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

Raj Sethuraman
Southern Methodist University
USA
rsethura@cox.smu.edu

Jagmohan Raju
University of Pennsylvania
USA
rajuj@wharton.upenn.edu

now
the essence of knowledge
Boston – Delft
Foundations and Trends® in Marketing
Volume 7 Issue 1, 2012
Editorial Board

Editor-in-Chief:
Jehoshua Eliashberg
University of Pennsylvania

Co-Editors
Teck H. Ho
University of California, Berkeley
Mary Frances Luce
Duke University

Editors
Joseph W. Alba, University of Florida
David Bell, University of Pennsylvania
Gerrit van Bruggen, Erasmus University
Pradeep Chintagunta, University of Chicago
Dawn Iacobucci, Vanderbilt University
Brian Sternthal, Northwestern University
J. Miguel Villas-Boas, University of California, Berkeley
Marcel Zeelenberg, Tilburg University

Full text available at: http://dx.doi.org/10.1561/1700000029
Editorial Scope

Foundations and Trends® in Marketing publishes survey and tutorial articles in the following topics:

- B2B Marketing
- Bayesian Models
- Behavioral Decision Making
- Branding and Brand Equity
- Channel Management
- Choice Modeling
- Comparative Market Structure
- Competitive Marketing Strategy
- Conjoint Analysis
- Customer Equity
- Customer Relationship Management
- Game Theoretic Models
- Group Choice and Negotiation
- Discrete Choice Models
- Individual Decision Making
- Marketing Decisions Models
- Market Forecasting
- Marketing Information Systems
- Market Response Models
- Market Segmentation
- Market Share Analysis
- Multi-channel Marketing
- New Product Diffusion
- Pricing Models
- Product Development
- Product Innovation
- Sales Forecasting
- Sales Force Management
- Sales Promotion
- Services Marketing
- Stochastic Model

Information for Librarians
Foundations and Trends® in Marketing, 2012, Volume 7, 4 issues. ISSN paper version 1555-0753. ISSN online version 1555-0761. Also available as a combined paper and online subscription.
The Competition between National Brands and Store Brands: Models, Insights, Implications, and Future Research Directions

Raj Sethuraman¹ and Jagmohan Raju²

¹ Marilyn and Leo Corrigan Endowed Professor and Chair of Marketing, Edwin L. Cox School of Business, Southern Methodist University, Dallas, TX 75275, USA, rsethura@cox.smu.edu
² Joseph J. Aresty Professor of Marketing, The Wharton School, University of Pennsylvania, 700 Jon M. Huntsman Hall, 3730 Walnut Street, Philadelphia, PA 19104-6371, USA, rajuj@wharton.upenn.edu

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.
Contents

1 Introduction 1

2 Framework for Classifying Research Studies 3

3 Compilation and Classification of Research Studies 9

4 Models with One Manufacturer and One Retailer 13
   4.1 Base Model 13
   4.2 Incorporating Store Brand Strength 20
   4.3 Incorporating Costs 21
   4.4 Incorporating Advertising 33
   4.5 Incorporating Price Promotions 43
   4.6 Incorporating Shelf Space 49
   4.7 Incorporating Additional Channel 51

5 Two or More National Brands and One Retailer 55
   5.1 Base Model with Prices Only 55
   5.2 Incorporating Store Brand Positioning 58
   5.3 Incorporating Advertising 64
   5.4 Incorporating Price Promotion 66
   5.5 Incorporating Dual Branding 67
6 Model with One Manufacturer and Two Retailers

6.1 Base Model with Prices only

7 Multiple Manufacturers and Multiple Retailers

7.1 Models with Prices Only

8 National Brand Decisions — Manufacturer

8.1 National Brand Product Decisions
8.2 National Brand Wholesale Price
8.3 National Brand Distribution
8.4 National Brand Promotions

9 National Brand Decisions — Retailer (NR)

9.1 National Brand Retail Price
9.2 National Brand Distribution by Retailers
9.3 National Brand Promotions

10 Store Brand Decisions — Retailer

10.1 Store Brand Introduction
10.2 Store Brand Product
10.3 Store Brand Price
10.4 Store Brand Distribution
10.5 Store Brand Promotion

11 Store Brand Decisions — Manufacturer

11.1 Dual Branding

12 Future Research

12.1 Future Research on Model Structure
12.2 Future Research on Model Outcomes
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...
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.
References


References


