strategic Priorities

It is important to understand the strategic priorities that Henkel is pursuing recently because any recommendations proposed by the author in the following chapters should not have any conflict with the current strategies of the case company. Henkel focuses on four strategic priorities: Outperform – Globalize – Simplify – Inspire. Henkel will outperform their competition as a globalized company with simplified operations and highly inspired team. (Henkel Strategy 2016.)

Priority 1: Outperform

The company wants to leverage the full potential in their product categories to gain market shares and to surpass their competition.

To capture this target, Henkel will continue to invest in strengthening and expanding their leading positions in their core categories. The company will continue to focus on their top brands such as Schwarzkopf while further consolidating their brand portfolio. By 2016, Henkel's top 10 brands are expected to generate approximately 60% percent of total sales. Lastly, Henkel will continue to have a consistent innovation process and driving trendbased innovations that are developed to meet individual needs of Henkel's customers and consumers. (Henkel 2016.)

Priority 2: Globalize

In mature markets, where the United States and Germany are the two most important markets for Henkel, the company will leverage its strengths and generate profits by increasing its brand investments and maintaining its cost focus. By 2016, the company aims to achieve more top positions in these mature markets with its strong brands. In emerging markets, Henkel will expand its existing category positions and speed up growth in countries where the company has a strong presence. (Henkel 2016.)

According to Kasper Rorsted, the CEO of Henkel, Henkel's focus now is to reduce brands. In 2008, it had about 1,000 brands. In 2013, it had less than 400 brands. The company's top ten brands currently account for 46 percent of sales. Henkel aims to increase the sales to 60 percent by 2016. Henkel wants to invest more in innovations to strengthen and expand strong brands. In mature markets, Germany is Henkel's cornerstone of the company's success. Henkel is affected by the global recession. But it will always try to maintain its top position with strong brands in the country. (McKinsey 2013, 30.)

Priority 3: Simplify

The strategy priority summarizes Henkel's ongoing improvement of global processes. Henkel will drive their operational excellence by making their process faster and more standardized as well as focus on cost-efficiency as well as end-to-end optimization. (Henkel 2016.)

In order to achieve this target, the company will extend their existing shared services by opening new hubs and more business processes. Moreover, a strong focus on information technology will be critical in Henkel's efficiency of its business processes. (Henkel 2016.)

Priority 4: Inspire

The fourth strategic priority is linked with three megatrends defined by Henkel. They are: consolidation, emerging markets and speed. The company will continue to consolidate with its suppliers, manufacturers and customer base. Besides that, Henkel expects to increase its growth in emerging markets. Finally, Henkel anticipates a highly dynamic market evolution, and faster decision-making by suppliers, retailing partners, competitors and consumers. (Henkel 2016.) Henkel wants to focus on digitalization and aims to turn Henkel into a "real-time" enterprise (McKinsey 2013, 34).

After reviewing the four strategic priorities above, the author recognizes that the company wants to achieve more with less by creating more added-value for consumers with fewer resources but high innovation, reduction of brands, consolidation and strengthening top positions.

4.3 Risks

Based on Henkel's Annual Report 2015, as consolidation in the retail industry continues and private labels occupy an increasing share of the market, the company is aware that crowding out from competition becomes more and more challenging and could intensify. The risk of product substitution could influence all business units. Currently, Henkel does not have any specific strategies in response to the increase of private labels. (Henkel 2015, 108.)

5 GERMAN SHAMPOO MARKET ANALYSIS

In this section, the author will collect and analyze data based on four steps displayed in chapter 3 (Figure 4). As mentioned earlier, in this chapter, the author will limit the research that is relevant to the shampoo category only.

It is necessary to define a number of terms which will be used a lot in this chapter. They are: retail, retailer and FMCG (Fast Moving Consumer Goods). According to Philip Kotler, retail or retailing includes all activities involved in selling goods or services to the final consumers for personal, and not for business use (Kotler 2007, 504). It is opposite to wholesale which means selling in bulk quantities. A retailer is a business or a person selling goods to final consumers. It is opposite to a wholesaler who normally sells goods to other businesses. Fast Moving Consumer Goods, which is abbreviated as FMCG, are products that are sold quickly and at relatively low cost (Bhalla & S 2010, 34). Items such as milk, shampoos, toothpastes or toilet papers are considered as FMCGs. Finally, a product category (or category) is a particular group of related products that offer the same general functionality. For example, the shampoo category is all the products used for washing hair, or for washing particular objects or materials. (Cambridge Dictionary Online 2015.)

5.1 Retailer Analysis

In this sub-chapter, the overview of German retailers and retailer preferences of German consumers when purchasing shampoos will be analyzed.

5.1.1 Overview of German Retailers

Germany is among the ten most important retail markets in the world (KPMG, 2011). The country has a mature retail industry and its total retail turnover is 392 billion EUR (Germany Real Estate 2011, 45). Retail in

Germany offers consumers a wide selection of business formats in all sectors. The figure below illustrates the structure of retail in Germany.

