GOVERNANCE OF PRIVATE LABEL AS STRATEGIC ASSET: DEVELOPING A BRAND VALUATION MODEL

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Abstract

This paper aims at identifying which factors should be considered in the building of an economic evaluation model for the private label brand. In fact, some specific characteristics of private label, with respect to industrial brand, make unusable the consolidated models available. The results of the paper are the definition of some specific factors of private label, the assumptions about how these features impact on the traditional economic evaluation models and how these could be included in a model. Because of the complexity of the topic, the hypothesis is to build a model of synthesis, made of two parts: one part for a Financial-Based evaluation of Brand Equity, with the addition of some specific factors and indicators to the traditional formulas, while the other part is for a Consumer-based evaluation of Brand Equity, thanks to an index that summarizes the strength of private label brands from the consumer perspective. The private label economic evaluation has some relevant managerial implications on the retail system, on the vertical supply chain relationships and on the understanding of the strategic nature of this asset.

Keywords: Private Label, Brand Equity, Brand Evaluation, Retail

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1. INTRODUCTION

The private label products have a significant role in the grocery markets and in the retail system. The data show that around 17% of the sales in the grocery market of the United States is due to private label products (Nielsen/PLMA). This percentage reaches the 38% of market share in Europe (IRI). In general, the term "private label" refers to all products owned by retailer rather than the producers and are sold in the stores of the same retailer, they are offered to the consumer with the name of the retailer or with fancy brand. Therefore, two fundamental characteristics inherent in the private label concept emerge from this definition. The first characteristic is that private label products are manufactured on behalf of the retailer and based on a policy document provided to copackers. The second characteristic is the connection of private label products to the retailer, which can vary in intensity depending on their strategic decision to use or not to use the name of the retailer.

In the retail management and the retailers marketing strategies, the weight given to private label products is growing. The private label is becoming a real brand with the ability to compete with the industrial brand so to strengthen the competitive position of the retailer and to change the equilibrium in the supply chain, both for the tangible characteristics and for the image. The last step in the evolutionary process of a private label is characterized by the store branding that today is the main lever of strategic marketing as a synthesis of a corporate philosophy based on real brand architecture (Sansone, 2016).

The research on the subject of private label covered a variety of issues, summarized as follows: the "convenience pricing" as a key factor in sales (Cunningham et al., 1982; Baltras, 1997; Putsis and Dhar, 2001); the optimal level of private label products in the assortment (Dunne Narasimhan, 1999; Apelbaum et al., 2003); the consumer behavior toward private label products (Sprott Shimp, 2004; De Wulf et al, 2005) and the contribution of private label in market share of retailers (Rubio and Jague, 2009). Several authors have also analyzed the advantages that store branding strategies adoption bring to retailers; many studies have pointed out the contribution to the profitability of retailers and the effect on the power distribution between retailers and producers (Ailawadi, Harlam, 2004; Mazi, Sudhir, 2005); others studies have analyzed the contribution of the private label to differentiation of retailers (Lugli, 2003; Sudhir, Talukdar, 2004; Fornari, 2009) and to the store loyalty (Corstjens and Lal, 2000; Ailawadi, Pauwels and Steenkamp, 2008; Cristini, 2006). About the reasons for purchase in the grocery store, there are several studies that focus on one or more variables: price consciousness, price-quality association (Batra, Sinha, 2000); packaging (Wells, Farley, Armstrong, 2007); price and quality (Ailawadi, Pauwels, Steenkamp, 2008); advertising-pricing (Karray and Martin-Herran, 2009); price, quality, risk perception (Ashokkumar and Gopal, 2009).

Despite the economic relevance of the theme, there is a lack of the evaluation model for the private label brand and the researches about this topic are only few (Angelini, 2003).

The scholars of business administration share the view that an intangible asset is worthy of evaluation when: it is (or has been) the subject of significant flow of investments, or it has resulted in sustaining the economic efforts in order to acquire, create and develop the intangible; it is the cause of differential economic benefits, or if (or should) be able to guarantee a positive economic differential flow to the company; it is transferable, at least in *latu sensu* (Marsigalia, 2004).

In the present case, it is quite evident that the private label meets all the features required by the doctrine to estimate the economic value of the intangible in question. It is considered a cost center in relation to the economic efforts made by those owners to register it, both for the development and for the success of the brand on the market. In addition, it is an asset able to ensure a positive competitive differential to the company that own it.

We believe that the main brand valuation models (financial or costumer based) cannot be uncritically applied to private label products because, despite growing similarities with the industrial brands, private label products have specific features to be considered.

This paper aims to identify the factors to be considered in the building of an economic valuation model of private labels to make them accountable in the financial statements of the retail business.

The article is organized as follows. First, the theoretical frameworks about the concept of brand equity and about two prospects for evaluation of brand equity are presented: Financial-Based Brand Equity and Consumer-based Brand Equity. Later, the concept and evolution of private label are described, with literature references, to understand the main features that generate the need for an economic evaluation model that is built specifically for private label. The paper results are presented in the discussion, as assumptions about how the specific features of private label brand could be included in the model. The paper closes with the conclusions and some managerial implications.

