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## The Buying of Private Brands and Manufacturer Brands in Grocery Retailing: a comparative study of buying processes the UK, Sweden and Italy

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**The Buying of Private Brands and  
Manufacturer Brands in Grocery  
Retailing:  
A Comparative Study of Buying  
Processes in the UK, Sweden and Italy**

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*Private brands in grocery retailing have evolved from a way to compete on price by selling low quality products at a low price, into a brand category in their own right, with a wide range of positioning options open to retailers. The buying and selling of private brands means that retailers' add new activities and processes to those that are traditionally associated with retailing. This paper compares the buying processes for manufacturer brands and private brands across three European countries in an attempt to analyse how the extension of the buying process inherent in private brand ranges, and the organisational contexts within which these processes operate impact upon complexity in the retail buying process*

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**Keywords:** private brands, retailer buying process, integration, complexity

**Introduction**

During the 1990s private brands have evolved from a mechanism allowing retailers to compete solely on price, through sales of low priced and low quality products under a single trade name, into an integral part of complex branding strategies. As unique products, generally only available in the retailers own stores, the management and development of these product ranges have become central to retail grocery strategies. Over time retailers have come to understand the importance of branding at all levels and have begun to leverage the "added value" in their operations (Wileman and Jary 1997). This has seen private branding strategies evolve from the simple "re-packaged" labelling option into a true product brand characterised by product development and added value ranges (Burt 2000). The trend is perhaps most developed in Britain, where private brands account for 40-50% of the assortment for the leading grocery chains, and encompass a wide range of quality and customer orientated options. Grocery retailers in many other European countries have been moving in the same direction

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(Laaksonen and Reynolds 1994), and the American market has also recognised the marketing implications and opportunities for such private brand ranges (Richardson et al. 1994)

Academics have regularly reviewed the growth and evolution of private label brand ranges (see for example Morris 1979; Simmons and Meredith 1984; Davies et al. 1984; Bhasin et al. 1995; Hoch and Banerji 1993; Mills 1995; Quelch and Harding 1996; Burt 2000), and highlighted common driving forces of growing retailer scale and market power, retailer information ownership and use, and changes in logistics and in retailer marketing strategies. Attempts to create typologies of private brands (e.g. Laaksonen 1994) imply a sequential move through different stages of development, each involving increased sophistication. Although in reality retailers may enter at different stages, skip stages, or at any one point in time operate a range of different private brand options, there is a tendency to categorise given markets in relation to these stages. While retailers in the UK and Switzerland, and to some degree France, Belgium and the Netherlands either started, or have now moved to the "higher" levels of private brand development, this is generally not the case in countries like Sweden and Italy. A broad indication of the state of play in national markets is provided in figure 1, but it should be recognised that such global simplifications disguise a range of situations in the marketplace. As with all technology transfer in retailing, mechanisms exist to accelerate the private brand learning curve. For example, food retail alliances, like Associated Marketing Services (AMS) provide arenas where food retailers less experienced in private brands can learn from their counterparts in other countries. (Elg and Johansson 1996 2001; Robinson and Clarke-Hill 1995).

<b>High (33%+)</b>	<b>Emerging (6-12%)</b>
UK	Spain
Switzerland	Austria
	Italy
	Sweden
<b>Established (18-20%)</b>	<b>Embryonic (3-5%)</b>
Belgium	Finland
Netherlands	Norway
France	Greece
Germany	Portugal
	Ireland

Note : positions indicate the broad state of the grocery market with respect to private brand development. Within each market the nature of the private brand will vary, as will penetration rates by individual companies/organisations

**Figure 1. Retail Brand Penetration in Different European Markets**

The retail marketing literature has highlighted the advantages of private brand involvement for retailers (Simmons and Meredith 1984; McMaster 1987; McGoldrick 1990). These typically include the potential for increasing profit margins and for enhancing the overall image and brand perceptions of retailers. The apparent benefits of private brand ranges does not mean, however, that there are no drawbacks. Involvement in the procurement and selling of private brands requires retailers to add new activities and processes to those that are traditionally associated with retailing. While manufacturers do not generally approach retailers until their new brands are ready for the market, the retail buyer involved with private brands must engage in activities which are traditionally the domain of the manufacturer.

*"The implication of own label for the buyer's role is a change of emphasis from negotiating the best deal for "off the shelf" products to a range of marketing and buying tasks such as sales forecasting, range design, product quality and new product launches. Exploratory research suggest that involvement in own labels is a main factor determining the breadth of the buyer's role". (Swindley 1992, pp.535-536)*

As most grocery retailers do not own manufacturing assets, their increasing involvement in private brand manufacturing goes beyond just buying an existing product on the market. To achieve product differentiation, close relationships need to be established and co-ordinated routines must be set up between the manufacturer and retailer (Doel 1996; Shaw et al. 1992a). All of this demands resources and requires different skills and competencies to those traditionally found in the retail buying department. In addition, these requirements should be put in the context of an increasingly international grocery market where technology-based market type transactions with manufacturers - and less complex internal structures and demands for new capabilities - seems increasingly possible (Johansson 2002). The added complexity of operations that private brand involvement entails for the retailer may neutralise some of the apparent advantages. It also seems logical to assume that some types of organisational contexts in terms of the level and nature of integration of retailing operations will be better suited than others to manage private brand operations efficiently and in alignment with other company objectives.