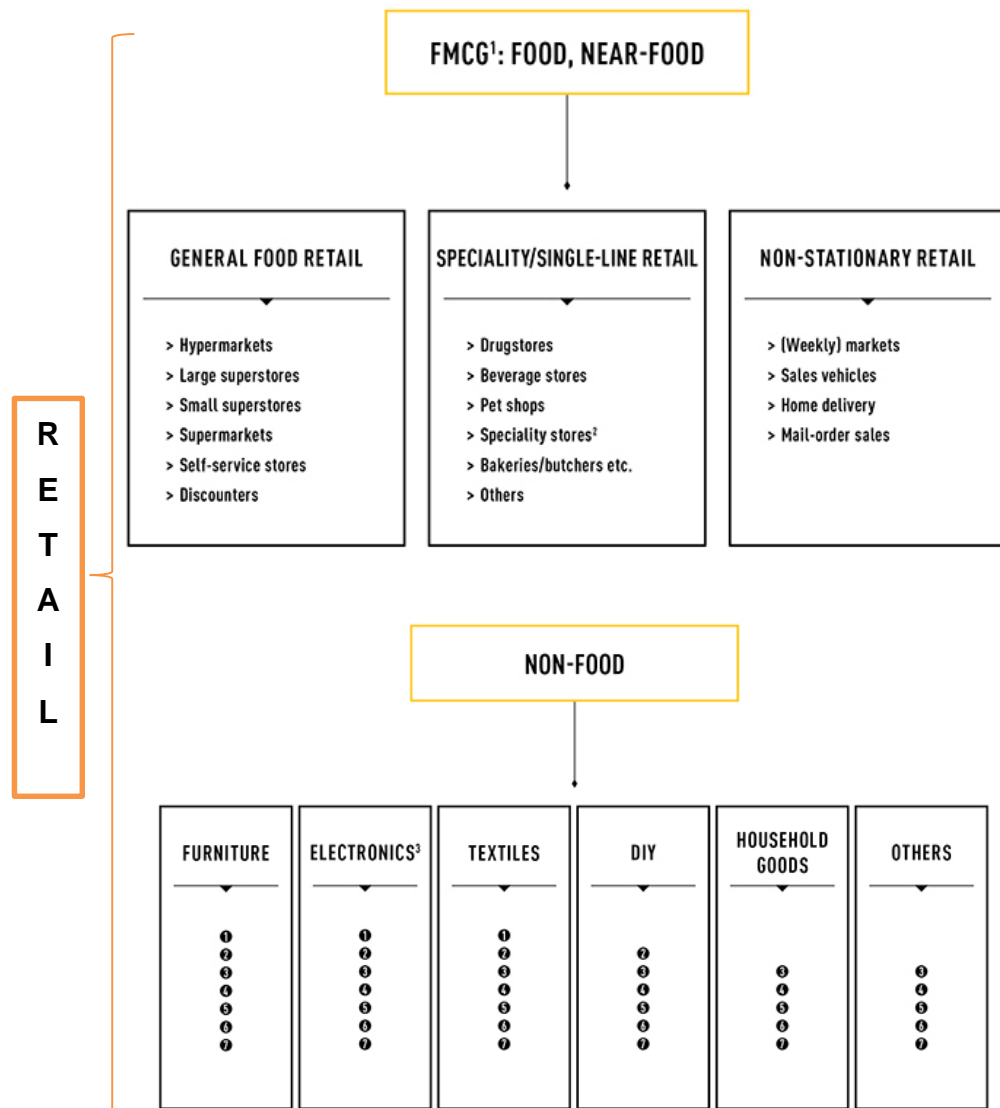


FIGURE 6. The Structure of Retail in Germany (Source: Metro Group 2015)

Retail in Germany is divided into two big sectors: FMCG and non-food retails. FMCG retail involves selling fast-moving consumer goods such as food, beverages, office supplies, cosmetics, cleaning products and other non-durable goods. On the other hand, non-food retail involves selling clothing, foot wear and durable goods such as household goods (home appliances, consumer electronics, furniture, etc.), sport equipments, Do-It-

Yourself goods and others. In the thesis, the author only mentions about FMCG retail sector only since the case company is a FMCG company.

FMCG retail is divided into three smaller segments: general food retail, speciality retail and non-stationary retail. First of all, in terms of food retail, there are three main retailer formats: hypermarkets, supermarkets and discounters. According to World Bank (2011, 2), a hypermarket is a very large store which combines a supermarket and a department store. A hypermarket offers a very large facility which carries huge range of products under one roof. Hypermarkets allow consumers to satisfy their weekly shopping needs in just one trip. A supermarket offers a wide range of foods and household goods, organized into departments. It is smaller than a hypermarket. A typically supermarket sells meat, fresh products, dairy, and baked goods along with canned and packaged goods and alcohol as well as non-food items such as household cleaners, medicines, clothes and pet supplies. A discounter is a store that sell products at a discount from manufacturer's suggested price. Next, speciality retail involves selling a particular product range and associated items. Some examples of speciality retailers are drugstores, beverage stores, pet shops and so on. Finally, non-stationary retail includes weekly markets, sales vehicles, home delivery services and mail-order sales. (2011, 2.)

The German retail market has shown high concentration. Traditional supermarket corporations and low-price discounters dominate the country's retail market (Retail-Index 2014). Nearly 40 percent of the overall retail turnover is generated by the top five retail companies: EDEKA, Schwarz Group, REWE, Aldi and Metro. (KPMG 2011). EDEKA, which has approximately 11,500 national stores, is the top-selling retail company in Germany, followed by REWE (owner of 4,000 national supermarkets, consumer stores and discounters), Schwarz Group (owner of 640 Kaufland hypermarkets and 3,200 Lidl discounters), Aldi and Metro (IGD Retail Analysis 2015). The rest of retail overall turnover is mainly generated from the online retailer Amazon, convenience stores Lekkerland and the drugstore chains DM (Retail-Index 2014).

The figure below illustrates the turnover of the top five retail groups in 2014

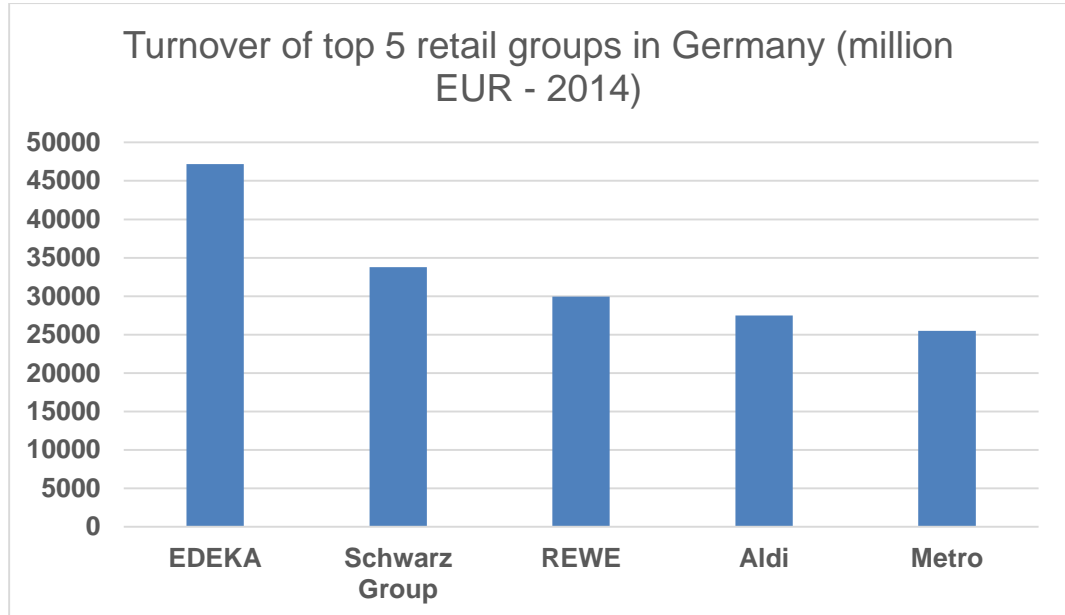


FIGURE 7. Turnover of Top 5 Retail Groups in Germany (Source: Retail-Index 2014)

5.1.2 Retailer Preferences of German Consumers

This section will present which retailer types German consumers prefer to go to purchase shampoos. First of all, it is necessary to not confuse the two store types: pharmacy and drugstore. In Germany, pharmacy usually sells medicines. Drugstore comes from the German word “drogerie”. Drugstores usually sell toiletries and other consumer goods from haircare, body soap, deodorants, affordable cosmetics and body care.

In Germany, for beauty care products, drugstores are by far the most important and dominant distribution channel with a market share of more than 43 percent (IKW 2015, 12). The share of drugstores is still growing and surpass the share of department stores and perfumeries (Cosmetics Business 2015, 41). The haircare segment including shampoo, conditioner,

treatment, styling, colorants is the biggest product group within beauty care products with a total sales value of 3 billion EUR in 2014 (IKW 2015, 3).