2. THEORETICAL FRAMEWORK

2.1 Brand evaluation and brand equity

In the reference literature, a common definition of the concept of brand equity is not present. Already in 1991 Winters, noting a growing interest on the brand equity, highlighted that *"if you ask ten people to define brand equity, you are likely to get ten (maybe 11) different answers as to what it means".* These findings are still present because the brand value can be defined using different perspectives to suit a plurality of different purposes (Keller, 1993). Farquhar (1989) defined brand equity as the *"added value"* that a brand gives to a product, analyzed from different points of view (business, retailer, or consumer). He noted that the real value of the brand gives several competitive advantages to the organization; the opportunity to leverage a solid foundation to launch new products and new licenses on the market; the ability to absorb any internal or external critical situations, the ability to revitalize products, to face the competition and create barrier to entry in certain markets.

Simon and Sullivan (1993) defined the brand equity as the discounted future cash flows associated with a product with a specific brand. This approach is based on the estimation technique that, as part of an assessment of the financial market, allows to extrapolate the value of brand equity from that of other activities of the organization.

Srivastava and Shocker (1991) defined the brand value as *"the aggregation of all accumulated attitudes and behavior patterns in the extended minds of consumers, distribution channels and influence agents, which will enhance future profits and long term cash flow."*

To Aaker (1991), the enterprise and consumers are the main recipients of brand equity. In fact, he said that brand equity is *"a set of assets and liabilities linked to a brand, its name and symbol, which adds to or subtracts from the value provided by a product or service to a firm and/or to that firm's customers".* The *"assets"* and *"liabilities"* are closely linked to the context and they can be synthesized in brand loyalty, reputation, perceived quality, other values associated with the brand and other unique resources that belong to the brand.

Keller (1993) described brand equity as *"the differential effect of brand knowledge on consumer* *response to the marketing of the brand"*. On this basis, a high level of brand equity determines a measurable differential effect on the performance both from the financial point of view and from the perspective of consumers (Keller, 2003).

The brand, has been defined by Kotler and Pfortsch (2008) as: a promise; a set of perceptions - everything you see, feel, you read, you know, you think, etc. - about a product, a service or a company; a definite place inherent in the minds of customers regarding past experiences, associations of ideas and future expectations; a mix of attributes, benefits, opinions and values that distinguish and simplify the decision-making process.

From that concept emerges the need to overcome a logic that leads to associate the brand only to tangible components of marketing communications that are generally used to support it (e.g. the name, the logo, and advertising slogan, testimonial). In fact, it is a set of expectations evoked by experiences of the customers with a company or a product. It follows in quite clear way that the influence and the role of the brand necessarily involves whole the organization.

The ability to build, defend, support and protect a brand of success depends on the active and effective participation of all business entities starting from the top figures, to adapt the brand's strategy to business strategy (Aaker, Joachimsthaler, 2000). In fact, the brand has changed over time as a growing strategic importance in the various economic sectors: the manufacturing, consumption and retail of goods and services. This requires that, as reported by Aaker (2014), brand management should expand its reach, coming to deal with issues such as strategic positioning proposals on the market, the stimulation of innovation, growth strategies, those of management of the brand portfolio and global branding strategies. Therefore, you need a brand strategic vision closely related to both current and future business strategies (Aaker, 2014).

Moreover, the brand and the capital that it represents contribute to increase the company's strategic assets, to enhance the competitive advantages and profitability in the long run. All of this occurs when the asset has a strong identity on the market to justify a higher price of the product / service to the customers' eyes, to give a higher price to the shares, to establish solid relationships with customers and to reduce the negative cyclical phases (Kotler, Pförtsch, 2008). To have the ability to create, improve and protect the economic, image and trust inherent in the brand (Kotler, Armstrong, 2006) favors the assertion of the economic performance and competitive advantage that create value for the entire company complex.

However, the major schools of thought have identified two evaluation prospects of brand equity: financial perspective (*Financial-Based Brand Equity* (FBBE)), which defined the brand as the *"a separable asset – when it is sold or included in a balance sheet"* (Atilgan et al., 2005) and the perspective customer-based (*Consumer-based Brand Equity* (CBBE)) founded on the Aaker and Keller ideologies.

2.1.1 Financial-Based Brand Equity

According to the financial perspective (Farquhar et al 1991; Simon and Sullivan 1993), the brand can be economically evaluated based on the following different methods (Zanda, Lacchini, Onesti, 2005).

The *methods based on empirical indicators* are characterized by the application of a percentage or a multiplier to one variable considered qualifying for the element to be evaluated. They are based on information given by the transactions on the market. One of the most important empirical method is the Interbrand one: the brand equity is equal to the product of the normalized average net operating income attributable to the brand itself and an indicator of the brand strength.

The *methods based on economic-financial approach* quantify the contribution of the brand to profitability by discounting, for several years, the differential income made by the brand itself. The discounting is done by calculating the difference between the income produced with the brand and the income that you would get from a similar product does not have a brand or that is related to a new one. These data will be more accurate the more similar are the companies from the dimensional point of view. From the point of view of results, any differences will due to the importance that its brand holds. It follows, that the income level difference is due precisely to the brand.

The *cost-based methods* may consider the historical cost, the revalued historic cost compared to a ISTAT index, the replacement or reproduction cost, the cost of the loss. They consider, therefore, the charges incurred for the design, launch, brand development and to support it during its entire life cycle. The capitalization of these costs give the measure of the importance of the brand.

The *financial methods* aim to identify the value of the cash flows generated by the brand available in future years, which must be discounted at a rate deemed appropriate.