The purpose of this paper is to analyse the retail buying of private brands in relation to manufacturer brands in order to explore the complexity of the buying process. The paper starts with a review of some of the previous work on retail buying, with an emphasis upon the nature of, the management of, and the responsibility for the tasks and activities commonly associated with the buying process. The process of buying private brands is then compared

with the buying of manufacturer brands across three European countries; the UK, Italy and Sweden. Each of these markets has a different experience of private brands and has a retail grocery sector characterised by different types and levels of integration of retail operations. The cases chosen are believed to provide typical representations of the approach to grocery retailing in the three countries. Finally the paper concludes by considering how complexity in the buying process is impacted upon by both private brand involvement and the organizational context within which the process occurs.

### **The Structure of the Retail Buying Process for Private Grocery Brands**

Retail buying has historically been treated by academics as a sub-set of industrial or organisational buying. As such, most work has been conceptualised within the frameworks proposed by Webster and Wind (1972) and Sheth (1973 1981). These authors, and subsequent contributors have focused on definitions of roles and tasks within the buying process, and on identifying and categorizing decision making criteria within a range of buying contexts (e.g. Nilsson and Høst 1987; Banting and Blenkhorn 1988). More recently it has been argued that these frameworks do not reflect the characteristics and realities of modern grocery retailing (Johansson 2001). In their review article, Holm-Hansen and Skytte (1998) identified a number of areas omitted from the "traditional" buying behaviour school, including the growth of private brands, the structure of retail organisations, the use of information and information technology, and the changed role of retailing in the channel as a provider of a wider range of services and experiences. Similarly, Varley (2001) argues that the traditional view of retail buying does not reflect the industry move to a consumer responsive or consumer driven approach, typified by the adoption of Electronic Data Interchange (EDI) and Category Management (CM), or Quick Response (QR) initiatives in the clothing sector (Fiorito et al. 1998; Giunipero et al. 2001). All of these factors widen the scope of the buying activity beyond its traditional functional boundaries. The basic premise of this critique is that retail buying is inherently more diverse than previously recognised. This is evidenced by changes in the tasks/activities carried out (the elements involved in the process), changes in the organisation and management of retail activities (the organisational context within which the processes occurs), and changes in the composition and behaviour of the buying unit (the key decision making unit in the process).

A central concept in the traditional view of retail buying is that the buyer/buying centre goes through a series of clearly delimited stages in purchasing (e.g. Diamond and Pintel 1993; Schuh 1988; Gilbert 1999). Generally this list comprises activities like problem recognition (as a result of internal or external stimuli), product specification, supplier search and

choice, and finally evaluation. The stages involved vary with the type of decision, being made for example new-task, re-buy etc. Ultimately, the retail buyer selects from a portfolio of products brought to the market by suppliers, and selection is based upon an assessment of supplier performance against a set of pre-determined criteria.

The extent to which these stages and criteria are relevant to private brand ranges is open to question (Shaw et al. 1992a). The increasing sophistication of private brand ranges requires retailers to utilise their information and market power in a true channel leadership role, not merely to provide "improved" trading terms. This necessitates a pro-active approach to maximise the complimentary skills of manufacturers and retailers (Hughes 1996), and a reconfiguration of roles, functions and tasks within the traditional channel. Typically, retailers become more involved in all stages of the product development process from need recognition and idea generation to product and market testing. This approach extends the retailers buying role through involvement in additional stages and tasks of the new product development process, and requires a changed approach to supplier relationships and governance mechanisms.

A second theme in the literature is that buying activities are typically carried out by the buyer/buying centre, supported by several other internal and external actors and resources. The buying activity is, therefore, carried out in an organisational context, and absorbs resources to varying degrees. Previous research has suggested that organisational factors influence retailer buying (Briney-Gresham and Gruben 1993; Gaedeke and Tootelian 1991; McGoldrick and Douglas 1983). At a macro level we can consider "organisational factors" as the type and degree of integration of retail operations. At this level of analysis, three forms of integration are important to understanding the organisational impact upon the retail buying process.

