PGDM (RM), 2016-18
Category Management & Private Labels
RM-405

Trimester – IV, End-Term Examination: September 2017

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A

Q1. How can a marketer balance between two roles: being a marketer of its own brand and being a vendor for its retailers?

Q2. It has been observed that retailer concentration is a key factor in private label development in any country. What could be the possible reasons for it?

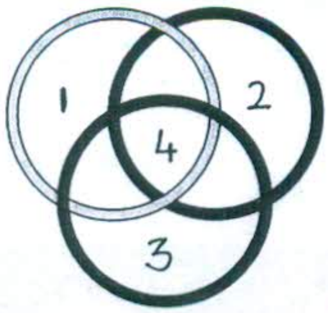
Q3. Define: (a) market structure (b) Preference segmentation in the context of category management with examples. (c) What are their drawbacks? (d) Give an example of primary/ secondary/ tertiary product attribute and explain.

Q4. Explain the category plan checklist in brief.

Q5. What is the importance of price elasticity and sensitivity analysis in category management?

Section B

Q1.



Portion 1 represents: Retailer, Portion 2 represents: Consumer, Portion 3 represents: Vendor, Portion 4 represents: Category management. Give one unique example with explanation for each of the portion 1,2,3 whereas that portion predominates over the remaining two. Is there an example where portion 4 predominates over 1,2,3 ? If yes give an example.

Q2. (a) A retail chain plans a promotion with NATURALS for its newly launched advanced skin care treatment . It's using EMI credit tool to sell more units of the SKU. The arrangement between them is that 40% of overall subsidy would be borne by the retail chain.

SKU selling price on cash = Rs 4000

Units: 100 no's

Prevailing interest rate: 9%/p.a

What is the payout for the retail chain assuming that the EMI repayment by the customer happens over 1 year?

(b)Pl. complete the table below for 12 months and show the working

MONTHS	EMI	INTEREST	PRINCIPAL REPAYMENT	OUTSTANDING PRINCIPAL

Q3. As private labels enter new categories, they would become part of our regular purchase habit. Comment.

Section C

Poised for a crossover ?

The Smart Manager Jul-Aug 2015(The Smart Manager Case Contest)

One of the pioneers in organized retailing plans to stretch the reach of its private labels beyond its own stores. Will this serve as a brand- boosting exercise or backfire by driving up costs?

Maxim Group has retail outlets in 95 Indian cities and attracts 300 million footfalls annually. This $3bn group has a total retail space of 17 million sq ft in the country and employs nearly 30,000 people. It focuses on four verticals: food, fashion, general merchandise, and home.

The company is known for its unique India-centric business models and continuous adoption of creative approaches to retailing. 'Revise rules, but preserve values' is their guiding force.

The group was originally incorporated under the name Pride Clothing Private Ltd in 1987. It introduced one of India's earliest formal trouser brands Trowzees, and set up its exclusive menswear store—Trowzees Store—in 1994. Its modern retail outlets—Colossus Store and Hay Store—were launched in 2001 and 2002 respectively. The country's first seamless mall, Destination, was unveiled by the group in Bengaluru in 2004. Subsequently, Maxim Group introduced Beckon, Digi Ally, and Deck It Up Store in 2006. Subsequently, the group launched its small outlets called the 'Right Price Store' for deeper penetration into the market, which effectively tackled the common retail challenges of space unavailability, large investment needs, lack of consumer proximity, and rivalry from conventional stores. It also has Cosmos Sports, Brand Fix, and many other retail outlets at present; there are subsidiaries in the area of leisure and entertainment, brand development, retail real estate development, retail media, logistics, consumer finance, and educational training services as well.

Maxim Group draws considerable revenue from its own brands. These private labels stand testimony to its continuous research of consumer needs. They are present in 60 product categories and offer 400 SKUs. The main focus of the private labels is on apparel, electronics, and food and consumer goods categories.

