The current issue of M & M can be found at: www.managementmarketing.ro

The interplay between brands and private labels and its consequences on small and medium wine producers

Jon Heinrich Hanf
GeisenheimUniversity, Germany

Abstract: In the last twenty years the private labels of retailers have gained popularity among German food retail customers. Today over 40% of all food products are retail brands. Whereas retail brands started as rather cheap alternatives, in the last couple of years retailers introduced more and more premium retail brands that were very successful. Hence, differences from traditional producer brands are diminishing. This affects the existent category management strategies. Regarding the German wine market the majority of sales are done in classical food retail stores. At the moment we can observe the first retail branding approaches in this category. But, at the same time, wine brands are not very strong in Germany. Thus, the aim of this viewpoint is a discussion on the consequences of retail branding on the German wine market and, in particular, on wine brands.

Keywords: branding, German wine market, retail branding, retail development.

Please cite this article as following: Hanf, J.H. (2014), "The interplay between brands and private labels and its consequences on small and medium wine producers", *Management & Marketing. Challenges for the Knowledge Society*, Vol. 9, No. 3, pp. 359-366.

Introduction

For over twenty years the per-capita consumption of wine in Germany has been stable around 24 l (including sparkling wine). In 2011 it was composed of 45% white, 12% rose, and 43% red wine. In recent years, red and rose wines have increased their share (DWI, 2012). As the majority of wine is bought from retailers one can assume that, in general, knowledge of wine and interest in wine are low. Hence, the majority of consumers choose wines with an easily understandable and asymmetric information reducing label (Schweickert, 2001). Thus, particularly well-known varieties and regions are important for the buying decision. As the majority of wine is bought from retailer chains, wine buyers are neither able to taste the wine, nor to receive a professional's opinion. Brands, however, are not very well established today (Hanf and Schweickert, 2014). Germany is a major import market for global brands such as Yellow Tail or Concha y Toro which have made some progress but are still not as successful as in other import markets such as the UK wine market. Nevertheless, many cooperatives as well as wineries have noticed the

Correspondence:
Jon Heinrich Hanf
Jon.Hanf@hs_gm.de

advantages of having a brand and are thinking about branding (Engelhard, 2012). In contrast, the German sparkling wine market is dominated by strong brands such as Henkell or Rotkäppchen. Interestingly, since a few years ago Rotkäppchen and Freixenet have been successfully increasing their activities to sell still wines under their brands (LZ, 2012). This might be interpreted as a sign of the increasing importance of strong brands as a means of differentiation.

On the consumption side, the German wine market has a volume of roughly 20 million hectolitres. German wine production on average accounts for roughly 10 million hectolitres of wine, whereas roughly 15 million hectolitres are imported. The three main distribution channels are direct sales by producers (19% market share), specialized wine stores (8%), and food retailers with 70% market share (discount chains with 40% and general retailers 30%) (DWI, 2012). An increase in the sales of discounters and retailers has been observed for many years. However, in the last few years, the combined market share has remained stable. Hence, the vast majority of wine is purchased in the distribution channels of retailers (either discounters or supermarkets). Consequently, prices are very competitive; the average price is 2.55 Euro per litre (Hanf et al., 2012). As a result of the fierce retail competition over many years, retailers work hard to differentiate themselves from their competitors. In this context the wine assortment is being used to demonstrate their quality orientation and price fairness (Hanf and Schweickert, 2007). Consequently retail own branded wines gain importance in Germany, e.g. the retail chain of the Metro Group 'real' is offering organic wine under the brand "real-bio".

In saturated markets firms develop, differentiate, and position brands and products to target desired buyer groups and to create value (Orth and Malekewitz, 2008). Careful brand management seeks to make the product relevant to the target group. Most importantly, awareness occurs when the brand is not only top-of-mind to customers, but also has easily observable distinctive qualities making it better than the other brands in the market. The distinctions that set the product apart from the competition are also known as the unique selling proposition (USP) (Meffert et al., 2012; Reeves, 1961).

The German wine market can be described as very competitive, so successful companies have to create such a USP. Branding, with its prerequisites, could be a means of doing this. A further advantage is that successful branding generates a consumer pull that the brand owner can use in the listing or annual negotiations with their retail customers (Tomczak et al., 2005). Generating listing arguments is of high importance because the largest ten retailers are the gatekeepers to the consumers. As a result, they are the most important customers for wine producers. This viewpoint will elaborate on the process of branding on the German wine market (both processor as well as retail branding) and discuss the consequences of (retail) branding on the German wine market and in particular on the establishment of processor brands.