The *method based on royalties* is the most common one and per it the differential income generated from the brand is equal to the value of the royalty discounted back. In the formula:

$$W_M = \sum_{t=1}^{n} \frac{F_t \cdot r}{(1+i)^t} \tag{1}$$

where:

r is the percentage of sales attributable to the intangible asset;

Ft is the normalized value of sales expectations;

n is the useful life of the intangible asset;

i is the discount rate.

The economic value of the brand is given by the sum of all contributions to turnover. In practice, the royalty percentage applied to turnover gives us the contribution to turnover estimated for each year must be discounted to the known interest rate.

2.1.2 Consumer-based Brand Equity

The CBBE model analyzes the value of a brand from the consumer's point of view, both if it is an individual and an organization, starting from the assumption that to be successful in each market you have to understand the needs of the consumers and to satisfy them.

In this respect, it is very important the meaning that takes the different brands in the minds of customers, and how their knowledge affects them in the face of marketing activities promoted by the brand.

Therefore, this model assumes that the power of a brand lies in the minds of consumers, through direct and indirect experiences, which is attracted by the intangible characteristics of the product, and above all by its brand, rather than the material and objective factors.

This is confirmed by Farquhar (1990) which defined the CBBE as the added value endowed by the brand to the product as perceived by a consumer.

Aaker (1991) proposed an approach that has already been applied and tested empirically in several studies, based on a perceptual and behavioral dimension able to point out how their brand equity is present as an intangible asset focus of the company's competitive advantage

Coherently with its definition of brand equity, the model was divided into the following five dimensions, closely related and self-influenced. They allow you to achieve the effective management of brand value through appropriate enhancement product that generates benefits for both the consumer and for the company itself: perceived quality, brand loyalty, brand awareness, brand associations and other unique resources of the brand, such as patents, brands and distribution channels. The perceived quality of the product by the consumer, is a determining factor in the purchase decision-making process; in addition to generating clear benefits for the company since it represents a criterion of differentiation it allows it to take advantage of pricing strategies and possibly brand extension.

We can talk of brand loyalty when a consumer, having found the benefits or having lived positive experiences of using a product or products of a company, is induced to replicate several times the purchase, recognizing the opportunity to benefit from substantial value which is not found in what is offered by competitors (Sansone, 2005). This situation favors the direct and indirect promotion processes of the brands that allow the company to expand its market share.

The *brand awareness* is the attitude of the consumer to include the brand in its decision-making process, associating easily it to the product. This concept can be divided into some different stages: the lack of awareness about the existence of the brand (*brand unawareness*), the feeling of uncertainty because of a superficial knowledge (*brand recognition*), to arrive at the memory (*brand recall*) and in some cases, taking advantage of the immediate memory, the belief that the brand is the main or even the only, under the product category that is taken into account (*top of mind*).

The brand associations are determined when a consumer, using his cognitive abilities, associates the brand to one or more attributes, circumstances and / or the positive or negative experiences with the purchase of a product.

Keller (1993) defined the CBBE as the differential effect that brand knowledge has on consumer response to the brand's marketing efforts itself; it may generate more revenue, lower costs and an increase of the profit; also it has direct implications on the company's ability to apply higher prices, on the desire of a consumer to seek new distribution channels, effectiveness of marketing communications, as well as the success rate of brand extension and regarding licensing opportunities.

This definition is based on three key concepts: differential effect, brand awareness and consumer response to marketing activities.

In the first instance, the value of the brand is related to the existence of differences in consumers' reactions. In the absence of these differences, in fact, the brand product would be classified as a mere commodity and indistinct from your competitors, so the only competitive advantage would be achievable price.

Second, these differences, should they exist, would depend from the brand, which is organized in associations and in the awareness, that define the brand image. A strong brand, which promotes greater customer retention and less vulnerability to marketing efforts by competitors, is based precisely on brand awareness that represents the differential factor that allows a brand to strengthen itself and stand out from the others. It is identifiable as an aspect inherent in the memory of the consumer, able to transmit all the associations, positive, negative, strong, favorable and unique, connected experience lived by the consumer interacting with the brand (Keller, 2003).

Finally, consumer differential response designed to determine the value of the brand, is identified in perceptions, preferences and behaviors related to all aspects of brand marketing, such as the memory of an advertisement, the reaction to a promotion or the choice of a brand.

2.2 Definition, evolution and features of private label products

In recent decades, the international literature has shown a growing attention to the issue of private label. One of the first modern definitions of private label was provided in 1979 by Morris. According to him the private labels are defined as the suite of products sold under a retail organization's house brand name and sold only through that retail organization's outlets (Morris, 1979).

The definition of private label is a large and complex issue and it is difficult to formulate a unified description of the many types in existence. Some scholars define private label products as *"all products that the retailer offers for sale by ensuring directly the level of quality"* (Cristini, 1992).

The private label concept can be traced back to a time before the development of the industrial brand. In fact, more than two centuries ago, retailers became aware that selling their products necessitated conveying characteristics of quality and correctness – e.g., not offering products underweight – to the consumer, going so far as to customize the packaging to generate loyalty from customers. In this context, the retailer putting its name on the packaging of its bulk product (salt - sugar - coffee) can be considered the first example of private label (Fornari, 2007).

However, the first modern example of private label came from some initiatives that took place in the 1920s in the US. Companies such as A & P, Kroger and Safeway formed retailing groups managed according to the logic of the chain with assisted service - even if their store had a traditional format.

