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School of Business

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*Business Cycles' Effects on Private Label Groceries: Evidence from the
Finnish Retail Sector*

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A list of the interview questions

1. Introduction

Constant fluctuations in the economy have an effect on consumers, firms and governments. Regardless of the situation in the economy, as Maslow's hierarchy of needs presents (Kotler 2003, 196), the basic needs for people are physiological needs such as nutrition. Due to this basic need, groceries are needed regardless of a recession or an economic growth affecting the economy.

Even though the retailing sector is one of the few sectors during a recession, which manages to cope well, even gain profits (Lamey et al. 2007, 1), retailers constantly have to be aware of the changes in the environment in order to offer an appropriate commodity for a consumer. In addition, retailers' best interest is to have a product that appeals to the price conscious consumers. A product that is attractive for both, retailer and the consumers, have found to be a private label also known as retailer's own brand. Evidence from abroad suggest private labels' sales rising during a recession (Olsen et al. 2011, 1); however, what is the situation in the Finnish retailing industry and how to continue the level of sales after recession are questions yet to be properly answered.

Despite the flourishing sales and consumers' increased interest towards private labels during a recession, retailers should pursue in innovating and focus on research and development of private labels in order to maintain the level of sales in the future. This study will concentrate on the relation between business cycles, especially that of a recession, and private labels. In addition, the importance of product attributes is introduced. By a retailer understanding two main aspects, first, that a recession is an opportunity rather than a threat (Lamey et al. 2007, 11; Sands & Ferraro 2010, 567) and second, that a recession is a time to innovate the private labels (Sands & Ferraro 2010, 567) and not merely relish on grown sales, retailers have a chance to further develop their private label offering.

1.1 Background of the research

The main reason for this study to be written is the noticeably lack of research conducted of business cycles' effects on private labels (hereinafter PLs) in Finland. Especially the amount of research based on a retailer's point of view has not been numerous. As the sales of PL products have been increasing according to research conducted by Perrin for ACNielsen (2006), therefore the knowledge concerning PLs in Finland should not be neglected. Due to the findings that managers have options to maintain products' position regardless of an economic downturn (Lamey et al. 2007,1,11), it is important to investigate what are the aspects that retailers should consider during a recession in order to maintain their gained customers.

Additional reason for this study is another finding by Lamey et al. (2007, 1) that affects the future of PLs in the retailing sector and is a key issue that should be considered in every aspect concerned with PLs: the chain event related to product switching. Firstly, when the economy is facing a downturn, customers do not hesitate to change their consumption to PLs due to cheaper prices. However, once the situation in the economy improves, changing back to the previous consuming habits is not as easy. In the end, consumers continue buying PLs instead of manufacturer brands, even if the recession in the economy is long gone. (Lamey et al. 2007, 1) Arriving in the same conclusion, already back in 1992 a brand consultant Pringle states: "Once consumers have tried a private label and found it to be good, or good enough, and are used to paying that price point, it's going to be a challenge for the national brands to get them to go back" (Miller 1992, 15). Additional evidence comes from Aaltonen (2011, B3), viewing that consumers have used to lower priced PLs as part of their everyday life. To summarize, in order for a retailer to succeed in a competition as well as having a proper product offering, important is to notice the aforementioned pattern related to business cycles and consumers' interest in purchasing of PLs.

1.2 Research problem and objectives

This study concentrates on the concept of retailers' own brands and the possible effects of business cycles. The main proposition is that business cycles affect PL sales and that retailers are able to continue growing the sales of PLs during and after a recession. The main research question is:

How do the fluctuations in the economy affect the sales of Private labels?

With the help of two additional research questions:

-What are the contents of product attributes that a retailer considers in order to enhance the sales of Private labels?

-How to maintain customers buying Private labels after a recession?

From a retailer's perspective the main objective of this study is to investigate PLs by concentrating on two factors: fluctuations in the economy as well as the product attributes. This study will provide insight as to what the situation regarding PL sales is in the Finnish retailing sector.

1.3 Theoretical framework

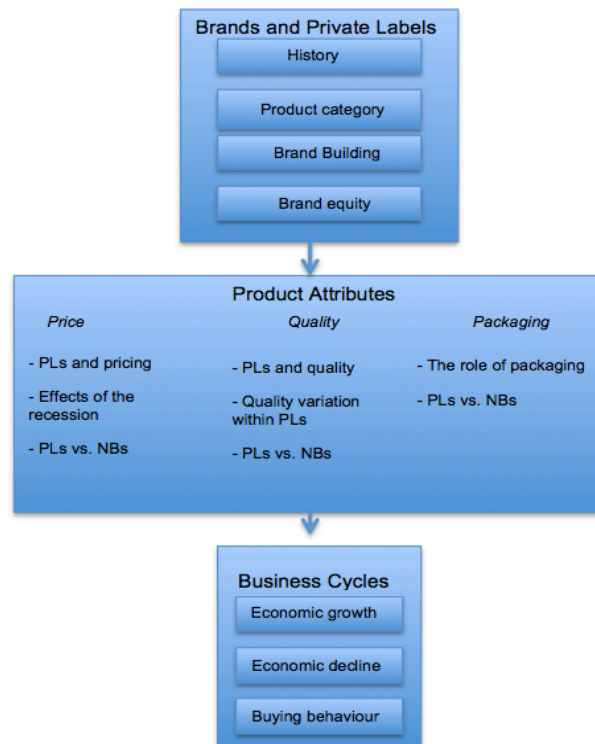


Figure 1. The theoretical framework

1.4 Definitions of the key concepts

The majority of the key concepts regarding this study concentrate on products and business cycles.