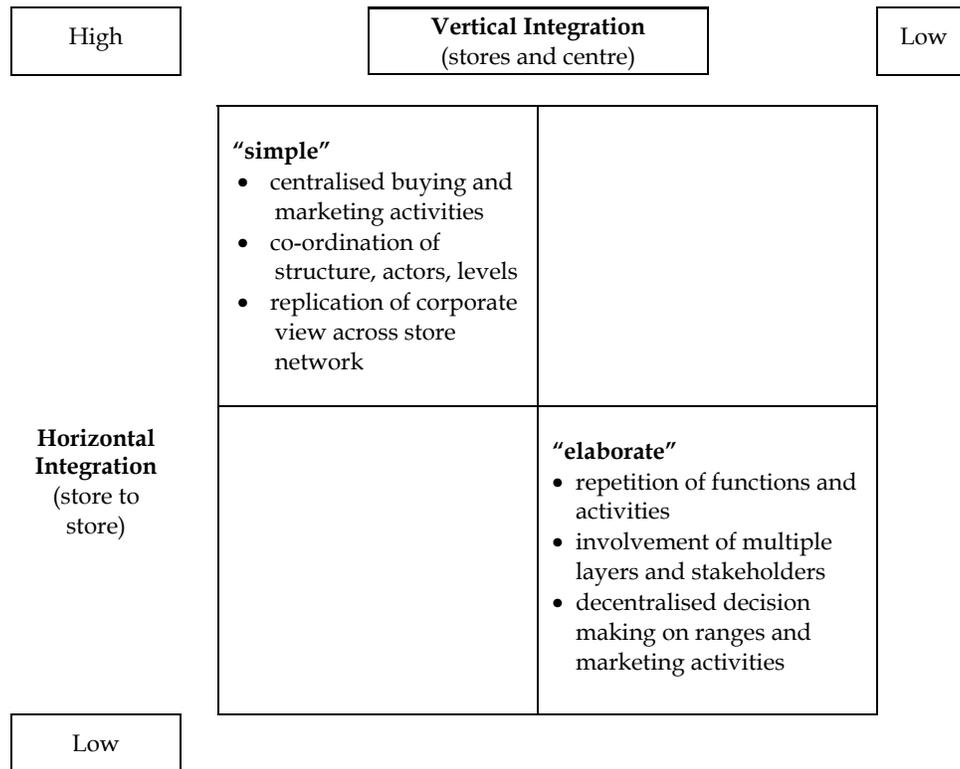
First, the degree of *vertical integration* of the retail organisation (i.e. the degree of co-ordination between the central retail operation and store operations), is an important consideration in any study of retail buying. The work of Nilsson and Høst (1987) suggests that all of the differences found in the assortment building functions of Swedish grocers could be connected to the companies' degree of integration. The degree of vertical integration present in the retail organisation clearly influences the way assortment building is performed. If buying is undertaken centrally within a wholly owned, highly vertically integrated chain, rather than at outlet level from an independent wholesaler, the buying process will differ greatly (Hardy and Magrath 1988). In the latter case, for example, the number of decision makers will be dramatically increased and the degree of central control (and one might argue cost efficiency) is lowered. Vertical integration and coordination within the retail organisation have been a core construct in the

changing power relationships in retail channels, with consequent implications on retail supplier relationships, the performance of channel activities, and channel leadership (French and Raven 1959; Lusch 1982; Gaski 1984).

A second dimension of the retail organisation, which shapes the buying process, is the degree of *horizontal integration* (i.e. how retail outlets within the organisation relate to one another). Again, a wholly owned chain of retail stores will usually be characterised by greater levels of horizontal integration and will exhibit different communication and buying patterns from those of a co-operative or more federal chain of stores, partly because of differences in how they organise their buying and other operational functions. In a wholly owned chain, the degree of standardisation across stores in the chain would generally be expected to be higher than in an organisation of independent retailers. This horizontal integration determines the standardisation of presentation and consistency of the product offer at store level. The tendency is, therefore, towards higher levels of range standardisation, consistency and replication of the retail offer in a more horizontally integrated chain. Although the utilization of consumer information through Geographic Information Systems (GIS) allows modification of product assortments at the store level, this is typically managed by the corporate "centre", and implemented within a clear corporate framework of store level presentation. This horizontal integration and consistency of offer, again has impacted upon channel behaviours, not least in the development of private brand products (de Chernatony 1989; Burt 2000).

Finally, the degree of *internal integration*, (i.e. the way that the task of buying is organised internally, within the organisation) can be assumed to differ from one retail type to another, as this form of integration is linked to the other types of integration. Generally, more elaborate and complex internal integration is required in organisations with a lower degree of vertical and horizontal integration of retail operations. In these cases there are more functions, activities and levels to co-ordinate, compared to the centralisation and organisational "simplicity" found within a wholly owned, highly integrated chain. These differences can affect how the buying process will be structured, particularly in respect of the internal "management" of the buying process and the stakeholders involved, for example suppliers (Holm-Hansen and Skytte 1997). The simplicity of internal integration within strongly vertically and horizontally integrated chains allows leverage of information technologies and a greater degree of market orientation, consistent with the demand chain approaches to retailing and the adoption of Efficient Consumer Response (ECR) and Category Management approaches. The relationship between internal integration and vertical and horizontal

integration is shown in figure 2.



**Figure 2. Internal Integration in Retailing**

A third major focus of research in the retail buying area has been the nature and operation of the buying unit itself. Research has shown that in most sectors, and especially in grocery, buying is generally undertaken by a buying committee (e.g., Nilsson 1977; Nilsson and Høst 1987; Shaw et al. 1992b). It has been argued that buying centres are multi-faceted and dynamic in nature (Johnston and Bonoma 1981; Ghingold and Wilson 1998) and that organisational buying is a dynamic and flexible process, carried out by different people according to different criteria at different points in time. Experience, competencies and personal relationships are all brought to bear on these criteria, as research into the characteristics of retail buyers in non-food has shown (Fairhurst and Fiorito 1990; Sternquist 1994). Johnston and Bonoma (1981) describe the fluid structure of the buying centre according to three key variables: *extensivity* (the number of participants in the buying centre); *lateral involvement* (the number of functional areas or departments within the firm represented in the buying centre); and *vertical involvement* (the number of hierarchical levels of the firm involved in the purchase).

These variables are closely associated with the internal integration element as defined above.

The buying committee structure has generally been superseded by a more holistic approach, encapsulated within the grocery sector in category management (McGrath 1997; Dussart 1998). This reflects the increasing use of information and information technology within the retail channel, and a conceptual switch in emphasis with the focus of the buying decision becoming a consumer, demand led perspective. The emphasis has switched to “what” moves through a channel, not simply “how” a product moves through a channel (Gruen and Shah 2000). Category Management typically requires a multi-disciplinary team encompassing a range of different skills from buying and negotiation, to marketing and merchandising, and food technology. This team manages the whole of a product category range, which is regarded as a group of products which consumers may deem to be close substitutes. The emphasis is therefore on maximising the performance and profitability across the full category, not just of specific product brands which was the traditional supplier “brand management” perspective (Zenor 1994; Basuroy et al. 2001). This approach again requires a change in relationships and behaviours with suppliers, with a greater emphasis on cooperation and collaboration, reinforced by the growing presence of private brand options in the product range ...

