

MANUFACTURER NAME BRANDS VS STORE BRANDS: A PEDAGOGICAL EXERCISE

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ABSTRACT

This paper lays out a fun, engaging, and informative experiential learning exercise that demonstrates to student's first-hand the relative strengths and weaknesses of manufacturer name brands and private label store brands. Students engage in a class taste test between Chips Ahoy Chocolate Chip Cookies vs a store brand cookie. Given that the store brand almost always wins the instructor can both challenge student's beliefs about the relative superiority of name brands while also providing a platform to discuss why Chips Ahoy is nevertheless one of the bestselling cookies in the U.S.

Keywords: Retail, Private Label, Pedagogical Exercise

INTRODUCTION

Store (or Private Label) Brands are an important part of retailers product assortments, providing compared to manufacturer name brands greater margin opportunities, superior inventory turnover, and exclusivity in product assortments [6], [7]. For manufacturer brands (i.e., Proctor and Gamble, Coca-Cola, Nescafe, etc.) they provide a challenging competitor, with private label recording annual growth rate of 7% per year and accounting for over \$100 billion in annual sales [1], [2].

Yet students are often dismissive of store brands, the competitive challenge they present manufacturer brands, and their potential for retailers. This paper outlines a fun and engaging exercise to demonstrate to students how name brands (NB) and private label (PL) compete against one another in the market place and the strength and weakness of both from the standpoint of the competitors and the consumer.

In this active, informative exercise students judge for themselves the superiority of PL cookies versus a NB cookie, Chips Ahoy. As the PL consistently wins, the exercise challenges student's preconceived notions of the quality of NB versus PL in a memorable and thought provoking way. Further, the exercise can lead to a rich discussion of the marketing and branding strategies of NB and PL products.

OVERVIEW

The exercise is based on the instructor's belief that the quickest way to a student's head is through their stomach. It compares a famous NB, Chips Ahoy (CA) chocolate chip cookies to a PL cookie, Costco (however any quality PL chocolate chip cookie may be used.) The class is often one of the highlights of the semester and a driver of positive student-teacher evaluations.

The premise of the class is that in general, undergraduate marketing students are highly brand loyal. However, like many consumers they are not fully aware of this propensity. Indeed, many believe they are not especially brand loyal, being too "rationale" and perhaps cynical to be easily swayed. Like the

goldfish they can't perceive the water that surrounds them. Further, they are sometimes fuzzy as to what a store brand is. For instance, Victoria Secret is a PL store brand that many view as a name brand.

This exercise is designed to challenge these biases and by confronting them open the students mind to the true nature of both NB and PL, how they compete in the market place, and how they serve the retailer, NB manufacturer, and the consumer. Given that CA is still one of the bestselling cookies in the U.S. the exercise opens the door to an engaging discussion of why, given the inferior nature of the product it still handily outsells PL cookies. The answer is that success in the marketplace depends not on the tangible product quality but the effectiveness of the overall total marketing mix (4-P's). This therefore challenges the notion that many students have that the best product wins.

FORMAT OF THE EXERCISE

Preparation

Student preparation consists of the assignment of the relative chapter(s) in the textbook and potentially additional readings on PL and NB assigned by the instructor. Key topics from these readings should include the share of PL products, the growth rate of PL, consumer perceptions of NB and PL, and the strengths and weakness of the two. Instead of assigning readings the instructor might simply ask the students to perform an internet/google search of the topics and prepare a brief summary.

The instructor prepares the lesson plan or PowerPoint, although the class can be structured as a primarily discussion based class. The author would also be pleased to provide their PowerPoint on request.

The instructor prepares by buying enough CA and high quality PL cookies that the entire class has one of each. The cookies are placed in zip lock bags and given a identify label (i.e., the letters M and N).

Class Outline and Structure

In opening the class, the first step is to make sure the students understands both NB and PL by giving both the definition of and examples of each that they are familiar with. I also introduce the concept of generics which students tend to confuse with PL. A generic has either tombstone packaging (black and white) or a no-name label no one has ever heard of (milk is a classic example) or prescription drugs.

Next lead the class in a discussion of the relative merits of NB versus PL. Table 1 provides the template for this discussion. For instance, the first, and perhaps most obvious is NB versus PL in terms of product quality. As the students respond that NB are typically higher than PL in terms of quality the instructor places a "+" in the column for NB and a "-" in the column for PL. Next ask students which has more consistent quality. For instance, a poorly run PL program will buy from a variety of suppliers. The quality will vary from very good to very poor. This inconsistent quality cuts to the very heart of the brand promise. Students when asked will agree that NB is typically more expensive than PL (and thus the lower price for inferior quality tradeoff). NB also has superior packaging that is resealable or more convenient. The NB does a great deal of advertising and sales promotion compared to the PL. Availability refers to the intensive distribution strategy of NB (Chips Ahoy is available in grocery stores, discounters, convenience stores, vending machines, at checkout counters etc.) versus PL which is found only in the store. However, the exclusive nature of PL can give the store with a high quality PL a competitive advantage over its competitors as such brands as Victoria Secret and Land's End demonstrates. Innovation and Fashion refers to the fact that NB typically has the latest styles and are