A Brand – “A name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Thus, brand identifies the seller or maker.” (Kotler 2003, 418)

A Manufacturer brand – or a national brand (NB), “Brands that are produced and controlled by and that carry the name of a manufacturer” (Levy & Weitz 1996, 412)

A Private Label (PL) – “Also known as own-label brands or own brands, are retailer shop’s or chain’s exclusive trade name.” (Solomon et al. 2009, 305)

Recession – “A period of declining real incomes and rising unemployment” (Mankiw, 2004, 723)

Retail – “Retailing is the final stop on the distribution path, the process by which goods and services are sold to consumers for their personal use.” (Solomon et al. 2009, 516)

1.5 Research method

The research conducted in the study uses a qualitative method, that being an interview. When defining a qualitative research, it is often compared to a quantitative research: qualitative approaches deal with interpretation and understanding, whereas quantitative focus on explaining, testing of hypothesis and statistical analysis (Eriksson & Kovalainen 2008, 4-5). Furthermore, Tuomi & Sarajärvi (2009, 17-22) present additional questions in order to answer what a qualitative research is: the importance of theory in a qualitative research and whether a qualitative research should be regarded as theoretical or as an empirical research. In addition, Tuomi & Sarajärvi note that “theory is a necessity” in a qualitative research as well as that a qualitative research is an empirical research.

This study's method of collecting data is the previously mentioned interview, which is one of the most common methods of collecting data in a qualitative research. The benefit of an interview is its flexibility; during the interview repeating of a question is possible as well as correcting possible misunderstandings. (Tuomi & Sarajärvi 2009, 73-74) As for this study in particular, the benefit of an interview is also that the product managers interviewed, are most capable of answering to questions concerning PL sales and product attributes. The interviews concentrate on the subject of economic fluctuations' impact on PLs in Finland.

1.6 Literature review

Notable is that most of the literature written about PLs is written abroad. Hence, the findings in this study concerning business cycles' effects on PLs might differ when observing the Finnish retailing sector. However, these findings are applicable to the Finnish retailing sector as long as keeping in mind a few important distinguishing factors that differentiate Finland from the countries where PLs have been more researched; firstly, the Finnish retailing sector is one of the most concentrated in Europe, secondly Finland is a small consumers good market due to a small population size and thirdly, the costs of logistics are high. (The Economist Intelligence Unit: Industry report 2010) Most research related to PLs is conducted in countries where PL sales flourish, such as UK, Spain and the United States (ACNielsen 2006). Ever since PLs became known in the retailing scene in 1970s (Goldsmith et al. 2010, 340), there have been various research papers and articles written about these retailer's own brands, out of which many arrive in the same conclusion: the growth of PL sales (Batra & Sinha 1999, 237; PLMA 2011; Guerrero et al. 2000, 387; Olsen et al. 2011, 1).

As for the impact of business cycles, especially that of a recession to retailing, Srinivasan et al. (2005, 109) investigate what kind of an impact does a proactive marketing during a recession have on the future. A comprehensive study concerning business cycles' effects on PLs, is conducted by Lamey et al. (2007, 11); finding that a retailer should view the recession as an opportunity rather than a risk.

Numerous studies have been written about the consumer decision making concerning the purchasing of PLs. DelVecchio (2001, 239) estimates how brand names act as a symbol of *quality* and affect on purchasing of PLs. Gabrielsen and Sorgard (2007, 403-424) on the other hand investigate how *price* affects the purchasing of PLs. The role of *packaging* and its affects on PLs, has been studied by Olsen et al. (2011, 1-6).

Despite the amount of articles written concerning PLs, noticeable remains the lack of research conducted regarding the PLs in the Finnish retailing sector. Due to evidence of the success of PLs' in the Finnish retailing sector (Perrin 2006; Uusitalo and Rökman 2004; The Economist Intelligence Unit: Industry report 2010) therefore, additional research would not be in vain. Especially since Finland could become one of the key markets of PLs in Europe according to the ACNielsen's study (Perrin, 2006), it is somewhat important in continuing investigating retailers' own brands in Finland.

Valuable information regarding the Finnish retailing sector gives the report by The Economic Intelligence Unit (2010). The report demonstrates, with a couple of informative charts, how the Finnish retailing sector has been functioning from the year 2005 and is predicted to function until the year 2014. Important factors in the report regarding this study are the predictions about the consumers' switching from branded products to PLs due to uncertainty, the slow destabilization of the Finnish consumer economy as well as the analysing of the demand and supply side of the Finnish retailing sector.

1.7 Delimitations

This research concentrates on the Finnish retailing industry and is written from the retailer's point of view. In addition, the study covers groceries and non-durables. The theory part of the study focuses on product attributes when addressing business cycles and retailers' actions during a recession. Due to the variety of product attributes, this study concentrates on price, quality and packaging of the product. The reason why these attributes are chosen is the availability of previous research concerning the attributes: firstly, as PLs have been known for their price therefore,

how business cycles highlight the pricing of PLs' should be studied. Secondly, after notions that the quality of PLs has improved over the years, what effects has this on sales and buying behaviour should be covered. Thirdly, aspects relating to packaging are worth to study since packaging can be seen functioning as a salesperson in the store shelf (Wells et al. 2007, 678). Whether the packaging of a PL differs from NBs' or should it differ, will be addressed later in the study.