*“a strong store brand program is a key ingredient to effective category management for retailers, and manufacturers who desire to influence category management practice must accept this as a cost of participating in the process”*  
(Dhar et al. 2001)

The changing nature of the retail grocery sector, therefore, questions the applicability and relevance of the traditional organisational buying based view of the retail buying process. The introduction and increasingly sophisticated nature of private brand product ranges has extended the role of the retail buyer and changed the tasks and activities performed by retailers and others in the channel. This combined with the variety of extensivity, lateral and vertical involvement, and the number of activities/tasks involved in the process combine to provide a measure of “complexity”. We therefore take complexity as a combining concept and an indicator of how many tasks/activities, departments/functional areas as well as participants are involved in the buying process

### **Aim and Methodology**

The aim of this paper is to explore the link between the nature and type of integration within a retail organisation and the complexity in the buying

process, in relation to the growing participation in private brand development. From the literature review, we would expect that in more vertically and horizontally integrated retail organisations, internal integration would be simpler and complexity in the buying process would be reduced. In organisations of any type, however, involvement in private brands will mean that the buying process will be more extended, in terms of the tasks and activities performed and managed, and therefore more complex than that for manufacturer brands. How organisational integration impacts upon complexity in both of these contexts will form the focus of our study.

The empirical data collected for this study involves some fifty personal interviews in three countries: the UK, Sweden, and Italy. A total of seven companies - two in the UK, two in Italy and three in Sweden - were involved as cases in the research. Furthermore, to support the core cases, interviews were conducted with other grocery retailers, industry experts, market research companies etc. to enhance knowledge of the selected markets. These countries were chosen as examples of both different levels of private brand sophistication and degrees of vertical and horizontal integration of retailing operations (see figure 3), and the retailers interviewed in the study were chosen to be representative of their respective countries and how grocery retailing typically operates in that country.

Within Europe, the UK is widely considered as an industry leader when it comes to grocery retailing operations in general and private brands in particular. The UK grocery sector is dominated by large vertically and horizontally integrated retail chains, each with extensive private label product ranges. The leading chains all operate in this way, and the largest four - Tesco, Sainsbury, Asda, and Safeway - dominate the market on any measure of market share. The companies used to represent UK food retailing in this study come from this group and are thus representative of the British way of grocery retailing.

In Sweden, there are growing levels of private brand involvement which exhibit increasing levels of sophistication particularly in the area of eco-product ranges. In organisational terms, grocery retailing is dominated by retailer-owned chains, i.e. co-operations between individual retail store owners who integrate "upwards" and own the central office (which manages central buying, marketing, promotions etc). As these organisations still evolve around the choices made by the individual stores (rather than implementing what the central office says) this type of chain operates in a different way - it is much less vertically and horizontally integrated than the typical British grocery retailer. ICA, some parts of Axfood (formerly D&D) and Bergendahls operate in this way, and together these organisations account for around 65% of the market. Historically, vertically integrated,

wholly owned chains are very few and hold a low market share. Thus, this type of “federal” grocery retail organisation and operation is representative of how grocery retailing operates in Sweden.

	Organisation (Type)*	Food ** Sales (bill Euro)	Market Share (%)	Number of Food Outlets	Private brand (%)	Private brand (number)
<b>UK</b>	Tesco (I)	28,691	20.6	770	50	12,000
	Sainsbury (I)	23,047	16.5	453	60	10,200
	Safeway (I)	13,627	9.8	255	40	7,000
	Asda (I)	12,789	9.2	594	40	7,000
	Somerfield (I)	7,157	5.1	1,408	47	4,600
	<b>Total Market</b>	<b>139,372</b>	<b>100</b>		<b>39</b>	
	<b>- top 3</b>		<b>46.9</b>			
<b>- top 5</b>		<b>61.2</b>				
<b>Sweden</b>	ICA-Ahold (BG)	7,686	43.9	2,047	10	500
	Axfood (BG/I)	3,968	22.7	1,091	-	750
	KF (C)	3,924	22.4	1,005	9	1,150
	Bergendahls (BG/I)	438	2.1	80	-	-
	Reitan (I)	276	1.6	363	-	-
	<b>Total Market</b>	<b>138,000</b>	<b>100.0</b>		<b>7</b>	
	<b>- top 3</b>		<b>89.0</b>			
<b>- top 5</b>		<b>92.7</b>				
<b>Italy</b>	Coop Italia (C)	6,623	10.3	763	-	2,260
	Pegaso (BG)	5,568	8.6	1,459	-	-
	Intermedia (BG)	4,828	7.5	1,065	-	-
	Carrefour (I)	4,054	6.3	974	-	1,100
	Selex (BG)	4,021	6.2	1,800	-	450
	<b>Total Market</b>	<b>64,557</b>	<b>100</b>		<b>10</b>	
	<b>- top 3</b>		<b>26.4</b>			
<b>- top 5</b>		<b>38.9</b>				

\* Type: I = integrated; C = consumer co-operative; BG = buying group

\*\* Food sales = foodstuffs, housekeeping, healthcare, toiletries, drugstore products

Source: derived from M+M Eurodata (2001)

### Figure 3. Characteristics of the Selected Markets 2000

In Italy involvement in private brands is quite low, as is the integration of operations. Although integrated chains exist, retail buying groups and the consumer co-operatives still form the largest organisations in the grocery sector. The organizational characteristics of the sector are more complex and less clear cut than in the other two countries. The grocery market is very fragmented with a number of different organisations and organisational forms present, and with no specific organizational form dominating the market. The recent influx of non-domestic retailers, particularly in the hypermarket and limited line discount store sector further fragments the organisational structure. This makes it less easy to find a dominant form that can be said to represent Italian grocery retailing in the same way as for the

UK and Sweden. However, the most prevalent form is the co-operative (both consumer and retailer co-operatives) typified by Coop Italia, Conad and Selex. The Italian companies interviewed for this study are co-operatives and thus represent the largest indigenous organisational form in the Italian market.