German drugstore sector is highly competitive and concentrated, and is defined by an aggressive price war (Tagesschau 2012, according to Lumbeck 2014, 9). Schlecker, the former No.1 German drugstore chain, bankrupted in 2012 due to low working conditions and wage. This made the sector become more concentrated recently. It is now a three-way battle between these three drugstore giants: DM (1,900 stores), Rossmann (1,677 stores) and Müller (515 stores) (Statista 2015). The continuous success of drugstores in Germany is marked by their extensive store networks, highly innovative activities, modernization of existing shelf spaces and individual approaches to private labels (Cosmetics Business 2015, 41). Germans love their drugstores because drugstores offer a broad range of beauty brands, products and variants with attractive prices as well as special promotions and offers, and have easy-to-access locations (Internal Source 2015).

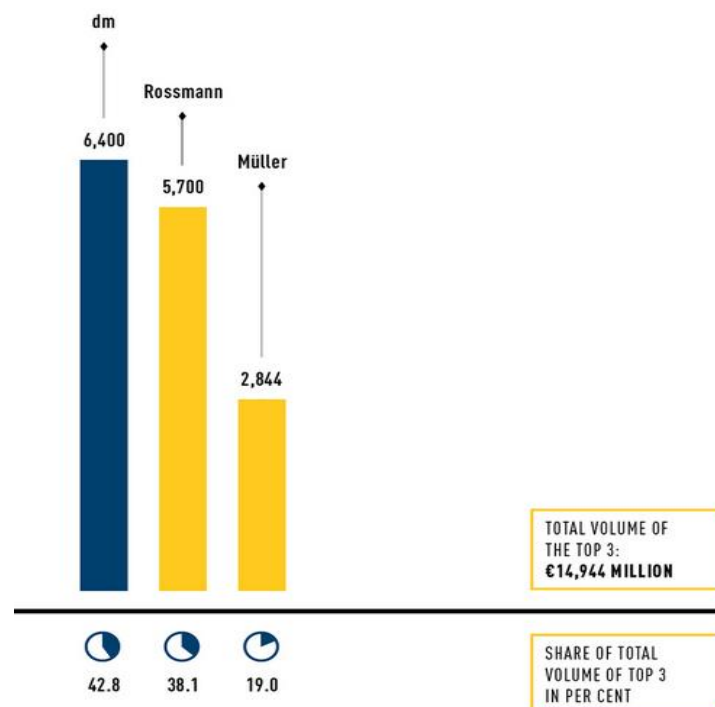


FIGURE 8. Sales Volume of Drugstores in Germany in 2014 (Source: Metro Group)

5.2 Private Label Analysis

In this sub-chapter, the overview of private labels in Germany and the performance of German private label shampoos will be analyzed.

5.2.1 Overview of Private Labels in Germany

60 percent of worldwide private label (PL) turnover is generated from Western Europe alone. Germany is among the countries having the highest PL penetration in the world. In terms of value, the share of private labels across all commodity goods in Germany is 35 percent in 2015 (Integreon Insights 2015, 3). In terms of volume, the share is 44 percent, which is even higher, given that private label products are cheaper on average (PwC 2011, 4).

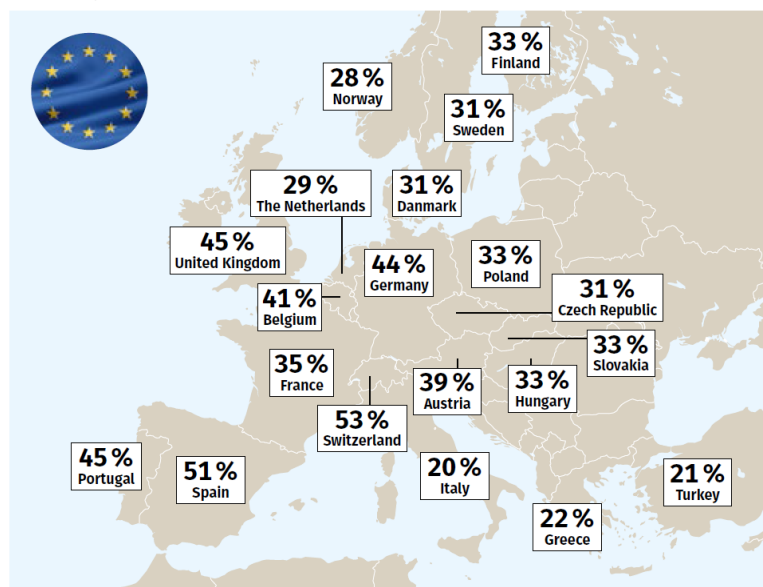
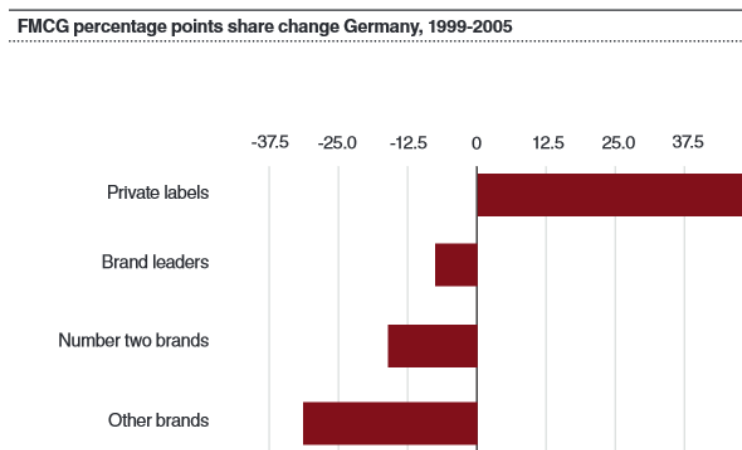


FIGURE 9. Private Label Penetration by Volume in European Union

According to IRI World Wide, a market research company whose clients include 95 percent of the Fortune Global 500 companies, other European countries showcase a decline or slow growth of private label market share, Germany is an exception with private label growth amongst grocery and drugstores as well as in the total market. German retailers are offering more innovation, a bigger product portfolio, matching consumers' needs, while still keeping prices low. The consumers believe in private labels'

quality. Thus, they save money by buying more of them when even wages are actually increasing. National brands' price tends to increase while there is no substantial price change for private labels, making the price gap between the two brand types widest in Germany. (IRI World Wide 2015, 5-12.)

In the past, between 1999-2005 in Germany, while private labels' share grew by 50 percent, national brands' share decreased by 8-30 percent (PwC 2011, 5). Germany has become one of the fastest growing markets for private labels in Western Europe. German private label manufacturers have been very efficient in tracking and responding to new trends initiated by national brands, which narrows the quality and innovation gap between the two brand types. (Perini Journal 2004.) Private label has become an essential part in Germans' shopping baskets. The figure below shows that national brand manufacturers who do not hold the number one or number two national brand positions are easier to be replaced by private labels on the shelves. This development of private labels is growing in these conditions: a high concentration of retail, a high penetration of international players, a high penetration of discounters, low brand loyalty among German consumers. (PwC 2011, 5.)