As McGoldrick (1990, 253) notes that: "PLs come in many different forms" therefore, the results gained, do not necessarily fit into every PL category. For instance, in the empirical part of the study, both of the interviewed firms have different PLs in their PL selection: notable is that this study focuses on the "higher quality PL", not the lowest priced PL available in the stores.

1.8 Structure of the study

The theory part begins by describing the concept of product category. Secondly, brands and private labels are covered in detail: the meaning of a brand, history, the building of brands and the brand equity. Additionally, the product attributes are discussed. In the second part of the theory the effects of business cycles on PL products will be covered. The impact of both, economic growth and- decline on PLs will be analysed. Lastly, the consumer's buying behaviour depending on the business cycles and theory concerning a Giffen paradox, is explained.

After theory part follows the empirical study. The aims of the interviews are twofold: firstly, discovering whether the fluctuations in the economy has had influences on the sales of PLs and secondly, what are retailers' main focuses in product attributes in order to enhance the sales of PLs. As the theory part concentrates on price, quality and packaging of the product, will the empirical part in accordance focus on these attributes.

In the end of the study, follows the summary and conclusions chapter. Two separate summaries are presented; one based on the aspects covered in theory and the other covering the issues in the empirical part. The conclusion of the study will be drawn based on the theory as well as on the findings from the interviews.

2. Private labels: retailer's own brands

This chapter begins by defining the concepts of a brand and PLs. The theory continues by presenting the history of PLs, product strategy, brand building and brand equity. Since PLs are types of brands therefore, theory concerning brands in general is covered. Additionally, this chapter highlights three different product attributes when examining PLs.

2.1 Definitions

A brand means a name, term, sign, symbol or a design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. In the end, brand identifies the seller or maker. (The American Marketing Association 2011) A brand is considered to be an image, intangible property and as something that is found inside the receiver's, in the consumer's, head (Mäkinen et al. 2010, 44). According to Kotler (2003, 418-419) brand has meanings in six different levels, which are attributes, benefits, values, culture, personality and user.

A PL is a retailer's exclusive trade name (Solomon et al. 2009, 305). PLs are viewed differently depending on the viewer: NB manufacturers consider PLs to be competing products, grocery stores regard them as profit and consumers see them as good alternatives to more expensive products available in the grocery store shelf (Goldsmith et al. 2010, 1).

There are a variety of reasons for PL growth: consumers' price consciousness, improved PL quality, recessions in the economies and increasing the supply of PLs by retailers (Sinha & Batra 1999, 237; DeVecchio 2001, 239; Lamey et al. 2007,1; Kervinen 2011, B3). Moreover, the reasons for a retailer to have PLs are numerous as well: PLs' ability of offering higher profit margins, larger product range for consumers, possibilities in sales channels and that PLs enhance the bargaining power of the stores (DeVecchio 2001, 239; Kervinen 2011, B3). Table 1 presents the advantages to the retailer from having PLs in the product selection. As one of the advantages being loyalty between the retailer and consumer, is important because it

enables customers' frequent purchases from the retailer regardless of an economic situation.

Table 1. Advantages of PLs for retailers (adapted from McGoldrick 1990, 246; initial adaptation from Euromonitor 1986).

Store image/customer loyalty	Competitive edge/extra turnover	Higher profits/better margins
<ul style="list-style-type: none"> - Good value enhances store image - Good value builds loyalty to the store and own brand - PL can give a distinctive corporate image 	<ul style="list-style-type: none"> - Can be sold at lower prices - Offer more price variety to the consumer - Inducement to use the store, leading to other purchases 	<ul style="list-style-type: none"> - Margins tend to be 5-10 per cent better - Manufacturer's promotional expenses are avoided - Sales can be promoted by placing own brands next to major brands

2.2 History of private labels

Retailers' own brands were introduced in the late 1960s. PLs managed to grow their market share until late 1970s, when the market share began to experience changes due to discounts in manufacturer's brands. (McGoldrick 1990, 257) Stores used to display PLs in black and white packages. Already back in the 1970s it was common for PLs to be priced lower than NBs, they weren't advertised nor was the quality as good as those of NBs. PLs at that time were also looked down on by most of the manufacturers as well as the consumers. (Goldsmith et al. 2010, 340)

However, the change came in 1980s, when out of all the products sold in a grocery store ten per cent were PLs. Between 1980s and 1990s retailers noticed the potential of PLs; this led to improvements in quality, variety and marketing of PLs. Finally, in the 1990s, PLs' selection did not only include food supplies but also other consumer goods such as clothing and home products. (Goldsmith et al. 2010, 340) As PLs used to be considered as inferior products compared to the manufacturers' brands, Olsen et al. (2011, 1) view that nowadays PLs can be viewed as premium products among others.