The role of brands in the German wine market

Retail brands in the German wine market

In the last twenty years retail brands have gained popularity among German food retail customers. Today over 40% of all food products are retail brands. Whereas retail brands started as rather cheap alternatives in the last couple of years retailers introduced more and more premium retail brands very successfully (Hanf and Kühl, 2005). Related to that, they also started to introduce classical marketing tools such as TV advertising. Recently the leading retailer EDEKA even started to use viral marketing campaigns. Interbrand has published this year a ranking of the 50 most valuable German brands. German retailers are heavily represented in this ranking making up a total of 13 brands. This reveals three overarching trends (Interbrand, 2014):

- Private labelling – the deliberate development of house brands strengthens brand value.
- Going where the customers are – successful retailer specifically place themselves where customers actually live, work and shop (city/airport/gas station), such as "REWE to go".
- Seamless customer experience – most important for success and increasing brand value is the creation of a continuous, consistent and uninterrupted customer experience both online and offline, like the EDEKA and Douglas brands.

Overall, the report stated that the retail market has proven to be a very dynamic segment overall, characterized by major investments and strong competitors (Oswald, 2014). As a result of the growing brand awareness of retailers a change in the general assortment structure of retailers can be observed. Whereas strong brands (market leaders) have stable market shares, weaker brands have been losing market share against retail brands for many years (Schenk, 1997). Thus, oversimplified, one can predict that in the future there will be left only strong brands rivalling with strong retail brands.

As the main distribution channel for wine are food retailers with 70% market share (discount chains with 40% and general retailers 30%), retail branding is an important topic in the German wine market (Hanf and Schweickert, 2014). The majority of the wine which is sold at discounters is sold under retailer own labels. However, most of the times the name of the retailer is not used; usually retailers make use of fictive names. For instance, Lidl is selling its New World wine range under the label of CINAROSA, but there are also some retailers using their retail name; e.g. Real is offering organic wine under the brand "real-bio".

Consequences of the establishment of retail brands for wine producers

Being a stable, or better said, a saturated market, on the one hand, and, on the other hand, being very competitive, the wine market demands clear strategies.

Schweickert (2007) was able to detect that large entities such as wineries and cooperatives tried to apply a market based rather than a resource based approach. In contrast, wine estates were rather resource oriented. When discussing about the retail market, of main relevance are wineries and cooperatives. Hence, in this context two main strategic approaches could be used; either cost leadership or differentiation (Porter, 1998).

However, in the German wine market differentiation is hard to achieve. First of all, the majority of consumers are not very interested in wine, making quality differences difficult to show (Schweickert, 2007). Further, there is no widespread knowledge about production techniques. Additionally, the majority of Germans do not live in wine growing areas so personal contact is most often not common (Hanf and Giering, 2014). Additionally, the majority of the consumed wine is imported. Hence, consumers are mainly looking for easy clues such as varieties or country of origin (Schweickert, 2001). Hence, besides price these are the attributes mainly used in advertisements.

As the majority of wine producers are small and medium sized family farmers, cooperative marketing (e.g. German Wine Institute, the German wine industry's marketing organization responsible for the generic promotion of the quality and sales of German wine domestically and abroad, or The Austrian Wine Marketing Board) are the main marketing players. Due to their business aim they are not allowed to advertise single companies, hence they rely also on varieties and origins (DWI, 2012). Thus, one could say that due to the prominence of those two attributes a modern branding concept is difficult to realize. As a result price competition is very intensive such that no residual profits are gained. A sound financial basis for a branding strategy is missing. Furthermore, particularly for the supply of nationwide operating retailers cooperatives are indispensable. However, due to their governance structure cooperatives face difficulties in creation a modern brand (Cook, 1994, 1995; Hanf and Schweickert, 2007). Nevertheless, the importance of branded wine is increasing (Engelhard, 2012).

As shown by the Interbrand Top 50, German brands retailers hold very strong brands with an increasing popularity. This is not surprising as retailers such as Aldi or Lidl have annual marketing budgets of hundreds of millions of Euros. Copying the successful strategies of well-known discounters, today all German retail chains have several lines of retail brands (basic; mid-price segment and premium). Traditionally, retail brands have been positioned in a basic segment. Thus, most often retailers used fictive names rather than the name of the retail chain. However, learning from the success of the British grocery retailers and starting to run brands in the premium segment also, German retailers have started to use their own 'retail chain' name for those product lines. As retail brands are well established on the German market, the standard quality is very high with pretty low prices. Hence, retailers started to think about introducing 'no name' brands in order to sell at even lower prices (and qualities). An example is the retailer real introducing "Ohne Schnickschnack. Ohne Teuer" in 2013. The result has been a price battle between the discounters Aldi and Lidl.