## **Grocery Retail Buying Processes in the UK, Sweden and Italy**

### ***The UK Cases***

*The UK grocery retailers involved in the study are highly vertically and horizontally integrated chains. This means that in general there are no intermediary levels (except distribution centres/warehouses) between the central office and the stores. What is decided centrally is also what will be implemented at the local level, in the store. Generally, the store level has no authority to change decisions made at central level.*

The actual organisation, and the job titles attached to different management functions, may vary somewhat between different UK grocery retailers but basically the buying function (commonly called trading) is divided into a number of business units, and a category management approach to buying is evident. These business units are discrete entities in their own right and are often broken down into categories, which are managed by teams, with sub-teams working on specific product groups like biscuits, crisps etc. The teams are made up of marketers, buyers, product developers and merchandisers. The marketers are responsible for sales, pricing and consumer attitude research. Buyers are mainly responsible for profitability, availability and quality. Product developers are technically focused and generally have a food science background. They understand what is physically safe, how to ensure that nutritional values are attained, and what can be practically made in the factory. The merchandisers are responsible for maximising the return on space in the store. The category teams are managed by a category manager, who reports to the Business Unit Director, who is the head of all the categories.

The first event in the introduction of a new manufacturer brand product will be a presentation of the new product to the buying team, by the manufacturer. Usually all the initial contacts are with the buyer and the marketer of the team (the other members are involved at a later stage). The supplier's presentation may come as a result of a category review but may also be on the initiative of the supplier. The category management approach means that any new product is always judged in the context of the whole category, which includes both national and private brands. If the retailer decides to adopt the product into their assortment, what then follows is the product set-up process, which involves the rest of the category team.

In the case of a new private brand product, the process starts with a review of the category in terms of sales, profit, margin, market share and customer research. Based on research, which is mainly conducted by the marketing manager, an opportunity gap may be identified. If the marketer thinks that there is a need for a new product in the category, the marketers and the buyers will come together and discuss what is needed to fill the gap. They discuss consumer needs and interpret or translate them into product attributes. They will agree on an idea about how to fill the gap and the marketing manager will put together a brief/specification for a product. The brief will go into detail about packaging, quality, price, size, colour, content, and other technical attributes based on consumer needs. The buyer will then work with the retailer's technical team to get advice on how to write the product specification to explain to suppliers what they need. Thus, compared to manufacturer brands, we see a more complex process, in terms of the activities involved and the number of participants outside of the immediate category team. This involvement also ensures that any new product in the private brand assortment has the qualities that the retailer expects from products bearing the retailer's name.

After the specification has been drawn up, it will be up to the buyer to find a supplier that can meet the specification. The expertise of the buyer is important when choosing a supplier. Even though buyers have to constantly question their current supply base, they will generally start looking for suppliers from within their existing supply relationships. The product brief will usually be transferred to a supplier that the retailer already works with within that particular product category. In most cases the buyer already knows which suppliers they want to work with, and the supplier may have already been involved in the research stage.

After providing the supplier with a specification, the retailer may then arrange a joint session to discuss the idea in more depth. Throughout the whole process of a new private brand product introduction there will be close interaction with the supplier. In some cases it will be the supplier that comes up with new product ideas for the private brand range, and some suppliers have dedicated teams who do this. When the supplier comes back with a product, the retailer will then run through a series of quality and kitchen tests to evaluate whether the product achieves the specification.

Once the retailer is satisfied that the product meets the specification, it will be taken through a phase of customer research. If customers accept the product the process continues. When the product has passed through a consumer panel, product development begins with packaging, factory trials and so on. The whole process to introduce a new private brand product takes 6-9 months. This can be compared with the launch of a manufacturer brand, which only takes 3-4 weeks for the product to reach the shelf, because

when the manufacturer presents a product to the retailer's buying team, it is a finished proposition. The next stage in the process for private brands, is for the marketing manager to take responsibility for selling the product to customers in terms of communication and sales material. Any new private brand product will automatically be sent out to the stores without them having to order it: there is thus no need to negotiate or to present the product again to the store manager, or for the suppliers to visit the stores etc. Once the product has been launched in the store there will be an evaluation of its performance after set time intervals to see whether or not it lives up to expectations.

### *The Swedish Cases*

In the case of the Swedish grocery retailers studied, the overall organisation of the buying process is based upon a federal structure in which the store merchants own their own stores and are therefore free to decide what assortments they want in their stores and who they buy products from. Whilst there are some vertically integrated chains (as in the UK), retailer federations dominate the Swedish market. In such a federated structure, any decision to buy a product at the central level must be followed by a further process of selling as well as buying at the retail store level. The central level in the organisation essentially performs a wholesale function.