higher in the fashion element while PL is often focused on basic items such as underwear, socks, basic shirts, and skirts. Gross margin is why stores love PL, with margins that are generally significantly higher (often 25% higher or more) and faster inventory turns. The faster turns are because PL will typically be available in far fewer styles and sizes. For instance, CA will carry six to twelve varieties (original, chunky, low fat, etc.) in multiple packaging sizes, which reduces the turnover. Summarize the discussion by pointing out that the stereotype is that NB are higher in quality, more consistent in quality, more fashionable and more expensive but PL is “cheaper” and provide the stores a margin opportunity.

TABLE 1

Student Beliefs of Name Brand versus Private Label

	Manufacturer Brand Name	Private Label Store Brand
Quality	+	-
Consistent Quality	+	-
Price	+	-
Packaging	+	-
Advertising/Promotion	+	-
Availability	(everywhere)	(store only)
Innovation/Fashion	+	-
Gross Margin for Store	-	+
Store Inventory Turnover	-	+

Now for the fun part. Pass out the cookies and ask students to sample each and to fill out Table 2. Give the students a copy of Table 2 that they can place the cookies on as a sort of “placemat.”

TABLE 2

Rank the Number 1 Cookie by Category

	Texture/Appearance	Overall Flavor	Chocolateness	Overall Superiority
M				
N				

Note. I use Costco’s PL chocolate chip cookie available in a clam shell in the bakery section. Over the years I have also used Sam’s Choice, Wal-Marts PL cookie which is currently unavailable in many stores or has been replaced by a three pack premium bakery cookie in others. As long as the PL cookies primary listed ingredient is chocolate it will beat the CA.

When students have made their choices ask the class to vote on the best cookie (and the Table 2 sub categories). The Costco cookie always beats out the CA. I then ask students to guess the cookies. Most readily guess the CA, but a few will guess the Costco cookie. Those that do might note that they or their family shop Costco in part to buy this cookie allowing the instructor to illustrate how the exclusive nature of PL can build a competitive advantage for the retailer.

A twist is to add the cheapest “generic” cookie to the taste test. This is generally found on the bottom shelf of the retailer, is the lowest priced, and is typically targeted to the extremely price sensitive consumer. This allows the clear demonstration of the difference between a PL and a generic.

Now revisit the assumption of Table 2. Point out the class picked the PL as the highest quality. At this point you can work through the rest of the table. The price per oz. of the Costco PL is typically priced close to the CA. By challenging and disproving the students preconceived notions you can now revisit the nature of NB versus PL afresh. For instance, many NB are superior in quality but not all. A store that can put a higher quality PL in front of the consumer at an equivalent or lower price can build a strong competitive advantage. Trader Joes would be one example. However, other retailers have been so successful at this strategy that consumers essentially view them as NB. Examples include Victoria Secret, Lands’ End, LL Bean, Craftsman, and Kenmore. Such strong brands, which are available only through the store, provide a strong competitive advantage against not just the NB (which are also partners with the store and whose products are carried side by side) but against other retailers. Indeed, in Sears’s ongoing competitive struggles their powerful Craftsman, Kenmore, and Diehard brands are some of the few remaining assets of any significant value.

Marketing Mix/Four-P Strategy

Depending on the objectives of the instructor and the amount of time they wish to devote to the exercise the following can be addressed. NB dominate PL because they win on the strength of the overall marketing mix. This allows the instructor to disprove for the students that the best product wins. It does not. The overall best combination of product, price, promotion, and distribution wins. An OK product backed by great promotion and distribution (even with a higher price) will almost always beat a superior product with limited promotion and distribution, even if the superior product has a better price.

Promotion Begin by asking students the primary target market for chocolate chip cookies in generally and CA in particular. It is children that will often go and get the cookies off the grocery store shelf and try to get the parent to put it in the cart. This difference between consumer (kids) and customer (parents) is critical. Most parents will not buy a “good chocolate chip cookie” for themselves and CA for their kids. They will simply buy CA even if they do not think it is practically good. The advertising is aimed at kids and they often invest significantly in sales promotion tied to big picture movie releases. The instructor can go to YouTube and find many CA commercials to show in class that clearly demonstrate the targeting. Further, CA product with sales promotion can also readily be found.

NB also provides significant trade discounts and allowances, negating some of the margin advantages of PL. Indeed, these allowances are a key profit center for retailers. Likewise, the heavy promotion of the NB generate the store traffic that is so crucial to retailers.