Scrummy, Fresh & Fine, Smart Pal, Serve Pal, Harvest, Divaas, Azure Zone, Drive, and Chand's are some of their successful private labels. Each brand presents an interesting product line. Scrummy sells ketchup, jams, pickles, chips, Indian savories, cookies, noodles, and cornflakes. The brand has 70% of total sales in the noodles category in their outlets. Fresh & Fine has products such as ghee, edible oil, flour, spices, honey, tea, lemon juice, and so on. Smart Pal contributes to 65% of their total sales of floor-cleaning products. Besides floor-cleaning products, the brand is present in toilet cleaner, utensil cleaner, detergent powder, and detergent bar categories as well. Serve Pal sells diapers, sanitary pads, liquid hand soaps, wipes, and tissues. This brand has garnered 67% of the total category sales in tissues.

The success of its private labels has prompted Maxim Group to think that it needs to capitalize on them further.

Harvest sells premium quality *dals*, pulses, cereals, spices, and oilseeds. Divaas has a share of 20% in the total category sales of pulses. The brand also has different variants of rice, suiting the unique preferences of the various regions of India. Azure Zone has apparel for gents in formal wear, casual wear, and party wear categories. Drive sells fashion clothing collections for men and women.

Chand's is distinct from the other private labels of Maxim Group. It is named after legendary Indian cricketer Chandrahas Verma who continues to be the heartthrob of Indian cricket fans even after his recent retirement from the game. This brand, endorsed by this iconic celebrity, also has soaps and toothpaste product categories.

Maxim Group has immensely benefited from their private labels over the years. These brands offer a minimum of 15% more margin compared to other national brands and help draw huge customer traffic to their stores through the unique offerings that squarely address the need gaps. The success of its private labels has prompted Maxim Group to think that it needs to capitalize on them further. Recently, it announced a tie-up with a global ecommerce giant Cavern, for selling their private labels in the apparel

"We are indeed in the process of developing our private labels into strong brands. We are also transforming ourselves from the role of sellers of our own brands to that of owners of big brands. So we have to continue this path. All we need to decide now is only the pace of growth that we want to achieve," said Sushant.

Deena added a word of caution, "We are going to be delighted seeing our successful private labels of today become powerful brands of tomorrow in the open market. But this may not come without additional costs. While our private labels may not need investment in advertising today, they will need it to survive the aggressive competition, when they become open market brands tomorrow. Is it not going to shoot up their costs considerably?"

Sushant reminded him not to judge the future development of their brands against the present characteristics of private labels. "When our brands cease to be mere private labels, they may lose some natural advantages available for private labels. On the contrary, they are going to gain some newer advantages. For example, a strong brand in the open market may gain the ability to charge a premium price for itself, unlike a private label. Isn't it true?", he said.

Their conversation continued on this line of thinking for some time. Somehow, the three of them understood that they needed more clarity on what they wanted to be and what they wanted their private labels to become. Finally, their attention turned towards finalizing the suitable candidates among their private labels for crossing the border of their own stores in the near future. They thought that following their private labels in apparel, those in electronics goods could be made available on the Cavern platform. Their private labels in food and other consumer goods categories might also be appropriate for external physical stores. They could not somehow come to a firm decision, as they were a bit confused. All of them had mixed reactions to accepting the candidacy of each of their private labels for this crossover. Nevertheless, they unanimously accepted that Chand's was fit for being sold anywhere!

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your question:

Will selling on Cavern do more good or harm to the private labels of Maxim Group? Should they really attempt at selling any of their private labels in physical stores outside their own outlets? ■

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rules

- your solution and analysis shouldn't exceed 500 words.
- you will be judged on the analysis, clarity of thought, viability, completeness of the solution and language.
- we want plain text: no tables, charts, graphics, or any other visuals.
- there is no entry fee for this contest.
- keep a photo of yourself handy, in case you win.
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Selected to present common managerial dilemmas, the case studies are fictitious and have no relevance to any specific company.

category initially and those in the other product categories in due course. Besides, Maxim Group is contemplating making its private labels available for sale in other physical stores outside their retail outlets as well. It is felt that these private labels have become strong contenders in many categories and they deserve a better reach to consumers through other brick-and-mortar stores. The following discussion took place on the sidelines of the Group's recent meeting with the Cavern team for signing the agreement.

After completing the formalities related to clinching the deal, the top executives of Maxim Group could find some time for themselves. They recalled the challenges faced by them so far and relished their exciting journey in modern retailing. The discussion gradually crept into their favourite topic of private labels, as has always been the case whenever the Group CEO is present.

"Is this deal going to help us capitalize fully on the potential of our private labels?" asked Rishi Pansare, Group CEO, Maxim Group.