For a supplier of manufacturer brands, presenting products at the central level and through that making it onto the national assortment listing is no guarantee that the product will be bought by the stores. Thus it is very important for the supplier not only to make a sales pitch at the central level but also to work hard at selling to the retail store level. Equally, for the central office of a federated retailer this means that negotiating with suppliers is more difficult, as product adoption at the store level cannot be guaranteed. Also central office strategic objectives such as unified store profiles and standardised product assortments are very hard to achieve. For example, big stores within these organisations have significant buying power and often undertake buying and promotion deals directly with suppliers, without involving the central level.

Most Swedish grocery retailers have reorganised in recent years to follow a store format-based organisational structure, combined with a category management set-up. Both are to some extent run from the central office but complemented by regional offices, which allow for regionally adapted assortment decisions and negotiations. The format-based organisational structure adds further complexity to the process, as suppliers have to work through several departments within the same retail organisation, as well as the central, regional and store levels. It also means that the retail central office must perform a further coordination role between the different

formats, as well as attempting to implement strategy and tactics at the store level.

One result of the move towards a format-oriented retail organisation is greater pressure to provide a coherent assortment in all the stores belonging to the same format group. It should be possible for a supplier to negotiate directly with a single format office, which would then guarantee that the supplier's products would be found in all the stores of a particular format. In essence, the format should operate like a vertically and horizontally integrated chain. However, in the Swedish case, the format office simply provides a blueprint and the supplier is still responsible for selling the product into the store level, as in most cases the store merchant is the store owner and in a position to counter central decisions.

For private brands, the central federated retail organisation can be considered to be a supplier, and as such is responsible for spreading the assortment of private brands into the stores. Being an "internal" supplier within the retail organisation can have its benefits, but the internal private brand department has to live with almost the same level of uncertainty as an external supplier. Even when a decision to launch a private brand product has been made at the central level, there is no guarantee that the retailers will adopt it. Thus, the private brand department within the retail organisation has to sell its products to the store level through the use of a sales-force (often called 'private brand consultants'). These consultants work as ambassadors for the entire concept of private branding. They do not, however, take any sales orders and they visit the stores less frequently than a traditional sales-force would do – the rationale being that information and education should do the trick instead. However, in the short run this approach has led to sales losses for private brand ranges.

The lead-time for introducing a new private brand product is much longer than for an equivalent manufacturer brand, and is typically around one year. In the case of national manufacturer brands, this lead-time can be compressed to a fraction of the time. The reason for the lengthier launch time is the extended product development process for retail brands. While the buying of national brands starts with a supplier initiative, the origin of private brands is increasingly founded in the product group plan (several related product groups make up a category).

In terms of organisation, the buying function is divided up into product groups, headed by product group managers who in turn are responsible to a purchasing director. The product group managers are generally responsible for the branded assortment (i.e. the national manufacturer brands) while another department is responsible for the development and marketing of private brands. While product groups are, in theory, made up of both national brands and private brands, allowing a category-style overview, the

organisation of the activities associated with buying and marketing is done separately. The buying of private brands is, as indicated, a more complex process. Besides the product development activities, this process often involves foreign suppliers, making parameters such as currency dealings and active participation in bulk buying via international buying organisations, an important feature.

### *The Italian Cases*

The Italian grocery retailers interviewed for this study are characterised by three interrelated levels: national, regional and store. This spatially hierarchical oriented type of organisation, plus the underlying co-operative ethos of the organisations, gives a first indication of the complexity of the buying process. As in Sweden, the store level is only 'loosely' linked to the regional and national levels.

If we look first at the process for buying national manufacturer brands, several activities can be identified. At the national level, we have supplier presentation of products, contractual negotiations (concerning general conditions, turnover targets for different suppliers etc.), listing and de-listing decisions in the central buying committee and the publication of a national list of approved products. At the regional level, the supplier is again required to present his products, and become involved in contractual negotiations (mainly concerning physical distribution to the stores, promotional conditions and listing fees) as the regional level orders products either directly from the supplier or via national headquarters for some national suppliers. At the store level, product information is provided by the regional organisation, although some stores also have their own suppliers which means supplier contacts occur here as well, and the store level handles product replenishment.

For national manufacturer brands the regional organisation is the most important gatekeeper. Some decisions are shared with the national level but the most important assortment building decisions are made by regional organisations. The stores have some freedom to buy from local suppliers if their regional organisation does not stock the item, but in principle, if a product is stocked by the regional organisation, the stores should buy via the region. Despite this, stores will sometimes buy outside their regional organisation, if they find a lower priced source. Thus, although there is a certain degree of vertical integration in place, this is mainly between the regional level and the stores. There is still a lack of integration between the regional organisation and the national level, which essentially performs a wholesaling function.

The process of creating an assortment starts at the national level, where an "approved" list is brought together. On this list, there will be a pre-selected

minimum assortment that stores have to supply to their customers (which typically represents about 60% of the list), and then it is up to the regional offices to decide upon the rest of the assortment mix from the list. The list is presented to the regional offices, and the final decision on whether to carry a product or not, depends on their local choices. The national list is thus basically a representation of all available products, but the national consortium does not make the final assortment selection. The list does not limit the assortment, but is rather an information source that passes through a national level filter, from suppliers to the regional level.

Category management is being implemented and for those product categories included in these initiatives, there is a greater chance of listed products being adopted at store level. Again, however, all choice is ultimately local. Supplier efforts to promote those products that are part of the category management set-up are usually also duplicated at national and regional level. For example, although contact with large national brand manufacturers involved in category management is centralised in one sense, i.e. they have to work with the national office to make sure that the category approach works, they still have to interact with the other levels as well. This duplication of effort and activities is seen as one way of actually making category management work at the store level.