Source: Keith Lincoln & Lars Thomassen; based on GfK

FIGURE 10. FMCG Percentage Points Share Change in Germany, 1999-2005 (Source: PwC 2011, 5)

5.2.2 Private Label Shampoos in Germany

In general, private labels are the strongest in grocery products such as milk, cereals rather than in hair care products. However, in Germany, due to increased quality that is considered to be a national brand level, private label shampoo brands are performing well (Meedia 2013, according to Lumbeck 2014). An outstanding example is Balea and Isana, two private label beauty brands of the drugstore groups DM and Rossmann, respectively. Balea and Isana (along with Nivea) are ranked among the top three best brands of the year in the category of “Cosmetics and Care”. The results are collected from 700,000 online interviews which were carried out by the market research firm YouGov from September 2014 to August 2015. They perform impressively in terms of price/performance ratio and is reviewed as “good value-for-money” products by German consumers. (DM 2015.)

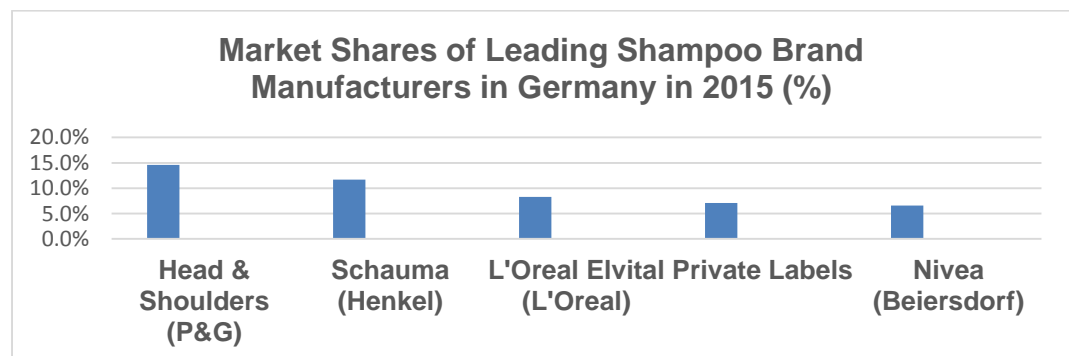


FIGURE 11. Market Shares of Leading Shampoo Brand Manufacturers in Germany (Source: Statista 2015)

The figure above shows the market shares of leading hair shampoo manufacturers in Germany in 2015 (Statista 2015). The shampoo category is a diversified category and there are numerous brand options for German consumers to choose. However, private label shampoos still can gain a market share of seven percent in Germany in 2015, which is impressive and on par with other big names such as L'Oreal Elvital and Nivea.

5.3 Consumer Analysis

In order to understand how private label shampoos get seen in the eyes of German consumers, in this section the author will present data about German consumers' shampoo buying habits with a strong reference to private labels. According to Cambridge English Dictionary, buying habits are the products that particular customers or consumers usually buy and the places where they buy them (Cambridge 2015). Understanding the consumers' buying habits help the case company create consumer profiles and engage with them better.

5.3.1 Questionnaire Design and Data Collection

Based on the nature of the thesis, the survey is chosen as a primary data collection method. The survey is an easy and cost efficient method that allows reseachers to collect large-scale data in a short period of time (Ghuri & Gronhaug 2010). The survey was designed so to have two parts: (1) questions involving general shampoo buying habits and (2) questions involving buying habits which connect to private label shampoos. The questions are created to explore these issues:

General buying habits:

- Which type of retailer do Germans usually go to buy shampoos?
- Which factors influence the Germans buying decision for the shampoo cateogory?
- In the last 12 months, which shampoo brand type did Germans buy?

Buying habits connecting to private label shampoos

- Do Germans distinguish between private labels and national brands when buying shampoos?
- What is Germans' perception of private labels in terms of price and value?

- What are the possible reasons for buying private label shampoos?
- What are the possible reasons for not buying private label shampoos?

The survey includes closed-ended questions which offer limited answering options for respondents. A closed-ended question provides a set of answers from which respondents have to choose. Multiple-choice questions are considered as closed-ended questions. In the author's survey designed for respondents, there is an optional "other" comment space allowing them to give their own answers that are different from the available options. The survey has 10 questions in total. It was conducted and sent out in March 2016 to respondents via social media and through the author's families, relatives, friends and colleagues. The survey targeted a wide range of respondents. German consumers between the ages of 18 to 65 and across all income levels were surveyed, with a total of 102 respondents completing the survey. In the next parts, the data collected from the survey will be interpreted.

5.3.2 Buying Habits of German Consumers

General buying habits

In this part, the charts and data presented will help the reader and the case company know: which types of retailers Germans choose to buy shampoos from more often; which factors influence Germans the most when making a shampoo purchase; and which brand types (national brands or private labels or both) German consumers bought in the last 12 months.

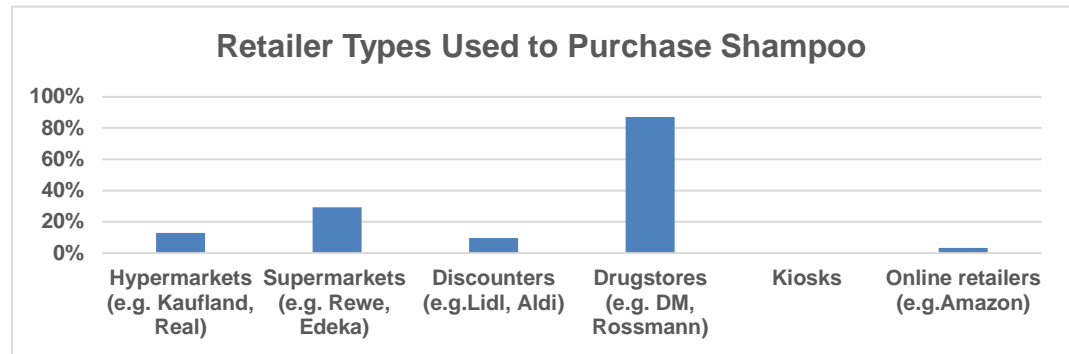


FIGURE 12. Main Retailer Types Used to Purchase Shampoo

As shown in the figure above, more than 80 percent of respondents say they buy shampoos in drugstores, followed by supermarkets and hypermarkets. This again confirms the fact mentioned earlier that in Germany, shampoos as well as other beauty care products, are mainly bought in drugstores.