2.3 Brands as part of a product strategy

In reference to the Figure 2 shown, a firm's branding decisions involve deciding on whether the branded product should be a PL, manufacturer's own brand (NB) or co-branded. By co-branding a product means two different companies using the same brand in that particular product. (Hollensen 2003, 762)

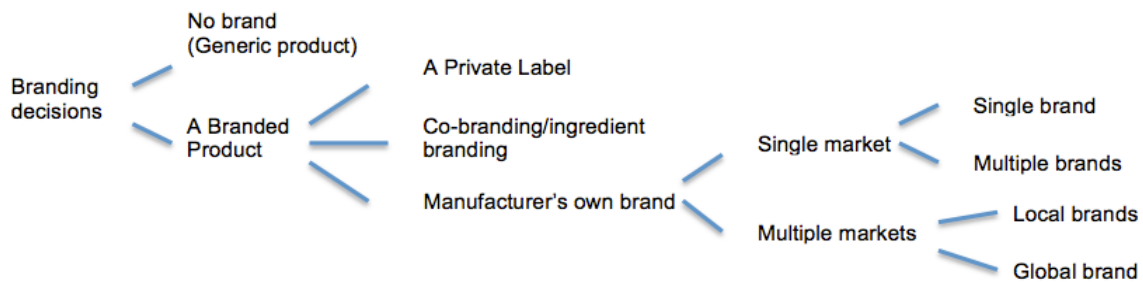


Figure 2: Firm's branding decisions (Hollensen 2010, 411).

A further distinction can be made regarding the selection of PLs. Over the years, the selection of PLs has grown from once consisting of a single type of PL to currently including various types of products. In Figure 3, McGoldrick (1990, 257) distinguishes three types of PLs; generics, retailer exclusives and surrogate brands. Generics can be further divided into PLs known as "brand-free" or "no-names". General brands are simply packaged with only showing the contents of the product (Hollensen 2003, 764).

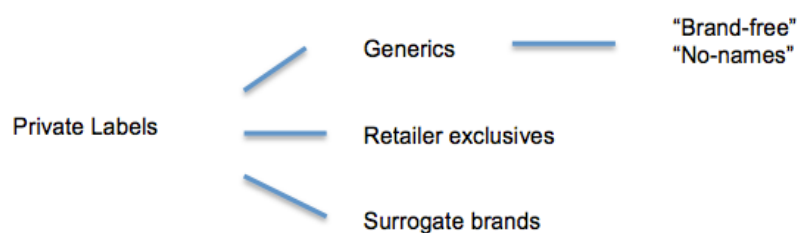


Figure 3. Dividing of PLs (Drawn based on theory by McGoldrick 1990, 257).

When looking at the PL branding strategy in the major Finnish retailing firms (table 2), noticeable is the fair amount of PLs that each Finnish retailer group offers. Furthermore, each group has both, higher priced PL line as well as lower priced PLs. Albeit the amount of PLs offered is relatively large when taking into account the

number of different Finnish retailer groups however, what is the weight and importance (e.g. effects on sales) of these PLs to the retailers is somewhat unanswered yet.

Table 2. Examples of different retailer group’s private labels in Finland (adapted from Hukka et al. 2008, 151).

Inex Partners (S-Group)	Kesko	Tuko Logistics (Suomen Lähikauppa Oy, Stockmann)	Lidl
-Daily -Rainbow -X-tra (low price)	-Pirkka -EuroShopper (low price)	-Eldorado -First Price (low price)	-FreeWay -Vitakrone -VitaFit -Milbona -Kartanon -Dulano

The chart 1. presents the major Finnish retailer groups’ overall market shares in the year 2010; all sales, including PL products as well as NB products. As can be seen, S-Group holds the largest market share in Finland (44,1%) and second is the K-Group (35,0%). The finding by the Industry report (The Economist Intelligence Unit 2010), quote “the Finnish retail market is mature and one of the most concentrated in Europe, mostly shared among domestic players.”- as can be deduced from the contents of Table 2 and Chart 1.

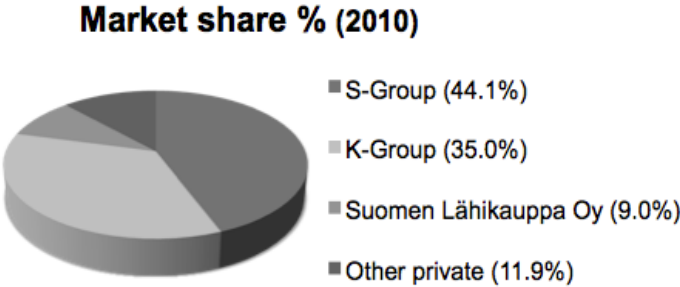


Chart 1. Finnish retailer groups’ market shares in 2010 (adapted from a press release by The Nielsen Company 2011, 2).

2.4 Building of a brand

A brand is not something that appears for the company; rather, it is regarded as an investment that a company has to *build*. (Mäkinen et al. 2010, 50) Often it has been viewed that the marketing department of the company is in charge of building a brand. Mäkinen et al. (2010, 50-51) disagree by emphasising the importance of every

department's contribution to the brand building; the board, the marketing management, marketing function, sales function, customer service and procurement are examples of departments which all should participate in the building of a brand. The role of the staff is not inferior, as Mäkinen et al. note: "they are the ambassadors of the brand."

The building blocks of a brand are product, place, promotion and price; also known as the four P's (Mäkinen et al. 2010, 51-53). Tools for building a brand according to Kotler (2003, 420) are for example public relations, sponsorships, factory visits, trade shows, event marketing, social cause marketing and mobile phone marketing. An example of brand building in a Finnish retailing chain, when answering to the consumers' grown interest towards organic and local food, the retailer is planning to grow its current PL selection of organic products to a hundred in the following year (Aaltonen 2011, B3). As later in the study discussed, retailers are often driven by consumers' different interests to grow their offering of PLs.

2.5 Brand equity

Feldwick (1996, 6) divides the meaning of brand equity into three different parts: first part is a brand value meaning that a brand should be viewed as a separable asset. Second part focuses on suggesting that brand equity helps to measure the strength of consumers' attachment to a brand. Third part of the definition underlines that brand equity showcases the consumers' beliefs about the brand.