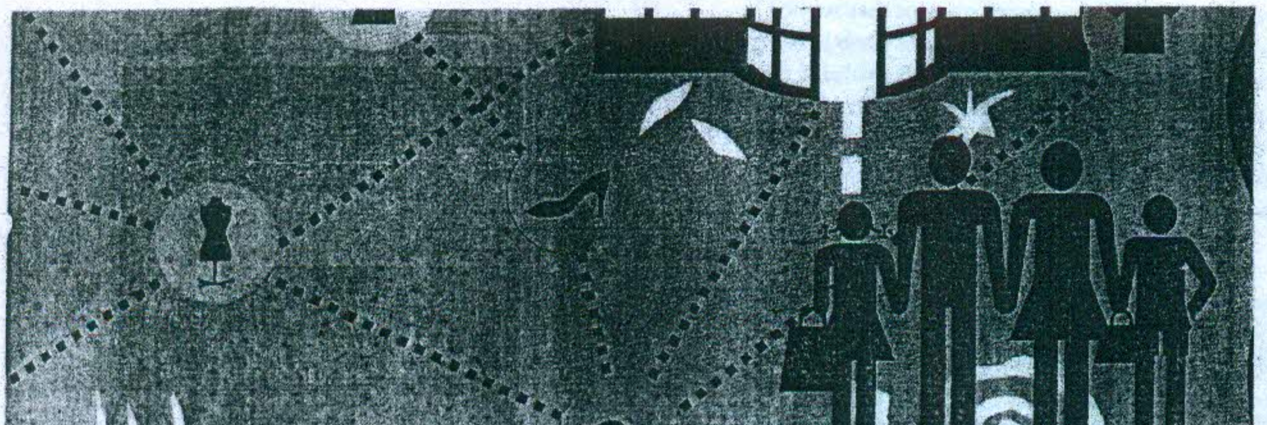
"Of course! Our private labels have become adults now. They don't need our close parenting anymore. Let them explore the world," replied Sushant Mukherjee, VP, Private Labels, in a bit of excitement over the agreement with Cavern.

Not in a mood to wind up this topic, Rishi enquired further, "If we ought to worry about something in this, what would it be?"

"I think it would be the opportunity cost for our business partners! Cavern buys our private labels in place of a national brand or their own brand, if any. Their future decision on this would be based on how competitive the margins continue to be," Deena Modi, VP, Sales, joined the conversation.

All the three expected this strategy to attract newer customers to their private labels and help in strengthening their brand image further. On the other hand, they were anxious about the company's own margins in a particular private label varying depending on where they attempted to sell. They realized that they had to incur higher costs when their private labels were sold at a business partner's outlet or portal, because the intermediary margins were to be accounted for. They only wished that the higher sales volume would make up for this additional cost.

Rishi presented his next concern to his colleagues, "Now that some of our private labels are available on Cavern, shall we give them a breather? Or do we need to continue exploring our original plan of reaching other physical stores as well?"



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smart insight

V Rajesh is a Retail and Shopper Behavior Expert.

At the outset, one needs to clearly understand what a private label or store brand is.

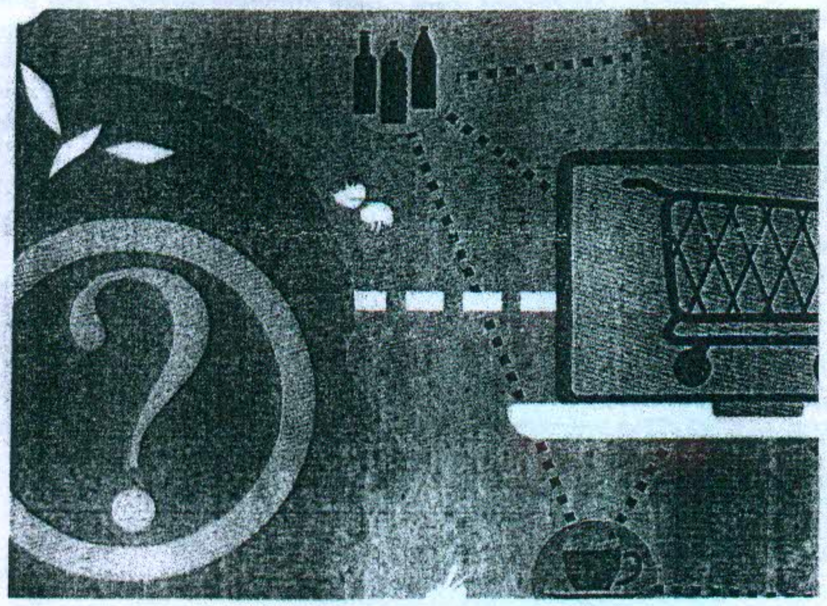
These are brands that are owned by the respective retailers and hence the term store brands. Private labels or store brands have two components: one is the actual product and the other is the brand. The product component is benchmarked to an existing one, usually the market leader, in terms of features and benefits. This helps in creating an easy reference in the customers' mind.