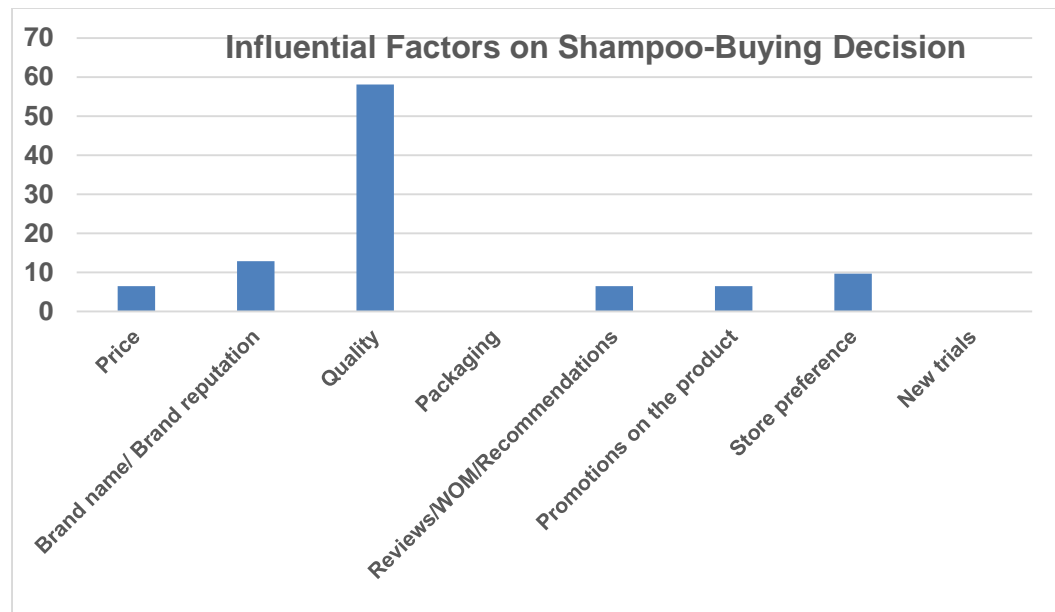


FIGURE 13. Factors Influencing Shampoo-Buying Decision in Germany

Thinking about factors that influence their buying decision, more than half of respondents (58%) say that the quality of the product has the greatest impact on their buying decision. According to the survey, Germans are far less likely to say brand name/brand reputation (13%) or price (7%) as the most important influence on their shampoo purchase decision. Other factors considered when buying shampoos are store preferences,

attractive promotions, and reviews/ word-of-mouth/ recommendations. No one chooses packaging as the most important influence on buying decision.

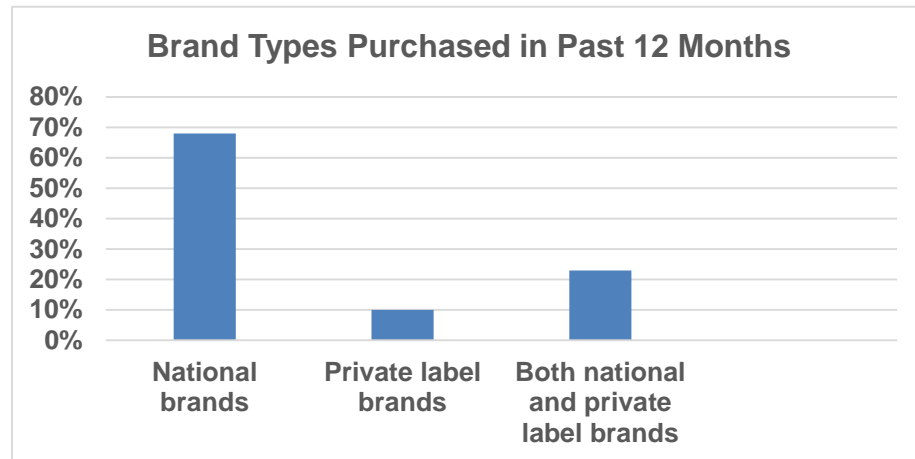


FIGURE 14. Brand Types Purchased by German Consumers

When asked which brand type(s) they purchased in the past 12 months, most of the respondents (68%) answer that they purchase national brands. Almost one fourth of respondents (23%) say that they purchased both national and private label shampoo brands in the past 12 months. Moreover, 10 percent of respondents purchased only private label shampoos. The result is close to the fact mentioned earlier whereby private label shampoos have gained a market share of 7 percent in Germany.

Buying habits with reference to private labels

In this part, the charts and data presented will help readers and the case company understand how Germans are aware and perceive private label shampoos, and why they want to buy and not to buy private label shampoos.

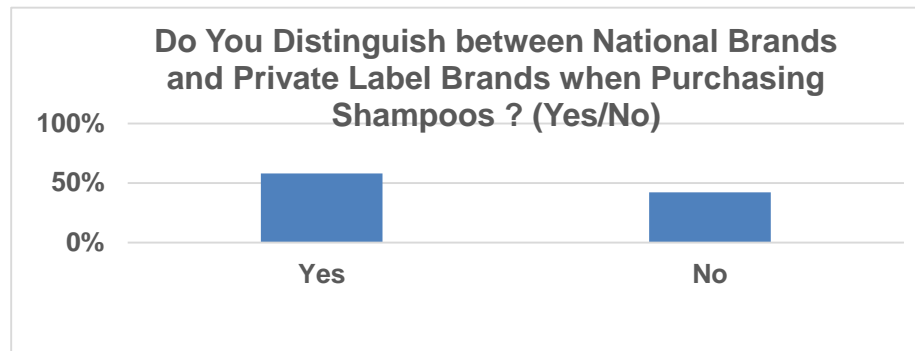


FIGURE 15. German Consumers' Awareness of Private Label Shampoos

The figure above depicts the German consumers' awareness of private label shampoos. It is found that the majority of respondents (58%) distinguish or are aware of the differences between national brands and private label brands when purchasing shampoos. However, there is a significant percentage of respondents (42%) that does not distinguish between the two brand types.

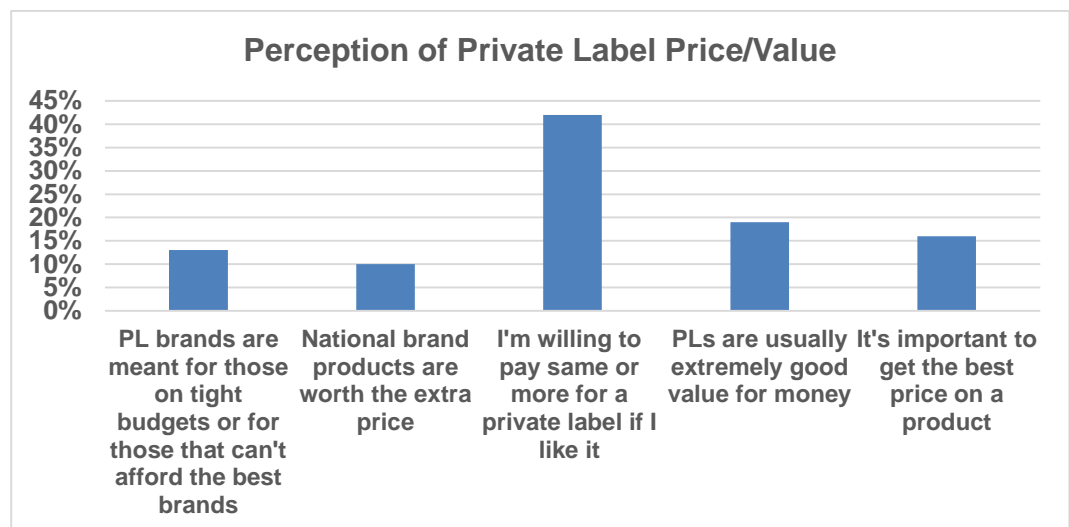


FIGURE 16. German Consumers' Perception of Private Label Price/ Value for the Shampoo Category

On the price/ value front, about two in five respondents (40%) say that they are willing to pay same or more for a private label if they like it. 20 percent of the respondents (20%) surveyed say that private label shampoos are usually extremely good value for money. Only 10 percent of respondents believe that national brand products are worth the extra price.