According to Ailawadi & Keller (2004, 332): "the image of the retailer in the minds of consumers is the basis of brand equity." Nevertheless, since most of retailers' profit ultimately comes from the sales NBs, building brand equity for PLs is not an easy task for a retailer; however, the gains from PL brand equity make the difficult task worthwhile. To continue, when enhancing the sales of PLs, retailers should not neglect NBs since there could be fear of the NB manufacturers not negotiating deals with the retailers. Retailers should also be careful in growing the PL selection into every product category, since the highest PL margin rewards comes from product categories in which the retailer is not competing with other retailers and from

categories which contain much advertised NBs. (Ailawadi & Harlam 2004, 164) In other words, retailers should not attempt to grow their PL offering in every category since some categories are proven to be more profitable.

Why is it important for a retailer to gain brand equity? One reason is that brand equity enables the seller to capitalize: meaning that once a retailer has gained brand equity, it can charge higher prices because customers are willing to pay more (Ailawadi & Keller 2004, 332). When applying the theory to PLs, even though PLs might be the source of brand equity to the retailer, certainly the brand equity cannot be presented too much in the price of the PL, which are bought mainly because of a low price (Ailawadi & Harlam 2004, 163). Therefore, the balancing between the gained brand equity and PL's appropriate price seems to be up to the retailer's to decide on.

When comparing the brand equity opportunity between PLs and NBs, PLs seem to be in a weaker position because, according to DeIVecchio, NBs possess higher brand equity due to factors such as multiple communication campaigns. Hence the only solution for PLs to gain more brand equity would be by strengthening the communication campaigns, which PLs usually avoid in order to keep the costs related to the product low. (DeIVecchio 2001, 241)

In the end, since a retailer's product offering comprises both, PLs and NBs, it needs to balance between the amount of the two brands. As Ailawadi & Harlam (2004, 147) conclude, the balance between PLs and NBs in the store shelf needs to be appropriate in order for a customer to find a right solution and a retailer offering it.

2.6 Product attributes for a retailer to consider

Retailers have been found succeeding relatively well and even managed to gain profits, despite the fact that the economy could be suffering from a recession (Lamey et al. 2007, 1). One of the reasons why PLs have become popular was the notion already done back in 1992 by Miller, that improvements made in product quality and packaging help to increase the sales of PLs (Miller 1992, 1). Therefore, if the retailer's strategy is to increase the sales of PLs, should the focus be on product quality and packaging. In the light of these findings, it is profitable for retailers to grow

and develop their products even during a recession. Sands & Ferraro (2010, 569) view that a recession is a chance for retailers to innovate and develop their products.

As the Figure 4 shows, attributes related to a product are its quality, brand name, size and colour variants, packaging, price, country-of-origin (COO) and staff behaviour. Product attributes are part of a product's three levels, which involve core product benefits as well as support services.

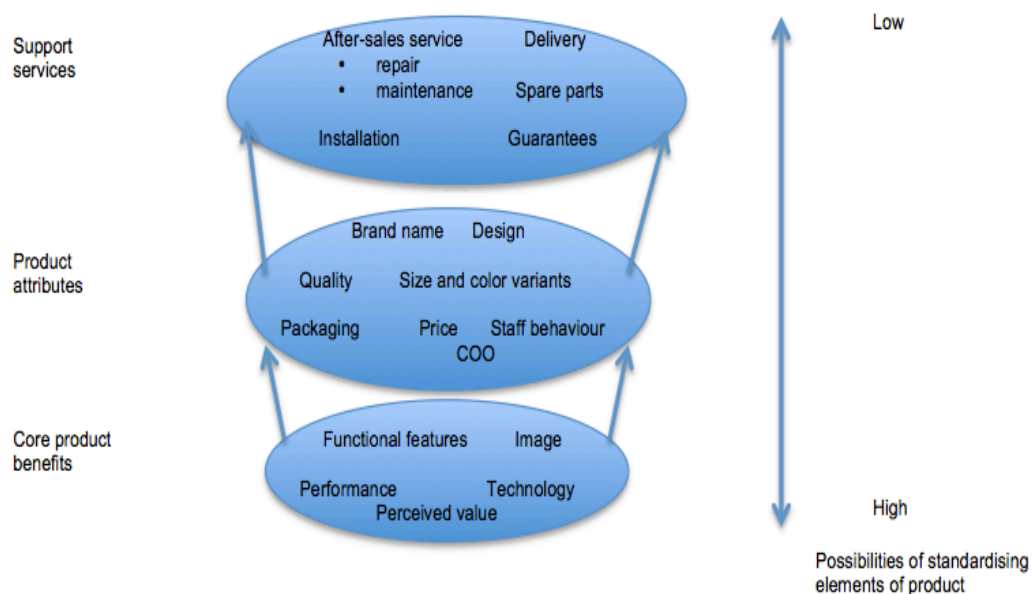


Figure 4: The three levels of a product (Hollensen 2010, 394).

2.6.1 Price

The concept of a consumer's price consciousness regarding groceries is relative to all grocery products but in the case of PLs, it can be viewed as an essential concept. Sinha & Batra (1999, 237-251) find linkage between price consciousness and product quality, noting that when consumers recognize a certain product's better quality, their price consciousness diminishes. A positive relationship lies between price consciousness and perceived risk, meaning that consumers' willingness to pay higher price of a product grows parallel to perceived risk. When consumers sense a high risk related to a product, they turn towards to NBs, which are well known products and have a good reputation. (Sinha & Batra 1999, 237-251) Therefore,

consumers who purchase PLs seem to be somewhat risk takers. However, as notions regarding the improved quality of PLs, can the risk between NBs and PLs seen equilibrated.