As the main distribution channel for wine is the discount channel followed by the supermarket channel general retail developments are crucial for the wine sector (Hanf et al., 2012). Today the vast majority of wines in discount chains are already sold under private label. For several years those retailers have offered high priced super premium wines such as Champagnes, Bordeaux Grand Crues, Brunellos, or Barolos for special occasions as well as in their standard assortment. Thus, hyper and supermarkets are intensifying their engagement in wines, too. As it is clear that the wine category is being used to upgrade the overall image of the retail chains one can expect that in the future retail brands will be displayed more prominently and brands will be managed in a way that emotions will be transmitted (Hanf and Schweickert 2014). Thus, the real, modern brands in the wine sector will rather be retail brands (just as in the UK market).

Furthermore, some very recent developments regard the structure of the wine assortment. As other beverage categories gain importance and varieties (and origins) are the most important choice attributes first retailers start to decrease the width and breadth of the wine range. Whereas the number of retail brands stays stable particularly weak processor brands are being removed. A similar development can be observed in the Dutch retail landscape where retail brands take up to nearly 60% of wine offer and all second placements are reserved for retailers own brands. Thus, a consequence is that only the processors with strong brands will survive while all the other (so called brands) will be replaced by retail brands as predicted in the general development. As non-German wine brands (e.g. Yellotail, Concha y Toro) are already better experienced in brand management as well as the well-known German sparkling wine brands they will particularly profit from this development whereas the German large producers will face hard times lacking financial strength and knowledge to build the required brand reputation.

Thus, a differentiation strategy is not the well suited for the majority of German wine producers, they rather have to try to establish a cost leadership approach or qualifying as a preferred supplier strategy for retail brands. However, as the production costs in Germany are comparably high and other producers (e.g. Languedoc Roussillon or New World) have been actively pursuing cost leadership strategies again German producers might have difficult times to face this competition. However, due to this development bulk wine trade is increasing (Ponte and Ewert, 2009) and a new bulk wine strategy named 'branded bulk' is evolving (Ewert et al., 2014). As a result German bottlers are profiting. Hence, large German producers have to position themselves as preferred suppliers for bottlers and producers i.e. they have to be extremely customer oriented, considering that their customers are both retailers and wine consumers.

Summary

A brand is the personality that identifies a product or company which activates associations like thoughts, feelings, perceptions, images, experiences, beliefs, and attitudes (Esch, 2010). Overall, branding means that consumers buy the brand instead of the product (Kotler and Armstrong, 2007). In saturated markets firms develop, differentiate, and position brands and products to target desired buyer groups and to create value (Orth and Malekewitz, 2008). Careful brand management seeks to make the product relevant to the target group. Hence, excellent knowledge about the needs and wants of the customer can be understood as a prerequisite i.e. brand orientation demands high spending on market and customer research (Nieschlag et al. 1997). The distinctions that set the product apart from the competition are also known as the unique selling proposition (USP) (Meffert et al., 2012; Reeves, 1961).

As the German wine market can be described as very competitive successful companies have to create such a USP. As shown branding with its prerequisites could be a means of doing this. A further advantage is that successful branding generates a consumer pull that the brand owner can use in the listing or annual negotiations with their retail customers (Tomczak et al 2005).

All-in-all, competing fiercely with foreign competitors German wine producers must meet the demands of their customers, both consumers as well as retail customers. Therefore, even cheap wine has to be of acceptable quality. Comparing the average prices, it is evident that the quality requirements of German wine are more demanding than ever. Retail brands are gaining in importance in the wine retail sector. In line with the general trend one can predict that a dual market structure (on the one hand strong brands and on the other strong retail brands) will compete. As a result German producers face difficulties in pursuing a differentiation strategy. Thus, alternative strategies such as cost leadership and preferred supplier strategies should be taken into account.

References

Cook, M.L. (1995), "The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach", *American Journal of Agricultural Economics*, Vol. 77, pp. 1153-1159.

Cook, M.L. (1994), "The Role of Management Behavior in Agricultural Co-operatives", *Journal of Agricultural Cooperatives*, Vol. 9, pp. 42-58.