This figure has proved that Germans' perceptions about private label shampoos are positive. Private labels' appeal goes beyond price. German consumers are seeking quality and value and are willing to pay a premium price for the products they like regardless the brand types.



FIGURE 17. Reasons to Purchase Private Label Shampoos

Among the reasons leading to the choices of private label shampoos, it is found that 64 percent of respondents say reviews/word-of-mouth/recommendations determine their choices. This can be explained by the fact that hair care products including shampoos are usually heavily promoted by national brand manufacturers. But, retailers' expenditures for advertising and promotions are usually low in order to keep private labels's price low. Therefore, consumers' knowledge about private labels are possibly not from advertising, but from the retailers' store quality or reviews/word-of-mouth/recommendations. Internet is also an important information source that helps push private labels' potential. Not surprisingly, more than half of respondents (58%) choose "low price" as the primary driver of their purchase intent for private label shampoos. Finally, half of respondents choose "good quality" as the main reason to purchase PL shampoos.



FIGURE 18. Reasons Not to Purchase Private Labels

While perceptions of private labels have improved over time, German consumers still have quality concerns. When asked what the possible reasons for not purchasing private label shampoos, lack of trust in quality is the most common reason, followed by preference to national brands and lack of awareness of private labels.

In conclusion, here are key takeaways summarized from the survey:

Firstly, quality matters the most to Germans, followed by brand and price. Germans do not tend to think that national brands are worth the extra price. Secondly, the majority of them are aware of the existence of private label shampoos and perceive the products positively. In fact, in the past 12 months, there is at least one of every ten Germans purchasing private label shampoos. Thirdly, good reviews, word-of-mouth and recommendations are important reasons why Germans purchase private labels. In short, Germans are seeking quality and value. They are willing to pay an extra penny for the products delivering on both quality and value attributes regardless of brand types. This is an important truth for national brand manufacturers because Germans might not hesitate to purchase premium private label products as they are still more economical compared to national brands. Therefore, it is essential that Henkel should act appropriately to retain consumers.

6 DATA ANALYSIS

In this section, the information about the case company in chapter 4 and the data about German shampoo market gathered in chapter 5 will be analysed against the five strategic options in the theoretical part in chapter 3. This is done in order to find out if there is any correspondence between the empirical data and literature review within the topic. This analysis helps the author identify which strategy would be the most suitable for the case company's current strategic priorities and the target market's current situations.

6.1 Data Analysis

Wait and do nothing

Hoch (1996) mentioned that the benefit with this strategy is the possibility of avoiding large investments. However, the author does not recognize this benefit. Instead, this strategy could lead to precarious consequences. As previously mentioned in chapter 5, retail concentration in Germany is very high, especially in the drugstore sector. Alternate formats such as drugstores, discounters are replacing traditional supermarkets. Moreover, private label shampoos perform well in Germany. Therefore, it is precarious for the case company to use this strategy. This risk is also supported by Hoch when he mentions in drawbacks of the strategy: if retail concentration continues to increase, if the weaker private labels begin to perform like the best or drop out during industry consolidation, and if alternative formats continue to take business away from traditional supermarket retailers while investing in their own private labels, the wait-and-see strategy is very precarious to retailers (Hoch 1996). The empirical data is correlated with the drawbacks, but not the benefits, with this strategy. Consequently, wait and do nothing strategy does not have strong empirical support and this strategy should be dismissed.

Reduce the price gap

According to Hoch (1996), if utilized appropriately, the strategy will help a

NBMs gain market share. But, the author recognizes that there are more risks than opportunities if Henkel utilizes this strategy. First of all, Henkel's shampoo brands, such as Schauma, currently perform very well in Germany. Based on previous analysis, the brands are among the leading brands in the country. Hoch has confirmed that leading brands are less sensitive to the price gap. Sales remain constant irrespective of the brands. Therefore, if Henkel reduces the price gap between Henkel's brands and private labels, it is not certain that sales can improve.

The price gap can be reduced by reducing the prices of either the NBMs's brands or of the retailers' private labels. If Henkel chooses to reduce the price gap by reducing its own brands' price, their long-established brands' value might be negatively affected. On the other hand, if Henkel keeps their brands' price and convinces the retailers to reduce their private labels' price, it might result in unfavourable relationships with retailers. Retailers make more profit with larger gaps and it is unlikely that they have interest in reducing their brands' price. Hoch (1996) also indicates two disadvantages with this strategy: first, it may result in losing in brand value, second, it could harm the relationships between retailers and NBMs. As a result, the author does not particularly favor this strategy.

Formulate a "me-too" strategy – introduce a value flanker

Hoch (1996) sees two benefits with the utilization of this particular strategy. First, it can help preserve a premium image while avoiding price competition, and second, it presents an opening for utilizing excess manufacturing capacity. The author acknowledges that using this strategy can help Henkel utilize its excess manufacturing capacity.

However, Henkel always tries to be number one in the shampoo category in Germany, and the introduction of a lower quality with lower price might not deliver direct benefits for the company. Instead, Henkel has resources and capacities to introduce a higher value product, positioned even further away from private labels, which is similar to the strategy "increase distance from private labels". Furthermore, the company currently tries to reduce

number of brands and strengthen their current top brands via innovation. Also, the company tries to simplify its operations. If pursuing this strategy, Henkel will complicate their production process and indirectly conflict with its own current strategic priorities. This reason is also linked with the drawback mentioned by Hoch (1996): add complexities and costs. Hence, the strategy should also be eliminated.

Make regular or premium private labels

Hoch (1996) states that the strategy benefits include utilization of excess capacity and strengthening of manufacturer-distributor relationships. The author sees a possibility in this benefit in that this strategy could help strengthen trade relations between Henkel and its retailers – customers.

However, the author perceives the drawbacks of this strategy to be overwhelming. Firstly, producing private labels could burden production capacity. It can be risky to have a big part of capacity tied to a single customer-retailer. Secondly, the strategy can result in aggravating negotiation situations with retailers. Thirdly, at the present, based on the author's knowledge, Henkel does not produce private label shampoos for the German market. This is because the company follows the "simplify and consolidate" strategic priorities. Even if Henkel has excess manufacturing capacity, it wants to use its excess capacity to strengthen their current brands in a mature market like Germany. If Henkel chooses to product private labels, it will again be in conflict with its own current strategic priorities. The theory proposes three drawbacks with this strategy: additional manufacturing and distribution complexities, NBMs must maintain two sales relationships, and strategy becomes confused (Quelch & Harding, 1996). All three Quelch and Harding's (1996) proposed drawbacks mentioned above connect quite well with the empirical data. As there are more drawbacks than benefits when pursuing this strategy, the author eliminates the strategy.