When setting a price for a product, retailers have two main factors that affect the basic price level: first is the capability of the grocery store to price its products and second is the cost structure of the store. Most importantly, pricing is a tool to affect on the company's margins. With the gained margins the operating costs are covered and this in turn has an impact on the retailer's overall result. Price is considered to be an important factor in the competition. (Hukka et al. 2008, 153) Since the emergence of new competing grocery stores, such as Lidl, in the Finnish retailing sector (Uusitalo & Rökman 2004, 195-206), the role of pricing among the industry has increased. In fact, the price competition in the Finnish retailing industry has been noticed of being high (The Economist Intelligence Unit: Industry report 2010).

Since PLs are lower priced, in order for the grocery store to maintain the low prices, a retailer should concentrate on in efficient purchasing and logistics. The concepts of price level and price image both have an effect on customers' purchase behaviour; however, these factors should not be confused with another. Price level means a product's real price whereas by price image is meant the customer's experienced price level. When pricing a product, importance lies in the retailer's knowledge of the customers' price awareness of a certain product. (Hukka et al. 2008, 154-155) When setting a price for a PL, a retailer should know that PL purchasers are found to be usually more of price conscious than those who purchase NBs and also expect a certain level of quality (Sinha & Batra 1999, 237; DeIVecchio 2001, 247).

When addressing consumers' perceptions towards PLs' quality, price and quality have positive correlation in the consumers' minds: as the price of the product increases accordingly grows the consumers' perception about the quality of the PL. (DeIVecchio 2001, 239-249) As stated earlier, PLs are known for their lower price; in fact, according to Hukka et al. (2008, 151), some PLs in Finland have been created to fight against on going price wars between retailers. Besides other positive influences of PLs to the retailers, Hukka et al. continue noting that, "PLs act as a shield against price wars and foreign competition." Conversely, the Industry report

(The Economist Intelligence Unit 2010) as well as Uusitalo & Rökman (2004, 195-206) somewhat disagree with the notion as PLs being a solution to avoid price wars and foreign competition. As an example is the finding of the German retailing chain Lidl in the Finnish retailing scene, which could partially explain the possible price wars; previously setting the prices had been between the Finnish retailers' whereas after the appearance of the new foreign competitor who is able to significantly cut down of prices, has had impact on the pricing among the Finnish retailers. (Uusitalo & Rökman 2004, 195-206) Hence the emergence of a retailer with large PLs selection and the ability to cut down on prices could be seen as one of the reasons for price wars among the retailers in Finland as well as retailers increasing the selection of PL products in the store shelves.

When it comes to PLs and the possibility in gaining profitable sales, Ailawadi & Harlam (2004, 147) remind that retailers should be careful not to have too high PL share; consumers who purchase PLs, usually purchase less items compared to those who purchase NBs. In other words, if the retailer has a large PL share, it might have an negative effect on the retailer because the revenue gained from selling cheaper PLs but fewer items as a whole, compared to selling of more expensive NBs and more items, means that retailer would not be necessarily benefitting of having PLs which, is the initial purpose of PLs.

During a downturn in the economy consumers are likely to become more price conscious (Sinha & Batra 1999, 237). One of the major reasons for this behaviour is because jobs are lost and income levels decrease. Spending is cut down (Pohjola et al. 2007, 180) but because a food being a necessity (Kotler 2003, 196), according to Sinha & Batra (1999, 237) consumers become interested in purchasing food supplies with lower price. Shama (1981, 120) suggests that when buying necessary goods, such as groceries, consumers will therefore economize on price. As previously noted, since PLs are priced lower than NBs, when economizing on price, consumers will turn towards PLs. Moreover, consumers' susceptibility to purchase PLs is proportional to consumers' income, which in turn, is largely related to business cycles. Based on the notions, it can be concluded in a larger scale that as income is dependent on the situation in the economy, accordingly are the sales of PLs dependent on the consumers' income. (Lamey et al. 2007,1)

PLs are able to offer consumers constantly low price commodities (Lamey et al. 2007, 1), unlike NBs that are usually higher priced due to different expenses they contain, such as advertising (Steenkamp et al. 2010, 1011-1024). However, NBs do seem to occasionally offer price promotions (Nies & Natter 2010, 281). The finding of Steenkamp et al. (2010, 1021) that NBs have actually raised their product prices in attempt to make up for the lost sales because of the recession, is somewhat surprising. Due to the increase in the prices of NBs, the purchasing of PLs increases among the consumers (Bontemps et al. 2008,1). These findings support the idea that a recession should be viewed as an opportunity for a retailer to maximize efforts regarding PLs; whether it concerns pricing, enhancing the quality of PL or the packaging.

As the Industry report (The Economist Intelligence Unit, 2010) states, even though the Finnish economy is slowly improving from the last recession experienced in 2009, consumers' nor the retailers' focus on product prices will not fade with the recession. Price competition in the Finnish retailing sector continues and the amount of price wars could increase. Pricing of a PL depends on a variety of factors such as competitors' prices and offering of PLs. Moreover, even if the recession already faded, consumers may remain price conscious. In the end, regardless of a PL being a lower priced good, the price has to be correct in order for the product to appeal to the consumers and therefore retailer being able to increase the sales of PLs.

