The Competition between National Brands and Store Brands: Models, Insights, Implications, and Future Research Directions

# The Competition between National Brands and Store Brands: Models, Insights, Implications, and Future Research Directions

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# The Competition between National Brands and Store Brands: Models, Insights, Implications, and Future Research Directions

## Raj Sethuraman<sup>1</sup> and Jagmohan Raju<sup>2</sup>

## Abstract

In this article, we provide a comprehensive review of the literature on economic models of national brand — store brand competition and address three questions: (i) What types of economic models have been used to analyze the competition between national brands and store brands? (ii) What insights and implications have they generated? (iii) What are some useful future directions for modelers of national brand — store brand competition? We review 47 articles published or written during the period 1966–2011, present the model characteristics of the key articles, and develop over 160 results pertaining to national brand and store brand decisions. Then, we discuss the implications of these results and suggest directions for future research.

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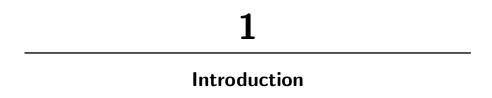
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Private labels or store brands are generally brands marketed by the retailer using the retailer's own name (e.g., *Kroger, Safeway select*) or a brand name associated with the retailer (e.g., *Great Value* and *Sam's Choice* of Wal-Mart). Private labels have experienced considerable growth during the period 1980–2010, often at the expense of national brands. During the year 2011, overall supermarket sales of store brands in the United States increased 5.1%, pushing private label dollar share up half a point to 19.5%, a record high, according to data collected by The Nielsen Company (*www.plma.com*). By comparison, sales of national brands gained 2%. U.S. Private label unit share in 2011 rose to 23.6%, another record, and a significant increase compared to about 15% in the 1980s. Store brand shares are even higher in Europe and are also growing in Asia and Australia (Kumar and Steenkamp, 2007).

Because of this high private label growth, understanding the competition between national brands and store brands has become important for both the national brand manufacturers and the retailers. Several researchers have contributed to the literature by analyzing economic models that incorporate the competition between the two types

#### 2 Introduction

of brands. This article provides a comprehensive review of the literature on economic models of national brand–store brand competition and addresses three relevant questions:

- 1. What types of economic models have been used to analyze the competition between national brands and store brands?
- 2. What insights and implications have they generated?
- 3. What are some useful directions for future research by modelers of national brand–store brand competition?

Berges-Sennou et al. (2004) provide a brief review of the literature on the economics of private labels focused on the antecedents and consequences of private labels. Subsequently, Sayman and Raju (2007) and Kumar and Steenkamp (2007) provide more extensive reviews of the literature but their focus is not on analytical, economic models of national brand-store brand competition. Recently, Sethuraman (2009) has reviewed the analytical models of national brand-store brand competition and discussed several key results. However, his focus was on the external validity of analytical results. In particular, he proposes three measures for external validity — Robustness, Empirical support, and Credibility, and assesses the validity of 44 analytical results from 22 studies on these criteria. This article can be deemed as an extension of the work by Sethuraman (2009) with some important differences. We review 47 studies published between 1966 and 2011 and report over 160 results. More importantly, while Sethuraman (2009) focuses on external validity of the results, our focus is exclusively on the analytical models that give rise to those results. Thus we do not discuss any empirical or managerial literature.

The organization of the article is as follows. First, we present a framework that is conducive for classifying the extant literature on national brand-store brand competition. Second, we compile pertinent articles and available working papers and classify them using the framework referenced above. Third, we trace the development of the analytical models starting from the simple model with one national brand manufacturer and one retailer and progressing to models with multiple manufacturers and retailers. Finally, we discuss the insights obtained from them and provide future research directions.

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