The American retail chains, given the small size and limited presence in industrial enterprises, spotted a competitive advantage in the ability to sell large volumes of products at a reduced mark-up per unit. This strategy was implemented through a process of vertical integration of the supply chain from the production to the consumer. An investigation of the Federal Trade Commission conducted in 1932 showed that self-production represented about 12% of the turnover of the leading retailer and that A&P, the market leader, owned about 70 factories.

Even in Europe the first examples of the development of private label are based on upstream integration strategies of the supply chain. Swiss retailer Migros discovered in the early twentieth century the key factors of cost leadership and convenience offered to the consumer in the complete integration of supply chain: in the 1930s in fact, Migros acquired three factories and implemented sales prices that were half those of its competitors (Pellegrini, 2008).

The strategy of vertical integration of the supply chain allows companies to reduce the level of stocks and achieve a reduction in logistics costs. Also, the direct management of the companies ensured control of compliance with established quality standards. Finally, the possibility of self-production represented for the retailer an opportunity for differentiating offerings with respect to competitors and, thus, retention of the consumer.

The development of retail distribution can be characterized by three basic phases. During the first phase, the retailers perform many functions, irrespective of their size. An example is the "assisted" counter sale, characterized by a sales service with information on the origin and quality of products, service packaging and placement of goods. However, over time, the phenomenon of mass production and, consequently, the predominance of industrial brands becomes reinforced. The production companies, on the one hand, take advantage of the new technologies to standardize the processes and to increase the shelf life and portability of products; on the other hand, producers use modern communication media to convey the quality of products in time and space. The brand assimilates the functions of product information and consumer guarantee that first were held by retailers (Fornari, 2007). At this stage, the intrinsic features of the brand make some of the services initially provided by merchants unnecessary, and new distribution formats –*e.g., the supermarket* - are born, offering consumers the ability to acquire quickly and independently the products of their favorited brands. In this sense – from the consumer perspective - the industrial and retail enterprises are related in horizontal competition because retailers are taking advantage of the variety of products available and/or of the price positioning of certain industrial brands in order to differentiate their offerings.

The increasing geographical spread of numerous retailers has led the transition from a vertical competition in the traditional channel to a horizontal competition between retailers. Modern retailers realized that losing their roles as information providers and sales assistants reduced them to mere intermediaries (Musso, 1999; Lugli, 2001; Sansone, 2002; Castaldo, 2008).

Meanwhile the presence of industrial brand products had caused a national standardization of product lines, causing the competition between different retailers to be concentrated solely on price leverage. The retailers became aware that their services could be the equivalent of *commodities*. In this context, the relationships between producers and retailers change, and the retailer becomes a direct competitor of the industries. Retailers realized that the costs of marketing and communication represented a very high expense for medium and small companies; eliminating these costs provided the opportunity to offer consumers the same products with lower prices and higher margins. It was from this realization that the private label was born.

At this point, the retailer realizes that he can use the retail sign to transfer consumers' store loyalty to store-branded product loyalty, with costs much lower than those of the industries. At this early stage, private labels tend to be a tool to regain profitability and counteract the reduction in the average margin on sales due to the lower profitability of industrial goods (Pellegrini, 2008).

Subsequently, given the success of private label products and since retailers can extend the use of private labelling to more complex goods, the private label as merely a tactical instrument becomes part of a strategy of differentiation. This objective is achieved through the development of a real brand strategy on the part of retailers. The strategic management of the private label, in fact, allows the retailer to recover its original role by carrying out the functions of selection of the supply, information on product specifications, and warranty compared to the quality standards of production (Cristini, 2006). The development process of the retail/distribution system described determines a total redefinition of the contractual balance between industries and retailers because the industrial brand is no longer the only element of the set. Rather, their presence on the shelves is no longer assured but is the result of retailers' selections. This implies that industry needs to needs to refocus on innovation and for retailers to regain the functions held before the spread of the industrial brands (Fornari, 2007).

The evolution of this complex phenomenon has generated a multiplicity of private label, from generic brand to store brand, that it is useful to understand the specific features of each different type of private label brand.

Strictly speaking, *exclusive industrial brands* do not belong within the definition of private label, but the association between the brand and the retailer is very strong, both for consumers and for competitors (Castaldo, Grosso, Premazzi, 2013). This category includes all the industrial brand products that, due to an exclusive supply contract, are sold in a single retailer; in this case the brand remains the property of the producer while the characteristics in design and production come from the retailer's source and indications.

The retailer still benefits, even if the producers remain the owner of the brand; for example, thanks to the exclusive sales contract, a part of the product line becomes difficult to imitate by the retailer's competitors. The retailer's margin is higher even though the retail price may be lower on average. A reduced responsibility is attributed to the retailer in terms of quality of the product.

Generic products usually satisfy the consumers' need for saving money by serving as an alternative for people sensitive to the lever of price (Richardson et al., 1996; Kumar, 2007; Castaldo, Grosso, Premazzi, 2013). Therefore, the generic brand normally is proposed to customers without reference to either the retailer or the producer - the only obvious indications are on the label provided for by law. The consumer places generic brands in the low-price tier like basic products, which have little differentiation, especially in the grocery categories.

Generic products originated in the 1970s, when American retailer Jewel introduced cheap products without brand in order to combat the increase in popularity of discounters. With the aim to create a convenience image, the sales of the generic brand were supported by specific corners within the store (Lugli, 1993).