DWI (2012), German wine statistics, available at: www.deutscheweine.de/icc/Internet-DE/nav/d0a/d0a40b54-13f9-0401-be59-267b48205846 (accessed June 23, 2014).

Engelhard, W. (2012), "Markenweine- Auf der Überholspur", *Wein+Markt*, No. 5, pp. 34-37.

Esch, F-R. (2010), *Strategie und Technik der Markenführung*, 6th edition, Verlag Vahlen, Munich.

Ewert, J., Hanf, J.H. and Schweickert, E. (2014), "How to Improve Wine Quality? The Challenge Facing South African Cooperatives", *21st Annual Conference of the V.D.Q.S.* (Vineyard Data Quantification Society), Lyons, France.

Hanf, J.H. (2002), "Handelsmarken – Ein strategisches Instrument zur Positionierung und Imagebildung eines Lebensmitteleinzelhändlers", *Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues*, Vol. 38, pp. 289-300.

Hanf, J.H., Belaya, V. and Schweickert, E. (2012), "Power Play in the German Wine Business: Are German Wine Co-operatives able to Use their Power to Manage their Business Relationships?", *Journal of Economics and Behavioural Studies*, Vol. 4, No. 4, pp. 227-238.

Hanf, J.H. and Giering, O. (2014), "Pay what you want – a new pricing strategy for wine tastings?", *21st Annual Conference of the V.D.Q.S. (Vineyard Data Quantification Society)*, Lyons, France.

Hanf, J.H. and Kühl, R. (2005). "Branding and its consequence for the food chain", *Agribusiness: An international Journal*, Vol. 21, No. 2, pp. 177-190.

Hanf, J.H. and Schweickert, E. (2014), "Cooperatives in the balance between retail and member interests: The challenges of the German cooperative sector", *Journal of Wine Research*, Vol 25, No. 1, pp. 1-13.

Hanf, J.H. and Schweickert, E. (2007), "How to deal with member heterogeneity-management implications", *International Journal of Cooperative Management*, Vol. 3, No. 2, pp. 40-48.

Interbrand (2014), Best German Brands. Consulting report Interbrand, available at: www.bestgermanbrands2014.de/en/ (accessed July 6, 2014).

Kotler, P. and Armstrong, G. (2007), *Principles of Marketing*, 12th edition, Prentice Hall, New Jersey.

LZ (2012), Freixenet will mit Markenweinen punkten, available at: www.lebensmittel zeitung.net (accessed August 3, 2014).

Meffert, H., Burmann, C. and Kirchgeorg, M. (2012), *Marketing - Grundlagen marktorientierter Unternehmensführung*, Gabler Verlag, Wiesbaden.

Nieschlag, R., Dichtl, E. and Hörschgen, H. (1997), *Marketing*, 18. edition, Duncker & Humblot Verlag, Berlin.

Oswald, N. (2014), "Best German Brands", available at: www.bestgermanbrands 2014.de/en/ best-german-brands.htm#content (accessed July 6, 2014).

Orth, U.R. and Malkewitz, M. (2008), "Holistic Package Design and Consumer Brand Impressions", *Journal of Marketing*, Vol. 72, No. 3, pp. 64-81.

Ponte, S. and Ewert, J. (2009), "Which way is "up" in upgrading? Trajectories of change in the value chain for South African wine", *World Development*, Vol. 37, No. 10, pp. 1637–1650.

Porter, M.E. (1998), *Competitive advantage: creating and sustaining superior performance; with a new introduction*, Free Press, New York.

Reeves, R. (1961), *Reality in advertising*, Alfred A. Knopf, New York.

Schweickert, E. (2007), "Unternehmensstrategien in der Weinwirtschaft im Rahmen der EU-Weinmarktordnungspolitik", Dissertation, DLG-Verlag, Frankfurt, Germany.

Schweickert, E. (2001), "Classic und Selection", Der Oenologe, Vol. 29, No. 4, pp. 3-4.

Schenk, H-O. (1997), “Funktionen, Erfolgsbedingungen und Psychostrategie von Handels- und Gattungsmarken”, in: Bruhn, M. (Ed.), *Handelsmarken im Wettbewerb*, 2nd Edition, Stuttgart, pp. 71–96.

Tomczak, T., Schögel, M. and Feige, S. (2005), *Erfolgreiche Markenführung gegenüber dem Handel*, 4th Edition, Esch Verlag, Wiesbaden.