Increase distance from private labels

A potential benefit obtained from this strategy is that it provides consumers

with added value. As analysed in the Consumer Analysis section in chapter 5, Germans perceive private labels positively. Quality is the most important factor in their purchase decision. They are more demanding and willing to try and purchase private labels. The author identifies that Henkel actually focuses on continuous product development in order to provide higher quality products as well as create new products and become even better at offering brands to consumers. The company's activities are done not as a reaction to private labels only but rather as a regular general strategic measure that permeates the company. These tactics surely affect private labels. Hoch says a national brand manufacturer should increase distance from private labels by creating "more for the money" concepts or "new and improved" products. Henkel's current activities match well with the theory. Another potential benefit derived from this strategy is that it provides customers with added value (Hoch, 1996), which is also connected with Henkel's current strategic priorities.

The strategy's drawback is that it is only suitable to goods that are a little bit expensive and diversified (Hoch, 1996). Although the case company is mainly active in product categories whose products are not expensive but much diversified. Hence, the strategy should still be applicable and feasible for the case company.

6.2 Recommendations

First of all, Henkel should perceive private labels as any other competitor. Nevertheless, since private labels are owned by retailers who are also customers and partners besides competitors, it is crucial to give retailers the freedom they want in order to maintain strong manufacturer-retailer relationships. The company should not adopt any actions blocking private labels. Instead, some indirect and less aggressive actions could still be adopted. Henkel should stay prepared and avoid overacting. The author suggests that the company does not consider advertising or sales promotions to be approaches applicable as responses to private label growth. These approaches are so direct and might harm the manufacturer-

retailer relationships. Instead, these approaches should be considered as part of Henkel's marketing mix and used in daily business activities to respond to all competitors.

Private labels have established a solid presence and are perceived to be a positive competitive addition to the German market. They are likely to continue to grow. Henkel should not just wait around for the private labels to grow unrestricted. In the shampoo category, private labels are narrowing the quality gap between national brands and private labels. Thus, the author suggests Henkel to choose "increase its distance from private labels" as a specific strategic measure. Henkel can implement "new and improved" tactic for their premium brands and "more for the money" for their lower price segments.

In order to implement this strategy, Henkel should continuously strengthen their offered brands, while developing products and categories in order to improve their brand values and the consumers' perception of the brands. This implementation is supported by the fact that product development, innovation as well as brand name reputation are considered advantages enjoyed by Henkel. In other words, the strategic option of increasing distance from private labels is utilized in order to strengthen the already perceived advantages of Henkel's brands over private labels. The strategy is very suitable with Henkel who wants to be better at its core business. It also provides added value to its national brands and to consumers, and improve the brands' perceived superiority without harming the trade relationships and healthy competition.

7 CONCLUSIONS

7.1 Answers to the Research Questions

Sub-research questions:

What is a national brand? What is a private label brand?

A national brand is a brand name of a product which is distributed nationally under a brand name owned by a producer or distributor. Most of the brands in every day situations would be called national brands. The value of the brand is in the hands of the producer.

A private label brand (or a private label) is a brand which is not owned by a manufacturer but instead by a retailer. A product under these brands can be produced by any other manufacturer, but if the brands are owned, maintained and developed by a retailer, it is a private label brand. A retailer uses its private labels in order to differentiate its offering from competing retailers' offering.

What are the strategic options that a national brand manufacturer can implement to respond to private labels?

Hoch's (1996) five strategies have provided the most extensive list of approaches which were agreed by several other researchers (Kim 2006, 79).

The first strategy is to wait and do nothing. It recommends national brand manufacturers to do nothing and wait for the private label trends to go away. A benefit of this strategy is that it can help avoid large and long-term investments that are not easily reversed. However, if retail concentration continues to increase, if the weaker private labels begin to perform like the best or drop out during industry consolidation, and if alternative formats continue to take business away from traditional supermarket retailers while investing in their own private labels, the wait-and-see strategy could prove to be very precarious to NBs. Moreover, this strategy is likely to lead to

decreasing profit and losing market share by NB as PL quality continues to get better.

The second strategy is to increase distance from private labels. The strategy can be implemented by two approaches: “new and improved” or “more for the money”. The “new and improved” approach suggests national brand manufacturers to gain competitive advantage over private labels through innovation, and introducing “new and improved” products or product elements, which leads to increase of both quality and price. This approach allows national brand manufacturers to secure NB’s long-term position in the market against private labels. The “more for the money” suggests national brand manufacturers to maintain current price while giving the consumer additional value. Benefits of the strategy include providing consumers added value, as well as raising the cost for private label imitators who have to catch up. But the limitation of this strategy is that it only limits to products that are a bit expensive and diversified.

The third strategy is to reduce the price gap between national brands and private labels. National brand manufacturers can either simply lower their prices in order to reduce the price gap that exists or persuade the private label manufacturers/ retailers to increase their price levels so that national brand manufacturers could maintain their original prices. The strategy can help national brand manufacturers gain market share. However, lowering NBMs’ own prices too much may result in a loss in brand value and identity. On the other hand, trying to persuade the retailers to raise their prices may harm the relationships between retailers and national brand manufacturers.

The fourth strategy is to formulate a “me-too” strategy by introducing a value flanker. National brands can imitate private label products by introducing a lower priced, possibly lower quality product called as “value flanker” to crowd out the private labels or limit the private labels’ chance to move upscale. The strategy helps a national brand manufacturer avoid price competition and preserve its premium image as well as utilize their

excess manufacturing capacity. However, value flanker might occupy sales currently accruing from selling the premium goods. National brand manufacturers might also need to pay additional expenses such as manufacturing, advertising and distribution costs for the value flanker.

The final strategy is to make a regular or premium private labels. A national brand manufacturer can collaborate with retailers and produce private labels directly for them. This strategy helps national brand manufacturers utilize their excess capacity and create a win-win situation between the manufacturer and retailer and strengthen their relationship. But, its drawback is that additional manufacturing and distribution complexities could add costs and complexities for NBMs rather than reduce them.

How is the retail industry in Germany? Which retailers do German consumers prefer when purchasing shampoos?

Germany is among the top ten most important retail markets in the world. Retail in Germany offers consumers a wide selection of business formats in all sectors. Retail in Germany is highly concentrated. Traditional supermarket corporations and low-price discounters dominate the country's retail market. Nearly 40% of the overall retail turnover is generated by the top five retail companies: EDEKA, Schwarz Group, REWE, Aldi and Metro.

As mentioned previously, for beauty care products, drugstores are the most important and dominant distribution channel with a market share of more than 43 percent (IKW 2015, 1). The share of drugstores is still growing and surpass the share of department stores and perfumeries. The haircare segment e.g. shampoo, conditioner, treatment, styling, and colorants is the biggest product group within beauty care products. The German drugstore sector is highly competitive and concentrated, and it is defined by an aggressive price war. DM, Rossmann and Müller are three chains dominating the drugstore sector. Their success comes from their

extensive store networks, high innovation activities, modernization of existing shelf spaces and individual approaches to private labels.