The particularities of generic products include simple packaging almost lacking in graphical detail and a price usually 30-40% lower than that of the product market leader.

The main functions of generic products are to contribute meaningfully to the profit margin (despite the low price point) and to increase product line variety and services to the customer, widening the choice of products. This strategy aims to erode market shares of the smaller brands in the low-price tier.

However, there is a further specification of generic products, namely *products flag* (or *generic guaranteed products*) (Fernie, Pierrel, 1996; Castaldo, Grosso, Premazzi, 2013). These products, despite being characterized by minimal packaging in order to communicate the value of convenience, are in some aspect related to the retailer and, generally, are characterized by a higher level of quality due precisely to the direct use of the retailer's name. In this type of product, the retailer's logo is used, albeit discreetly or sometimes indirectly, through references to the logo, symbols or colours. One of the first retailers to introduce such brands is Carrefour. In 1967 it launched the *"produits libres"*, or no-name industrial. These products are still supported by an advertising campaign and space is dedicated to them in the store.

Unlike simple generic brands, flag products are developed strategically to increase the store loyalty of consumers, and they can therefore be considered a starting point for a private label strategy that identifies itself with the retailer. Through guaranteed generic products, retailers aim to build the so-called *non-brands* that are produced with the aim of eroding the market share of and loyalty to brand market leaders, demonstrating to consumers that they can get good quality at a price on average 20% lower.

The term *fancy brand* (Lugli, 2003; Cristini, 2005; Dekimpe et al., 2011; Castaldo, Grosso, Premazzi, 2013) refers to a private label product the name of which is invented and makes no reference to the retailer or the manufacturer. Yet within this category it is possible to distinguish between recognizable and unrecognizable fancy brands: the first case refers to products whose brand, logo or colours are related to the retailer. The switch from an unrecognizable to a recognizable fancy brand indicates greater involvement of the retailer, especially in terms of responsibility and quality assurance of products. With such a move, retailers are evolving strategy aimed at increasing consumer awareness and establishing a lasting relationship with customers.

The fancy brand is used by retailers to meet the needs of different segments, from first tier to price premium products; very often the lowest priced fancy brand products have characteristics and functions similar to the generic brand but are characterized by greater attention to the promotion of the brand, logo and colours.

Premium products aim to evoke - through the considerate selection of name, logo, colours - values of quality, tradition and uniqueness.

A further distinction, based on the role that products play in achieving the objectives of the retailers, is made between tactical and strategic fancy brands; in the first case the company uses the brand for tactical purposes of obtaining an economic margin, while in the second case the retailer aims to differentiate to enhance customer loyalty.

The multiplicity of variants in fancy private label products underlines their importance, yet today these products are used mostly by businesses without strong customer loyalty, and therefore they do not want to link their name in a given category or product segment.

The *copycat brands* are brands invented by the retailer in order to imitate the market-leading products that have a strong awareness among consumers. They are characterized by a logo, shape, packaging, colour and pay off as similar as possible to the industrial brand. For example, the naming usually varies only a few letters (Warlop, Alba, 2004; Martos-Partal, González-Benito, 2011; Van Horen, Pieters, 2012; Castaldo, Grosso, Premazzi, 2013). The aim of retailers using copycat brand products is two-fold: to "deceive" a distracted consumer - they very often are displayed on the same shelf as the original industrial product – and to demonstrate that the industrial product, always carrying a higher price, is poorly diversified and easily replicable by competitors.

The *store brand* is the ultimate expression of the retailer's brand strategy, aimed at creating a lasting bond of trust between consumer and store and to compete effectively on a horizontal level. In fact, in this case, the brand name of the product and the name of the retailer are the same, although the product is produced by a copacker on the basis of precise quality standards established by the retailer. In fact, these products tend to be characterized by a price 10% lower than the product market leader and a medium-high level of quality. The association with the retailer is immediate and complete, and it assures responsibility to the final consumer. The retailer has to offer products that fully satisfy the needs of consumers in order not to compromise its image.

The main features of store brand products make them particularly competitive: they aim to offer customers a quality comparable to that of major industrial products at a price that is on average lower.

Sometimes the retailer builds an *umbrella brand strategy* around the store brand. Several product lines, all attributable to the retailer, are designed and based on the consumer's expressed and latent needs. The store brand acts metaphorically as an "umbrella" under which several brands for different lines of goods fall.

The last step in the evolutionary process of a private label is characterized by the store branding that today is the main lever of strategic marketing as a synthesis of a corporate philosophy based on a real brand architecture (Sansone, 2014). The element that qualifies the strategy of store branding is the use by the retailer of its own logo in a growing range of products in order to increase their visibility on the market and pursue increasing levels of competitive horizontal differentiation. The retailer is not just offering customers a store brand product but also planning a branding strategy very similar to that of industrial business, dealing with the whole complex of actions aimed at creating a strong brand identity (Rubio, Villasenor, Oubina, 2014).

Over the years, retailers have gained trust and loyalty, and today they are transferring these values to the store brand through specific marketing strategies. This mechanism is the result of a series of socio-economic factors that led to changes in consumption and retail system.