A factor behind the growing success of PLs is consumers' price consciousness and consumers' feelings that the NBs are priced too high. In addition, consumers who prefer buying PL products over NBs, are price seekers to whom the price of the product is the most important factor. (Sinha & Batra 1999, 238) More evidence of consumers' price consciousness comes from Bontemps et al. (2008, 1) arriving in a conclusion in a study between NBs' prices and development of PLs; the study finds that "there is a positive correlation (89 per cent) between brand price and purchases of PLs." This finding means that as the price of another branded item rises, more PLs are purchased. There are findings that by developing PLs, NBs' prices could be negatively affected (Bontemps et al. 2008,1).

2.6.2 Quality

When comparing two of the product attributes, price and quality, the quality of PLs has always been somewhat shadowed by the lower prices that PLs have been associated with. However, as the demand for PLs has been increasing among the consumers, simultaneously there have been improvements made concerning the quality of PLs.

Already in the mid 90s, there were notions that PLs have become popular because of the quality improvements; at that time the “quality gap” between PLs and NBs was decreasing. Consumers estimate PLs’ quality based on the product category’s price level, its complexity, average inter purchase time meaning how often do consumer purchase a specific product and variation of quality within the product category. (Sinha & Batra 1999, 237-251) Soberman et al. (2006, 127) note that the European commission has expressed in a publication that PLs used to be alternatives to NBs as being a low price/lower quality commodities, however, the quality of PLs has improved. Ailawadi & Harlam (2004,147) remind that retailers should not be positioning PLs solely on low price since competing on price may lead to lost margin advantage; rather, a retailer should pay attention to the quality of a PL as well.

PLs can be divided into two main categories: lower priced PLs and high quality PLs, which are also known as premium PLs. By having high quality PLs in the product range, retailers have been able to narrow down the quality gap between PLs and NBs (Olsen 2011). PLs can be divided into three different subgroups depending on the quality (and price, for that matter). As earlier told, the first PLs were regarded as generics; low priced commodities, with their logo presented in black and white. Today, generics are considered as no-names PLs and are usually lower-priced than other PLs. Retailer exclusives could be associated with premium PLs; quality and price of these PLs’ are higher than the generic PLs’. (McGoldrick 1990, 257)

PLs are historically associated with lower quality compared to NBs’; they have been regarded as inferior to NBs in terms of quality (Richardson et al. 1996,164). However, as the selection of PLs has grown from low cost to premium products, simultaneously has the quality as well. As an example, when examining the quality between PLs and

NBs in orange juices, the results regarding of quality, found differences in the quality variation within both, PLs and NBs, products. In addition, findings were that when no information is given about the brands, consumers view the taste of a PL as good as of NB's. (Olsen et al. 2011, 771, 775) Soberman & Parker (2006, 125) arrive at similar findings and note that PLs are often "equal quality to nationally advertised brands at lower prices." Often times consumers view the quality of the PL "as same as" or "close to" the quality of NB's (DeVecchio 2001, 239-249).

The notion of perceived quality and PLs is important when comparing the quality between PLs and NBs. As Ailawadi & Keller (2004, 336) note, that the consumers' perceived quality difference between PLs and NBs is valuable because PLs will succeed when the quality of the PL is considered better in consumers' mind. In addition, they view that in order for PLs to gain share is by focusing on quality differential rather than the price differential between PLs and NBs. Adding to perceptions related to PL quality is that most positive perceptions towards PLs is when a PL is competing in a product category with other brands where there is not complexity nor a lot of variance in the quality between brands. (DeVecchio 2001, 247) As food being a non-durable, Richardson et al. (1996,164) remind that quality of these products is therefore judged by two factors: product performance and its consistency.

As for the quality gap between PLs and NBs, DeVecchio (2001, 239) states that as PLs have been known for being the "lower cost/lower quality" products however, by continuing on improving the quality of PLs retailers will eventually reach the quality level of NBs'. This would mean that consumers would be paying less but still get the same quality product when purchasing PL instead of NB. Based on the theory, it is important for a retailer to improve the quality of PLs in order to narrow the quality gap between PL and NB.

In summary, regardless the situation in the economy, the comparisons between the quality of PLs and NBs are constantly made by the consumers. Ever since PLs appeared in the retailing industry, their quality has been somewhat questioned. However, as the selection of PLs has grown simultaneously improvements have been made in the quality. This has lead into the aforementioned situations when

consumers are not able to differentiate a PL from NB based on the quality of the product. The quality of PLs has experienced a swift because before PLs' quality was regarded inferior to NBs', whereas nowadays it can be viewed "as good as" or even "better than" a NB.

2.6.3 Packaging

Solomon et al. (2009, 307) define the product packaging as follows:

"A package is the covering or container for a product, but it's also a way to create a competitive advantage."

Formerly PLs were known for their simple black and white packaging, whereas currently the packaging of PLs has improved substantially and improvements are constantly made (Richmond 2011, 82). Already in 1957 product packaging was defined as a "silent salesman" and later noted that package is not only a salesman but through packaging a consumer is able to recognize product from the package as well as the value it represents. In addition, packaging is also viewed as a communication tool and as a way to differentiate the product from others today. (Wells et al. 2007, 678)

Richmond (2011, 82) lists various aspects to consider in a PL packaging, here named but a few: a) graphics on the PL product packaging should be in line with the brand image and essence, b) the packaging's features and/or benefits should be as same as or better than of NB's, c) a retailer should remember that a package represents a convenience, portability and freshness to the consumer, d) packaging should always follow the international standards of packaging such as easy opening of a product.