How is the private-label performance in Germany? How well do private label shampoos perform? How German consumers aware and perceive private label shampoos?

Germany is among the countries having the highest PL penetration in the world. German retailers's private labels are offering more innovation, a bigger product portfolio, matching consumers' needs, while still keeping prices low. The consumers believe in private labels' quality and thus, save money by buying more of them when wages are actually increasing. This development of private labels is growing in these conditions: a high concentration of retail, a high penetration of international players, a high penetration of discounters and low brand loyalty among German consumers.

In Germany, due to increased quality that is considered to be at national brand level, private label shampoo brands are performing well. Private label shampoos still can gain a market share of 7% in Germany in 2015, which is impressive and on par with other big names such as L'Oreal Elvital and Nivea. The majority of them are aware of the existence of private label shampoos and perceive the products positively.

Good reviews, word-of-mouth and recommendations is an important reason why Germans purchase private label shampoos. They tend not to think that national brands are worth the extra price. Germans are seeking quality and value. They are willing to pay an extra penny for the products delivering on both quality and value attributes regardless of brand types. This is an important truth for national brand manufacturers because Germans might not hesitate to purchase premium private label products as they are still more economical comparing to national brands.

Answers to the main research question: What is the most suitable strategy that Henkel can use to respond to private labels in Germany?

Increase the distance from private labels is the most suitable strategy that Henkel can use to respond to private labels in Germany. Henkel can implement “new and improved” or “more for the money” approaches, depending on the premium or low-price segments. It also provides added value to its national brands and to the consumers, and improves the brands’ perceived superiority without harming the trade relationships and healthy competition.

7.2 Validity and Realibility

The thesis is highly valid and realible. The collected data is closely relevant to the research objectives and questions.

Regarding primary data, although there are only 102 respondents the respondents come from German’s most populous state and different backgrounds and education and occupation groups. The language chosen for the survey is English. But English is a widely spoken language in Germany and the respondents did not have any problem when completing the survey. Therefore, the primary data is relatively valid.

Regarding secondary data, all of the sources chosen are from trustworthy sources. Most of the secondary sources that the author has chosen are reports from well-known market research agencies such as Nielsen and IRI. Thus, the information is realiable.

The thesis validity and realibility may remain valid and reliable for a short time. This is because consumer behaviour and consumer goods market are changing so fast. Therefore, after a while, the thesis might not be up-to-date.

7.3 Suggestions for Further Research

Only the shampoo category is investigated in the thesis. The category is diversified and seen as a high-involvement one in consumers’ eyes. Therefore, for those who are interested in studying further about national

brand and private label competition, the author suggests to study other case companies in the low-involment categories such as milk or groceries.

The author also suggests to conduct a similar research about response strategies to private labels but in the near future. As consumers and markets are changing over time, future research will help readers see if there is any change in terms of strategies in response to private labels.

8 SUMMARY

The thesis investigates one of the most challenging issues a national brand manufacturer has to face recently. Private labels are gaining market share and are perceived positively by German consumers. Therefore, the author believes the case company should be aware of this challenge and act appropriately to the increase of private labels. The thesis aims to explore which strategy is the most suitable one for the case company. The author studies the case company's current strategic priorities, the target country's retail industry where private labels are increasing and the consumers' buying habits are changing. Based on the analysis, the author can recommend the best strategic option for the case company.

The author chooses deductive approach and quantitative research methods. Secondary sources chosen are reliable and trustworthy. Besides, the primary data is collected from a survey answered by consumers living in the target country.

The theoretical information is mainly based on Hoch's (1996) proposed strategies. Hoch (1996) has offered a set of strategies that a national brand manufacturer can use to respond to private labels.

The empirical part is conducted by a 4-step analysis: (1) understanding the case company's current strategic priorities, (2) understanding the retail industry of the target country, (3) understanding the private label's performance in the target country and (4) understanding the buying habits of the consumers in the target country.

The empirical part is then analysed against the five strategic options in the theoretical part in chapter 3. This is done in order to find out if there is any correspondence between the empirical data and literature review within the topic. This comparison helps the author identify which strategy would be the most suitable for the case company based on its current strategic priorities and the target country's current situations.

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APPENDICES

APPENDIX 1. Survey of Buying Habits of German Consumers

1. What is your gender?
 - Male
 - Female
 - Other
2. What is your age?
 - 17 or younger
 - 18 to 24
 - 25 to 34
 - 35 to 44
 - 45 to 54
 - 55 or older
3. Are you currently
 - Employed for wages
 - Self-employed
 - Out of work and looking for work
 - Out of work and not currently for work
 - A homemaker
 - A student
 - Retired
 - Other (please specify)
4. Factors that influence your buying decision for the shampoo category
Please rank the following items in order of importance from 1 to 8, with 1 being the most important and 8 being the least important to you (Click drop down menu and choose the ranking choice)
 - Price of the products
 - Brand
 - Quality
 - Packaging

- Reviews/ Word-of-mouth/ Recommendations
 - Promotions on the products
 - Store preference
 - New trials
5. Where do you usually purchase shampoo?
- Hypermarkets (e.g. Kaufland and Real)
 - Supermarkets (e.g. Rewe, Edeka, Kaiser's and Spar)
 - Discount supermarkets (e.g. Lidl, Aldi, Penny and Netto)
 - Drugstores (e.g. DM and Rossmann)
 - Kiosks
 - Online retailers (e.g. Amazon and eBay)
 - Other (please specify)

6. What is your perception of private label brand price/value in the shampoo category?

N.B. Manufacturer brands are a manufacturer's products distributed to more than one retailer. Some examples are Schwarzkopf, Pantene, Dove. Private label brands are brands owned, controlled and sold by a retailer (e.g. Balea of DM, Isana of Rossmann).

- Private label brands are meant for those on tight budgets of those that can't afford the best brand
 - Manufacturer brand products are worth the extra price
 - I'm willing to pay same/ more for a private label brand if I like it
 - Private label brands are usually extremely good value for the money
 - It's important to get the best price on a product
 - Other (please specify)
7. Do you distinguish between private label and manufacturer brands when purchasing shampoos?
- Yes
 - No
8. In the last 12 months, which shampoo brand type did you purchase?

- Manufacturer brands (Schwarzkopf, L'Oreal, Garnier, Pantene, Dove, etc.)
- Private label brands (Balea, Isana, etc.)
- Both manufacturer brands and private label brands

9. What are the possible reasons for purchasing private label shampoos?

(Please select at most 3 answers)

- Low price
- Good quality
- Product placement on the shelf
- Trust
- Packaging
- Good offers/ Promotions
- Retailer's quality/ image makes me want to purchase its private label products
- Reviews/ Word-of-mouth/ Recommendations
- Other (please specify)

10. What is the possible reason for not purchasing private label shampoos?

(Please choose the answer that comes closest to the right answer for you)

- Not aware of private labels
- Prefer manufacturer brands
- Unattractive package
- Other (please specify)