

# Racing ahead of the pack!

Apart from establishing brand loyalty towards their stores, modern retail chains are also expanding and organising the market for agri-products. Currently, low brand consciousness is associated with agri-products, a behaviour that retailers are making the most out of.

Photo: Joshua Neralkar, Assisted by: Hemal Patel, Location courtesy: HyperCITY Retail India Ltd (Malad outlet, Mumbai)

## ■ Mahua Roy

The agri-products aisle in a supermarket perhaps witnesses most easy decisions. For most shoppers, the only differentiator is the price. Modern retail chains are stocking up their own labels and introducing attractive deals & discounts, thus making the decision-making process even simpler. This is delighting the consumer but also giving sleepless nights to national brands.

Private labels offer higher margins to retailers. According to experts, gross margins on private labels are, on an average, 25-30 per cent higher than on those of other displayed brands. In the FMCG category, margins on national brands are in the range of 12-17 per cent, whereas in-house brand can offer margins as high as 40 per

cent. Here's examining the top five advantages, which make private labels a clear favourite when it comes to agri-products.

### 1 Competitive pricing

For a consumer today, it really does not matter whether the flour or rice or *dal* belongs to brand A or B. These are low-involvement categories and there is hardly any product differentiation. So eventually the shopper weighs his choices on the basis of pricing.

Private labels can play the price game quite effectively. In fact, better deals also decide consumer loyalty towards a store, to some extent. "The proportion of private label agro-based products across the globe has been growing steadily over the past few years. This is mainly due to the upper hand that retailers have over branded

products. Greater freedom on setting up pricing strategy thereby has clear visibility into profit margins of private labels compared to a branded product," says Shushmul Maheshwari, CEO, RNCOS E-Services, a market research company. The prices of in-house labels can be less anywhere between as little as 4-5 per cent to as much as 25 per cent compared to popular national brands. Direct sourcing from local vendors saves on distribution costs. Additionally, in the absence of any branding or marketing costs, attractive prices are passed on to consumers.

### 2 Consumer engagement

Consumer trial is a common sight at modern retail chains. A private label has the biggest advantage of this opportunity. "By actively conceptualising and executing comprehensive in-store branding and promotions, a retailer can ensure prominent shelf display for its in-house brands. We make our private labels a part of a combo offering or present a value deal so as to attract customers. We also offer select items complimentary along with a pre-determined ticket size, thus helping in trials," elaborates Ajay Johri, Assistant Vice President (Marketing), SRS Ltd.

In the modern retail environment, a major portion of brand marketing and communication happens at the store level. "Most retailers agree that as high as 80 per cent of purchase decisions are made at the store shelf, and thus the store is where they have maximum control. Retailers thus experiment with creation of multiple touch points within the store, through widespread in-store advertising and placement strategies," says Ankur Shiv Bhandari, Managing Director-Indian sub-continent, Kantar Retail. When it comes to agri-products, consumer trials, feedbacks and freebies are rampant. "Retailers selling private labelled agri-products can lure customers by embarking upon their own promotional offers. In a way, this also helps in reduced dependence



on brand names for sales in a modern trade outlet,” opines Maheshwari.

National brands usually opt for a 360° promotional campaign, which includes television, radio, print & online media, etc. However, a retailer should typically concentrate on local or territorial advertising avenues such as radio, leaflets or newspaper inserts.

### 3 Customisations and innovations

Those categories where consumers have less loyalty to better-known or promoted brands are the categories where retailers should try to push private labels. Commoditised items have low levels of product innovation and emotional involvement from the consumer. Thus, they are ideal candidates to become bankable in-store brands. However, commodities are the most difficult to brand.

But given the regional variations in India, there is tremendous scope for customisation even in this category. “To be successful with private labels, retailers need to understand where private labels can add value. They should be able to successfully fill a void in the category either through value-addition or obviously, competitive pricing,” states Bhandari.

This is where customisations are highly spotted. The retail shelf and inventory management system is the first point of contact for studying consumer behaviour. By extrapolating buying behaviour, agri-products can be introduced innovatively for the consumer, be it in the form of specialised



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flour mixes or even spice mixes for different Indian preparations. Another form of widely exercised customisation is by way of experimentation with SKU sizes, a direct conclusion derived by studying buying behaviour. Thus, the retailer is offering not just convenience, but ensuring repeat purchases.

### 4 Better control on inventory

If a private label agri-product has to compete and succeed against a national brand, visibility is the most important factor. Private labels benefit mostly by price comparisons. In order to drive sales, retailers, for instance, strategically position their private labels next to the most expensive competitor in the same category.

Secondly, private labels have direct command over stocking. “Agri-products like sugar, *atta*, rice, spices, dry fruits etc are actively consumed and enjoy a frequent purchase cycle. They offer quick inventory turnaround and low shelf sitting time,” says Johri. However, maintaining a tight grip on inventory management is extremely essential when it comes to these key categories. Adds Maheshwari, “Agro-based products are more inclined towards spoilage if kept for a longer duration, therefore retailers selling private labelled agro-products can have control over the inventory, which acts as a major advantage to in-house brands.”

But managing this is a tricky proposition, as there is usually a third party or contract manufacturer involved. “One needs to exercise caution when it comes to issues such as sourcing and selecting vendors, as keeping a tight watch on quality is of supreme importance. Since agri-products are perishables, maintaining freshness is the key. Hence, quick off-takes become important, and a slow movement is not acceptable. In fact, one needs to take an FMCG kind of an approach, wherein they see a high movement and do not sit on the shelf for too long. Managing this can be challenging at times, so



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introducing private labels needs to be a well-considered decision,” adds Johri.

### 5 Brand loyalty

But are private labels ensuring quality too? This question, which used to loom in the minds of shoppers, has been actively dismissed. Established, reputed and trusted business houses are usually the ones setting up modern trade outlets. A fair amount of brand equity thus already resides in the minds of consumers. And retailers strive heartily to keep up the name of their brand, without compromising on quality.

Tangible efforts are taken to develop a relationship with the shopper. The traditional buying behaviour in terms of agri-products has been extended in the retail environment too. Indian shoppers prefer to touch and smell foodgrains before making a purchase. Working on that insight, most outlets thus display open containers of rice, wheat and other such agro-produce thereby encouraging customers to have a feel of the grains and check the quality. Similarly, some retail stores have grinding mills installed inside premises, which reassure freshness to customers.

“The quality and price advantage delivers a superior value for money equation, as well as a positive consumer experience. So this automatically leads to higher retention levels,” concludes Johri. Such endeavours help in establishing brand loyalty towards a private label. This is then extended to an outlet becoming a preferred store. ■

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