3. THE VARIABLES TO INVOLVE IN BRAND VALUATION MODELS FOR PRIVATE LABEL PRODUCTS

This work aims to identify the main factors - *specific factors of private label products that are divergent with respect to industrial brand* - that must be considered in building process for an economic evaluation model. The paragraph below provides a summary of the main variables to be considered in the model and some hypothesis useful to scholars and researchers for future research aimed at the detailed definition of the evaluation formula for the private label brand.

3.1 Relationships between retailers and copackers

In general, the private label products are owned by retailer rather than by the producer and are manufactured on behalf of the retailer on the basis of a policy document provided to copackers.

In the case of private label products, therefore, we see the separation between the physical process of good manufacturing and the management, understood as the upstream phase of product definition (in physical and marketing terms) and the phase of brand management and relationship with the consumer. This point is important to evaluate the private label brand equity and to measure the risk.

The value perceived by the end user is also synthesis of the know-how of the manufacturing steps, the ingredients used, the recipes, the machinery than for private label products are owned by the copackers and therefore a different owner than the brand; even if the retailer provides detailed production disciplinary to follow. So how to assess the "part of value" referred to the retailer in relation also to the manufacturing stage?

Sometimes the demands from retailers to copackers contemplate factors (in terms of quantity, ingredients, type of work) that imply the need for investment by the manufacturing company. It may not be willing to invest, without guarantees - *at least the duration of the contract* - by the retailer and without a well-defined repayment plan of investment. The managerial solution may be the conclusion of long-term contracts that can allow the copacker to make the investments required in the stability of a long-term relationship. At the same time, the delegation by the retailer to one (or more) copacker, involves a high risk of the partial control (or zero) of the manufacturing activities and of the physical quality of the product, while managing the phase of brand building and management.

This risk is even greater in the case of products with private label as the name of the retailer or directly and clearly attributable to it, as the company transfers its image directly on products that do not directly manufacture.

As part of the modern definition of private labels, the construction of the brand passes for long-term relationships with copackers. The relationship between retailers and copacker should be long-term, driven by win-win dynamic of value co-creation, and not only by factors related to the cost of production and short-term tactics.

On the other hand, the fact to turn to multiple suppliers / manufacturers at the same time, can recall the concept of risk diversification, mainly linked to the failure of one of them.

Assuming the building of a model for the economic evaluation of private labels, therefore, we should consider that, with respect to industrial brand, there is always the outsourcing of the entire manufacturing process.

The variety and complexity of the possible configurations of the phenomenon making little significant generalizations. In estimating the value to be recorded in the financial statements, we have to include a variable correlated to the risk of relationships between copackers and retailers, pondered on the average length of relationships with copacker, to the number of copacker for each product, including appropriate differences between products with the retailer's name and fancy brand.

3.2 Ownership and brand divestiture

A further element of divergence with respect to industrial brand is related to the concept of brand divestiture. Generally, the brand is sold together with the company, to ensure continuity to the functional connection between brand and enterprise. It can also transfer in isolation or separated the brand, as there is no legal impediment to the bill of sale of the same. When the brand is made up of a figurative sign as a fancy name or a derived company, it is presumed that the exclusive rights it is transferred together with the company.

Regarding private label products, the first consideration is related to the significance of the transfer. When can be significant for a retailer to transfer its own brand? When even this can take place without the transfer of the entire company? The series is rare. However, the peculiarity of private label products brings - at least in theory – to consider the differences compared to the industrial brand and differences between products with the retailer's name and fancy brand.

In this sense, it is necessary to recall the difference between the various types of private labels to understand that the *fancy brand* (Lugli, 2003; Cristini, 2005; Dekimpe et al., 2011; Castaldo, Grosso, Premazzi, 2013) can - *in the meaning that the private label is taking* - be subject of divestiture separated from firm. So, in the present shape of private label, we may forecast the event that it can come to have the features of a real brand and a third party (be it a manufacturing company or a purchasing group) may be interested in purchasing it.

In this case, there is no direct reference with the name of the retailer there is no evidence of association between the brand image and store loyalty. However, we have to understand in what circumstances (if you prefigure) the retail may be interested to divest a well-defined brand. We can suppose the case where the retail wants to reconfigure the private label product portfolio, perhaps in favor of a brand with the name of the retailer. Still, the sale of a fancy private label can be significant in the case of failure of the retailer, because there are no association with the name, does not lose the economic value and the value perceived by the consumer.

3.3 The concept of risk

Many of the exhibited methodologies need, for a complete application, the use of a discount rate. Choosing the correct discount rate, is deceptively simple, but it is quite debated in doctrine and professional practice. The variables are not unique and this leaves plenty of room, even in the rigor of the basic methodology, to the discretion of the evaluator. About the main models, the variables to be referenced for the determination of the discount rate is the risk-free rate, the average market return and the value of the systematic risk. The risk-free rate is generally referred to the current yield on long-term risk-free investments (government bonds).

For the determination of the risk premium may think of the well-known method of the Capital Asset Pricing Model (CAPM). In terms of risk, the CAPM postulates that the total risk of a company can be divided into a specific component and a component of macro-economic origin is not diversifiable.

The risk premium, estimated with the CAPM technique, is determined by the following algebraic equation:

$$i^2 = \beta \, (R_m - i_1) \qquad (2)$$

where

β: value of the systematic risk, the ratio of the covariance between the returns of the company and those of the market portfolio (numerator) and the variance of the market portfolio returns (denominator). It is recalled, in fact, that in the risk of CAPM can be eliminated through diversification of the portfolio;

Rm: average market return.