The branding element is important for private label products as they leverage the brand equity of the retail chain and the trust that customers repose in these stores. So, when the customers see a near-similar product on the shelf that has either better features and/or a lower price, the tendency to pick up that store brand SKU is high. If the product meets the customer expectations, the store brands subsequently substitute the national brands in the shopping baskets.

The role and the pull of branding with regard to private labels is not static; it changes quite a bit depending on the category, especially in India. Some examples are:

grocery products: Although the Indian shopping basket might have close to 30% as grocery products—rice, dals, and oil—national brands have a limited presence in this category. A few segments such as sunflower oil, salt, etc, are dominated by brands. In this context, a retail chain tends to put their own brand on such packed grocery products. As such, these might qualify to be store brands but they are in an actual sense packed commodities. Even if these store brands have high shopper equity, they might have very few takers from other retail channel members as the SKU's identity is closely tied in with that of the particular retailer. After all, why should store A sell the products that carry the branding of store B and risk losing their customers to store B gradually?

FMCG products: In a market dominated by brands, the private label's role is to offer a credible alternative to a national brand. This credibility is built on the trust that a shopper has with regard to the retailer. In an independent context outside the store of such a retailer, if the shopper is faced with a national brand and a private label, chances are that they will choose the national brand.



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apparel: This category has a few strong brands and a multitude of other products that have some kind of branding. Shoppers tend to be particular about the brand or completely indifferent to it. In such a scenario, store brands can be sold in any other retail channel also, because the customer might not have a strong association with the retailer and that brand. In such a case, pricing becomes important and therefore the cost structure of selling such store brands in other channels might become a challenge to manage.

Similar to the above examples, each category of product has its own peculiar interplay between product features and the pull of a brand. As such, the decision to extend the private label portfolio to an online retailer and then to other retail channels cannot be taken at a blanket level; it needs to be considered at least at a category level, if not at a product level.

The other factor with regard to this decision is the differentiated cost structure of private labels. A retailer typically leverages the existing manufacturing capability of someone else and hence does not have to incur fixed costs with regard to manufacturing. This is a clear savings, and a significant one. Second, most store brands leverage existing technology and as such there is no R&D costs to be recovered. Third, there is no need for a separate sales team to generate demand and hence the cost of that effort is also saved.

In addition to the absence of the above-mentioned costs, store brands incur far lesser advertising, marketing, and transportation costs as they piggy back on the existing infrastructure; and promotion of such products is usually done in-store, which is not too expensive.

The minute a retailer plans to extend its store brands to other retail channels, the cost structure will change and therefore the dynamics. This will completely change the margins and profitability and in some cases might even make such products unviable.

More importantly from a strategic perspective, this calls for a complete overhaul of organizational and business goals. If a retailer wants to extend its store brands to the general trade and other retailer chains, they need to distance themselves from such brands. Otherwise, the competing retailers might not want to even consider having such products in their stores. In such a scenario, a complete organization would be required to handle this business and manage the same. Therefore, this entity would become another product and brand organization with profit and loss deliverables.

If that happens, why should this new entity supply products to the stores of Maxim Group at a higher margin? If at all they differentiate in favor of Maxim, it will not go down well with the other members of the distribution network and their overall sales will suffer.

In summary, the actual decision facing Maxim group is more about opening a new subsidiary, which will be a product company. It is not about selling a private label through other distribution channels because the private label or store brands sell in the retailer's stores because the shoppers trust the retailer and are willing to take a chance based on that trust. ■

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