As indicated above, there are several organisational levels involved in buying. This is further complicated as the functions performed at the different levels overlap. There are category managers, product managers, private label functions, marketing functions, purchasing, logistics, quality control, projects planning, and many of these are represented on at least two organisational levels; national and regional. Moreover there is the central buying committee with representatives from all organisational levels. Even though there are many different business functions that are involved in the buying process, a lot of these are only involved in isolated activities rather than the entire process. Apart from the central buying committee there seems to be few organisational efforts to structure and integrate organisational efforts. Thus, the relatively low degree of internal integration within the organisation means that the persons performing the tasks have to stick to their specified areas of jurisdiction, to avoid clashes with the responsibilities of another functional area.

The buying of private brands in the Italian organisations involves a different structure and orientation. The buying of private brands is characterised by more of a team-approach than the buying of manufacturer branded products, as the private brands process is managed in one central location. A central function at the national level is responsible for private brands and this involves category managers, product managers, logistics and project planning in the process of developing and buying private brand

products. Since all those involved are located at the central level, this process is also less complex than the process of buying manufacturer brands. As in the UK and Sweden, the buying process for private brand products takes longer as the retailer is involved in product development activities, as well as the traditional market information gathering and category analysis activities which precede the actual product idea. Although the process of buying private brands is centralised and located at the national level, the central buying committee (that has representatives from the regional offices) must be consulted and has to be persuaded on a case-by-case basis. However, for private brands the presentation by regional offices to store owners is more of a formality than a point where influence can be exercised locally.

### **Analysis and Discussion**

In the Italian and Swedish cases, the buying process identified was found to be quite complex. There are a large number of participants, functions and company levels involved in all aspects of the process, and there is clear evidence of parallel process imitation that adds to the complexity for all parties. In the UK cases, the buying process can be considered less complex even though the internal interaction between various functions was extensive. A highly developed category team approach meant that there was constant interaction between the functional managers in each product category, but little duplication in tasks or activities at different organisational levels.

The retailers from the different countries were chosen to represent quite different degrees of horizontal and vertical integration. The UK companies represent complete horizontal and vertical integration of retail operations. All decisions about the assortment in the stores and related marketing activities are made at one central location. Although segmentation of retail formats and increasing locational flexibility may lead to intra-store variations in assortment, this is still managed within a framework of centralised control. This approach makes the complexity of buying low as decisions are made at the corporate headquarters and then transmitted to all those concerned, rather than involving multiple participants, functions, departments etc. Decisions on store assortment are simply transmitted to the stores, whose assortment is pre-determined. This behaviour is in marked contrast to both the Swedish and the Italian organisations, where the horizontal and vertical integration of the retail operations is at a much lower level. The lower level of vertical integration in the Swedish and the Italian organisations meant a much more complicated buying process, involving several organisational layers and functions to (try to) implement assortment decisions whereas there will be no repetition of activities and processes in the integrated UK companies.

Compared to the process of buying manufacturer branded products, the private brand buying process is, by its very nature, prolonged - involving retailers in a greater variety of activities, skills and competencies which makes the process more complex. It is possible, however, to distinguish a number of generic stages in the buying process. Some stages are similar for both manufacturer and private brands, and other parts are distinctly different. Furthermore, the stages will differ somewhat within different organisations. The type of product - manufacturer brand or private brand - principally influences the first stages of the buying process, whereas the rest of the process is similar. Inevitably, retail brand development requires participation in more stages, with the retail organisation involved earlier and driving the process more than is the case for manufacturer brands. As this extension of the buying process increases complexity, one would, therefore, expect to find a more complex buying process in the UK, with its high levels of private brand penetration and sophisticated private brand strategies, than in Sweden and Italy.

In the UK, however, the buying of private brands is an integrated part of managing the overall product category, which incorporates both private and manufacturer brands. Although the process of buying private brands does involve more participants and functions in the retail organisation, thus making the process more complex than for buying manufacturer branded products, the operations were very much aligned with integrated category thinking, rather than dividing the world into distinctive private and manufacturer brand markets. This holistic approach and the high level of vertical and horizontal integration appeared to neutralise any drawbacks from the increased complexity arising from private brand involvement. In the Swedish cases, the process of buying private brands was more complicated than that for buying manufacturer branded products. Here, companies have to deal with the fact that part of the complexity has to do with selling private brands from one organisational entity to another; retailers develop and buy private brands but the work does not stop there. They then have to convince the stores that these products deserve a place in the assortment, a situation that means more complexity than when the demand for products is guaranteed. The Italian cases deviated from the expected pattern here, as the private brand operation was run like in a vertically integrated company, contrary to the overall set-up of the retail operation and in contrast to the position found for manufacturer brand buying. One explanation for this might be that as most private brands in Italy are closer to commodity type products than differentiated products, this type of set-up is possible, even in organisations with low levels of horizontal and vertical integration.