In the present case, the discussion points set out above, have already allowed to make references to the concept of risk for the economic evaluation of private label brand.

The first consideration is certainly linked to the number and type of listed retail companies, because the percentage of retailers listed on the stock exchange, especially in the grocery sector, is on average low and the difference of size makes it difficult to generalize. Thus, identifying the Beta coefficient indirectly or mediated, by reference to the sector, it can be misleading.

The premises and the above considerations suggest an ad hoc building of discount rate contextualized to the market, to the size of the company and to several factors specific to private label.

One of the first values that must be entered is attributable to the type of private label, since the different types provide an engagement and a different risk from the same retailer. It is a complex phenomenon that ranges from fancy brand, to store brand in with the name coincides with that of the retailer, to the umbrella brand strategies where retailers must affix his name to several product lines.

An additional factor to be included is the risk related to the stability of the relationship with copacker. This risk can be related objectively to several variables: the number of copacker to which the retailer caters for every type of product, the average duration of each contract with copacker; the turnover rate of copacker.

Finally, the discount rate should include a further specific risk factor of private label products, which is the risk associated with not direct control on the know-how of the production and on the physical manufacturing stage of the product.

3.4 The consumer perceptions

Considering the concept of private label described so far, we believe that between the “traditional” variables for the evaluation of a brand, should be added an index as synthesis of perceptions and of perceived value by consumers, to summarize the strength of private label brand.

The following model involves 12 factors certainly relevant for the purchasing of private label products, even with different intensity that depends from several variables. The factors have been chosen because of prevailing literature and of data, reports and researches already done by others. Each factor, after a brief reference to the prevailing literature, is characterized to private label products in the grocery sector (Table 1).

Table 1. Factors affecting the consumer perceptions

Factor	***Meanings***	***Meanings in private label product***
Quality	Steenkamp model (1989) based on four different approaches: the philosophical approach, the corporate approach, the economic approach, the behavioral approach, or perceived quality approach. It draws attention to the processes involved in the perception of quality, that is, the ways in which the consumer expresses their own judgments about the quality of a product based on incomplete information. This last definition is the one involved in the model.	Perceived quality has certainly a relevant role between the factors that condition the purchasing of private label products (Dolekoglu et al., 2008; Shareef, Kumar, 2008; Ailawadi, Pauwels, Steenkamp, 2008; Ashokkumar, Gopal 2009; De Cannière, De Pelsmacker, Geuens, 2010). The main question is about how consumers perceive the quality of private label: it's at the center of debate of scholars and practitioners.
Price	It is within the pricing policies that the contact between economic theory, business administration and marketing is most evident. The company tries to synthesize the value built for the customer with the price. From the point of view of the consumer, the price is a major factor of impact on purchases that also influences decisions in store (Dolekoglu et al., 2008; Batra, Sinha, 2000; Pauwels, Hanssens, Siddarth, 2002; Ailawadi, Pauwels, Steenkamp, 2008; Danziger, Hadar, Morwitz, 2014).	About private label products, and considering the different positions, it seems helpful to understand consumer perceptions, maybe doing a gap analysis than that which is the real prices. We can assume that, on average, the consumer expects from private label products a price lower than national brands, but the data seem to show different trends: currently the premium or organic products have the highest growth rates, unlike many brands with lower positioning continue to decrease sales.
Quality-price ratio	The previous two factors introduce the third one: the quality-price ratio (Batra, Sinha, 2000; Pauwels, Hanssens, Siddarth, 2002; Ailawadi, Pauwels, Steenkamp, 2008; Ashokkumar, Gopal, 2009).	For some complex purchases of private label products, the price is also an indicator of product's quality and this ratio may therefore overcome these distortions.
Sales promotions	The concept of sales promotion implies an increase in sales and it tends to act primarily on the behavioral dimension of the customer. Therefore, promotions are closely linked to price and they could have a great effect on purchasing frequency (Grewal et al., 1998; Gedenk, Neslin, 2000; Dolekoglu et al. 2008; Nochai, 2011).	The effect of sale promotions depends from the kind of consumer, but it is important to understand and measure how consumers perceive the promotional pressure from private label products, as well as the price, and how that perception impacts on purchases.
Packaging	The packaging is one of the main factors promoting connection between product, brand and the customer. The capabilities of the package go beyond those of a simple container, to include: effectiveness in communication; efficiency in size; impact resistance; sustainability; recyclability; and flexibility (Silayoi, Speece, 2004; Wells, Farley, Armstrong, 2007; Kuvykaite, Dovaliene, Navickiene, 2015).	The packaging of private label products has changed in line with the role of private labels: monitoring the evolution during the time we have seen an improvement in terms of colors, logo, brand name, quality of materials. We should include how consumers perceive it and how they are attracted by the various private label packaging, as this is certainly a factor that impacts on purchases and on the choices in store.
Availability alternative packaging and formats in store	In the consumer's purchasing choices in grocery, the availability of different packaging, in terms of format or size (Dolekoglu et al. 2008, Koutsimanis et al., 2019), and the overall assortment of the store have a significant role, then the next two factors appear to be closely linked.	The situation in terms of the variety of assortment of private label products is varied and very different among retailers and between the different categories of product. In general, we do not detect a high variety for each product, but it is not known how the consumer perceives it and how impact on purchases.
Variety of assortment	The product assortment plays a key role, not only in satisfying wants, but also in influencing buyer wants and preferences (Simonson, 1999). Common assortment decisions involve issues such as assortment size, reflecting both the breadth and the depth of the available product lines; the type of items; the relational properties of the items; pricing policies and the changes of items over time (Kahn et al., 2014; Gao, Simonson, 2016).	In consumers' purchasing decisions and preferences for private label products, the comparison with competitor brands and the way in which each product is included in the category evidently change consumer preferences. It's important to include and to measure how consumers perceive the overall assortment of grocery store and how to place the private label inside it.
Visual merchandising	Space allocation is the process of optimizing the space dedicated to the display and sale of products to minimize stock levels, the cost of supply, and stock-outs while maximizing sales and assortment. By implementing a	To analyses the brand strength and to synthesize it in an index we should include also variable refer to how the consumer perceives visually the private labels on the shelves in the store, as it is attracted by the