Place/Distribution The intensive distribution of NB is also a key value to consumers. If you have the “munches” you will grab for the familiar CA, be it from a vending machine or at a convenience store. Therefore while some consumers will specifically patronize a store for its private label goods, most consumers value the “within arm’s reach of desire” characteristic of major name brands with an intensive distribution strategy.

On the distribution front representatives of NB often visit stores, count product, and rotate and fill in stock. For low overhead grocery stores this service has traditionally been viewed as very valuable. For some students this might be an entry level position they should become familiar with.

Product While the class is primarily focused on product, there are numerous and interesting subtopics. Students tend to believe that the best product will generally win. CA is not the best cookie, but is one of the bestselling cookies in the U.S. with very high brand loyalty. The top rated youth brand in cookies is Oreos followed by three versions of Chips Ahoy [3]. Both CA and Oreos are owned by Mondelez International, Inc. (formerly Nabisco). CA has a 92% total brand awareness (Ipso Brand Tracking) and has 53% market share of chocolate cookies at retail (Nielsen), being purchased by about 1/3 of U.S. households (Nielsen). Clearly the “best” cookie in terms of taste is not winning the competitive battle.

Part of this is the limited availability of the Costco cookie. However, many students will guess after the taste test the CA cookie. You can ask students if they will continue to buy CA or seek out a superior PL such as the Costco cookie. Consistently many students say they will continue to buy the cookie of their youth, saying such things as “I can’t betray it” or “it’s just the cookie I buy.” This brings students face to face with brand loyalty and the difficulty of breaking it, in a very compelling fashion.

Instructors can also discuss the four Brand Development strategies of Line Extension, Brand Extension, Multibrands, and New Brands by using the total Nabisco/ Mondelez International line up. For instance, starting with just the classic Chips Ahoy there are now more than 30 variations demonstrating aggressive Line Extension. Further, each year new variations are introduced, most of which fail. Over the years the instructor has collected the packages for these cookies and displaying them in class provides a tangible reminder to students that innovation requires the willingness to embrace high failure rates. Brand Extensions, while more common with Oreos can be seen in such failed products as CA Granola Bars and cookie mix. A review of the mix of products that Mondelez has within the cookie category and across the grocery store allows for the demonstration of Multi-Brands and New Brands.

Price Discussion can revolve around if the superior PL cookie should be priced higher than CA to capture margin or if it should be priced lower, reflecting its lower costs of promotion and distribution. A lower price allows the store to capture market share. Instructors, in conjunction with the product discussion can also discuss price lining and running a good, better, best PL program, or alternatively, where they would position PL if running only one store brand. Traditionally as the lead in “good” but some stores may choose “better” or “best” with high quality brands such as the Costco PL.

Buying This exercise allows a discussion of the merits of running a high quality, high value store PL program to build brand loyalty (Lands’ End, Victoria Secret) or as an “me too” knock off which is common in over the counter pain meds in which the shelf tag and packaging often says “compare to.” Some stores will choose to attempt both, using a two-tier program. As Amazon moves strongly into PL the multi-tier strategy can be clearly seen, with Amazon basics at the low end and higher end brands names such as “Wickedly Prime” and “Happy Belly” [2]. The ability of Amazon to effectively develop and market PL is driven in large measure by its knowledge of its customers. Indeed, as a data driven relationship marketer they know more about their customers than most NB marketer which can guide the development of new PL products and brands. Positive reviews of Amazon PL can also give the consumer the confidence in the quality of these generally less expensive products. The instructor can also discuss how as a low price competitor PL can be used to keep the name brand manufacturers “in check” and allow the buyer to push back against price increases and other possible vendor demands.

Use of Other Product Category

Using most other PL and NB categories results in a situation in which the quality is generally judged as more or less identical or in which the students can’t readily judge the quality difference. For instance,

Wal-Mart's Sam Choice cola is generally judged by the students as indistinguishable from Coca-Cola. This is still significant as consumers are very brand loyal to Coca-Cola and it still ranks as one of the world's most valuable brands worth more than \$50 billion.

Learning Theory

The advantages of the "cookie" exercise are rooted in learning theory. The exercise captures several advantages of experiential learning theory (ELT) proposed by [4]. Specifically, ELT holds that learning is a process which involves feedback and in which the learning process "touches all the bases – experiencing, reflecting, thinking, and acting – in a recursive process that is responsive to the learning situation and what is being learned" [5]. This exercise allows the students to experience, as opposed to just hear and see how PL and NB compare to one another. There is a moment for reflection and thinking as the students consider the scores of the class and then revisit their initial assumptions.

CONCLUSION

This class is a fun but informative class that can, by challenging students' beliefs about brands and their own buying behavior, open up a wide-ranging discussion. As such, it is a fun class for an introductory principles class, a product class, or a retail class. It is not just an entertaining, but a highly memorable and informative class. Indeed, students tend to remember and do well on exam questions on PL.

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