Generic Stages : Tasks/Activities		Organizational Involvement : Decisions*			
Private Brand	Manufacturer Brand	Centre/ HQ	Buying Committee	Region/ Format	Store/ Outlet
Category Review/ Market Plan		UK,S,I	I		
Need Identification/ Product Specification		UK,S,I	I		
	New Product Presentation	UK,S,I	I	S,I	S,I
	Negotiation	UK,S,I	I	S,I	S,I
Supplier Search		UK,S,I	I		
Supplier Decision	Supplier/Product Decision	UK,S,I	I	S,I	S,I
Negotiation		UK,S,I			
Test Product		UK,S,I			
Customer Research/ Consumer Panel		UK,S,I			
Product & Packaging		UK,S,I			
Development		UK,S,I			
Production & Process Tests		UK,S,I			
Listing	Listing/De-listing	UK,S,I		I	I
Ordering	Ordering	UK,S,I		S,I	S,I
Merchandising	Merchandising	UK,S,I		S,I	S,I
Marketing	Marketing	UK,S,I		S,I	S,I
Re-Order	Re-Order	UK,S,I		I	UK,S,I
Evaluation	Evaluation	UK,S,I		S,I	S,I

\*Organisational level typically involved in decision making: UK = United Kingdom;  
S= Sweden; I = Italy

#### Figure 4. Summary of Retail Involvement in the Buying Process for Private and Manufacturer Brands

It would appear therefore that the inherent complexity of private brand involvement for retailers - through additional tasks and activities - is mediated by the organisational structure employed within the organisation

to manage these tasks. From these case-illustrations of the buying process, a number of organisational levels are discerned and these may add to the complexity of the process in different countries. Figure 4 provides a summary of which levels within the organisations are typically involved in decision-making in respect of the generic tasks or activities that can be identified in the buying process. Depending on the degree of vertical and horizontal integration, up to four levels could be observed as possible participants in the process. The central level is (usually) the organisational headquarters where category and buying teams (the names and actual activities performed depend on the organisation in that particular chain) are situated. Beneath that is what is often termed the buying committee. This may be located at the central office or at a regional office but in some cases it is a distinct organisational entity involved in the buying process. Regional offices may form another level. These can be established on a geographical basis or represent different types of stores. Finally, the last potential level of involvement is at the store level, i.e. storeowner, store manager or other representation at the store. The extent of vertical, horizontal and internal integration will determine which of these multiple layers are involved in the process.

### **Conclusions**

It is now widely recognised that the traditional views of retail buying, grounded in the organisational buying behaviour perspective, are ill-suited to modern grocery retailing. The involvement of grocery retailers in private brand ranges reflects both a changing perspective on the channel, including the retailer's role and the nature of functional based relationships with suppliers, and the utilization of information and information technologies to view and manage channel flows from a consumer perspective. The impact of these changes on complexity in terms of extension of the tasks and activities undertaken by retailers in the buying process, and the organisation and management of the buying process seems to be lacking in existing research. The profit and marketing related benefits of private brand involvement dominate the literature, with limited assessment of the organisational implications of private brand commitments. The cases presented here, and summarised in table 5, suggest that the nature and degree of organisational integration – vertical, horizontal and internal – impacts upon the complexity of the buying process in respect of process extension and the organisation of the decision making process, represented by extensivity, lateral involvement and vertical involvement.

	UK	Sweden	Italy
<b>Indicative Market Characteristics</b>			
- vertical integration	High	Mixed/Low	Low
- horizontal integration	High	Medium/Low	Low
- internal integration	Simple	Elaborate	Elaborate
<b>Buying Process Complexity - Manufacturer Brands</b>			
- process extension (tasks/activities)	-	-	-
- extensivity (number of participants)	-	+	++
- lateral involvement (functions/departments)	++	+	++
- vertical involvement (hierarchy/levels)	-	++	++
<b>Buying Process Complexity - Retail Brands</b>			
- process extension (tasks/activities)	+++	++	++
- extensivity (number of participants)	++	+	+
- lateral involvement (functions/departments)	++	++	+
- vertical involvement (hierarchy/levels)	-	+++	-

**Figure 5. Retail Buying of Manufacturer Brands and Private Brands**

While it is difficult to draw any far-reaching conclusions from this research on the efficiency implications for retail operations of the development of private grocery brands, some broad indications are possible to discern. First, handling private brands in a retail company is in most cases more complex than handling manufacturer brands. It involves a greater number of activities and thus demands a greater number of capabilities to be able to perform these activities. It also makes for a generally more complex buying process, involving many functions and layers in the organisation. This added complexity with the implications for cost and efficiency may be underplayed in existing research, which almost exclusively focuses upon the benefits.

Second, organisational factors, particularly those relating to the dimensions of integration may mitigate against increased complexity. In the case of the vertically integrated UK based firms, the added complexity of handling private brands seemed not to hamper the operations. Decision-making was centralised making the complexity easier to manage. Also, an integrated category management approach to operations seemed to simplify matters. If retailers view their product ranges as a set of categories to be managed, and if decision making is centralised, working with private brands becomes just one of several natural ways of achieving category goals and filling the assortment with attractive products. Where less integration exists between stores and the central levels of a retail operation, it is easier to imagine situations where the advantages of selling private brands is outweighed by the disadvantages arising from increased complexity in the

processes, activities and internal organisation that the company has to handle.

As private brand ranges become a common feature of grocery retailing in every market, there is an implicit assumption that benefits will flow to retailers and that the more sophisticated types of private brand strategy will prevail in most markets. The inevitable focus on profit and marketing related benefits tends to ignore the organisational implications of involvement in these types of product range. The findings presented here, suggest that private brand development inevitably adds complexity to the buying process, and that this complexity is determined in part by the organizational characteristics of the market and individual organisations. These considerations need to be taken into account if the much heralded benefits of private brand development are to be efficiently and effectively achieved.

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