	proper space allocation strategy a retailer pursues several relevant goals (Kerfoot, Davies, Ward, 2003; Zaghi, Mauri, Borghini, 2008; Ravazzi, 2011).	"spot color" and by the positions it occupied.
Imitations of market leader	The logo, the colors, the packaging, the position on the shelves, the pricing policies show that some private label products tend to imitate the national brand or the market leaders. There is a type of private labels, which bases its competitive advantage on this factor: the copycat brand.	While not referring only to copycat brand, but to all types of private labels, the consumer in some cases may tend to buy private label products because he recognizes physical characteristics and intrinsic qualities comparable or like those of the market leader.
Communication and advertising	The private label and advertising issue has long been debated and the center of power relations between manufacturers and retailers. For long time the manufacturing industry maintains a communicative advantage through advertising, which was a powerful tool for conveying brand image and brand loyalty in commercial competition.	The concept of advertising and communication has evolved over time and the private label seizes managerial techniques, policies and tools typical from the national brand. Today top retailers oversee the communication with the consumer on all major channels, on-line and off-line, conveying, as well as the name of the retailers, the private label products.
Customer satisfaction	The main goal of retail marketing strategies – and of marketing strategies in general- is to achieve and maintain high levels of customer satisfaction (Anderson, Fornell, Lehmann, 1994; Varaldo, Guido, 1997; Mittal, Kamakura, 2001; Busacca, Chizzoli, 2014). The satisfaction obtained is even more important to the customer, because their objective is to find the best possible solutions for their problems and/or needs; this assumption stems from the natural parallelism between business performance and the performance for the customer.	A model built with the aim evaluate the brand equity, also from the consumer perspective, should include the concept of satisfaction linked to previous purchases and uses.
Store loyalty	In the configuration of the concept of private label, the store loyalty assumes a central role (Koschate-Fischer, Cramer, Hoyer, 2014; Godderidge, P., Johansson, Larsson, 2016). In fact, the last generation of private label has made the store loyalty as strategic element in the competition. Over the years, retailers have gained trust and loyalty, and today they are transferring these values to the store brand through specific marketing strategies.	The store, the confidence, the front office staff, the shop experience, affect the choices of private label products and the brand equity, especially if we consider the case of divestiture of the private label brand, without the transfer of retailer.

Source: Author's elaboration

We believe that the economic valuation model of private label can be made up of two parts: the first consists of a contextualization of the traditional formulas of Financial-Based Brand Equity, because of the features of private label in the above paragraphs; the second part consists of an index of consumer-based brand equity, related to the subjective perception of the consumer and based on 12 key factors relevant in general in the grocery and certainly to include for private label products.

4. CONCLUSIONS

This paper aims at identify which factors should be considered in the building of an economic evaluation model for the private label products to add it on the retailer's financial statement.

With this goal, in the first part the theoretical frameworks of two prospects evaluation of brand equity are presented: Financial-Based Brand Equity and Consumer-based Brand Equity. Later, the concept and evolution of private label are described, with the main reference literature, to understand the main features that highlight the need for an economic evaluation model building specifically for private label.

The results of the paper are the definition of the specific factors of private label brand that differ from the industrial brand; the definition of the assumptions about how these features impact on the traditional economic valuation models and how they can be included. Because of the complexity of the topic, the hypothesis is to build a model of synthesis, consists of two parts: a part for the evaluation of Financial-Based Brand Equity, with the inclusion of specific factors and indicators of private labels in the traditional formulas, the second part is for the evaluation of Consumer-based Brand Equity, referring to an index that summarizes the strength of private label brands from the consumer perspective.

The originality of the work is to define the basic assumptions to build an economic evaluation model of a phenomenon - yet little studied from this point of view - that takes now a larger importance in the grocery market as a strategic asset of retail businesses. Considering the above, on the assessment of the brand in general, private labels should be evaluated to be recorded in the financial statements or for a possible sale of the company.

The main limit of the research is that the work is still at an early stage of the building of the model. However, further researches may provide on one hand other factors to be included in the model, on the other hand they can start from these assumptions and arrive to the precise definition of the formula.

The private label economic evaluation also has managerial implications, especially on the vertical supply chain relationships: the definition of private label as an economic asset implies the objective evaluation of a brand that competes in all respects with the industrial brand. Furthermore, quantify its value can be useful to understand the strategic nature of the phenomenon also internally to the retail business and to underline the need to acquire new skills and dynamic capabilities for the management of private label.

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