The role of packaging should not be neglected, since it can be considered as a silent salesperson in the shelf, as well as the notion that through packaging the retailer is able to tell the story behind the brand (Wells et al. 2007, 678; Mininni 2010, 14). Due to the growing number of goods available in a grocery store shelf, it is often a time consuming task to decide on a purchase; one reason for packaging is that it helps the consumer in the decision making process (Wells et al. 2007, 677-690).

Supporting the notion is evidence as over 73 per cent of interviewed by Wells et al. said that when in store and deciding on what to buy, packaging of the product helps the decision-making. (Wells et al. 2007, 677-690) The aforementioned finding is important because increasing number of products appearing in the store shelves nowadays, the consumers' growing distress about decision making is partially aided with product packaging.

In order for a retailer to continue increasing the sales of PLs, they should pay attention to the packaging, as Richmond (2011, 82) states: "packaging is a key enabler for brand growth". In addition, Solomon et al. (2009, 307) re-equate product's package to a salesperson saying that products have to catch consumers' attention. Accordingly this could be seen applying to PLs as well: not only do PLs have to catch consumers' attention, do they also have to separate from the NBs. Since many consumers decide about what to buy at the store, packaging is an important element (Mininni 2010, 14). When comparing the packaging of PLs and NBs, it can be difficult to differentiate the packages from one another: PLs' packages often seem to follow the design of the NB's. Olson (2011, 5) notes that in often cases PLs copy the packaging of NBs'.

3. Private labels and business cycles

This chapter first describes business cycles' effects on PLs. In addition, the chapter covers issues such as consumers' buying behaviour depending on the situation in the economy and the theory of a Giffen's paradox. Hence, issues covered in the chapter are the core of the study's theory part since the aim is to theoretically explain the relation between business cycles and PLs.

3.1 The effect of business cycles on private labels

Business cycles mean different fluctuations in the economy. Typical for business cycles is that they are irregular and unpredictable. When business conditions change, economy fluctuates. During an economic growth, profits are growing and businesses are doing well; whereas during an economic decline gaining of profits decreases substantially. Business cycles can be measured and economic process can be demonstrated by using the real GDP, *Gross Domestic Product*, -rate. (Mankiw 2004, 502, 723)

When it comes to fluctuations in the economy and the effects on the retailing industry, business cycles have been noticed to have an impact on PLs. (Walsh 2011, 53-56; Olsen et al. 2011; 1; Goldsmith et al. 2010,1) When the economy is experiencing a recession, aspects such as high unemployment rate, increased credit, drop in incomes and overall uncertainty (Mankiw 2004, 723), could be viewed as reasons why the demand for PLs seem to increase especially during recessions.

3.1.1 Economic growth

The factors that contribute to economic growth are firstly high productivity, which entails factors such as physical as well as human capital, natural resources and technological knowledge. Other factors that contribute to economic growth are the importance of saving and investment, education, property rights, political stability, free trade and research and development. A country is able to gain economic growth through the aforementioned factors, depending on the amount and quality of the factors. (Mankiw 2004, 540-552)

In case the real GDP in the economy increases, what sort of an effect does the development have on PLs? According to a study conducted by Bernstein research (2005, 39-51), a correlation appears between a GDP growth and packaged goods growth; this is proven by the findings that western European countries, such as Spain and Ireland, where the real GDP has grown, simultaneously have the volumes of packaged goods increased. Packaged goods are items that are found to be purchased more when the real GDP levels in the economy rise. Since part of the PLs' product category involve packaged goods, based on the findings of the aforementioned research, could be reasoned that PLs grow simultaneously; however, the study views PLs as a threat to NBs in packaged goods category. The fear is somewhat justified as Neff (2011,26) observe that PL packaged goods sales "showed a substantial gain." In summary of the growth of the real GDP and the effect on PLs, as the consumption of packaged goods rise and since PL product category involves packaged goods, it could be argued that GDP growth therefore enables the growth of PL selection.

During an economic growth the sales amount of PLs are not necessarily as high as they can be during an economic downturn due to consumers willingness to economize on price; according to Lamey et al. (2007, 1) "the private label share shrinks when the economy is flourishing"; however, during an economic growth, PLs could benefit from the increased sales gained during a recession. According to Bowman et al. (1999, 155), consumers are likely to change their buying behaviour during an economical decline than during period of growth in responding to these changes. Therefore, the changes in consumers' buying habits have an influence in the sales levels during period of growth in the economy.

3.1.2 Economic decline

A recession is described as a period in the economy when real incomes decline and unemployment rises. Moreover, a depression occurs once the recession has become severe enough. (Mankiw 2004, 723) PLs can be seen affected by changes in the macroeconomic scene. When the economy is battling with inflation and recession, the sales of PL products increase. On the other hand, when the situation in the economy improves, usually the sales of PLs tend to decrease. (Goldsmith et al. 2010, 1)

Over the years, Finland has experienced a few recessions. The 1980s can be viewed as economically stable period of time, whereas in the beginning of 1990s Finland faced a sudden depression. (Pohjola et al. 2007, 120) Most recent recession that affected Finland was in 2008. In addition, as Sands & Ferraro (2010, 568) and the Industry report (The Economist Intelligence Unit 2010) point out, that the period of time has been long for economies world wide to recover from the last 2008 recession.

During a recession retailers should focus on four key processes, which include: customer research, merchandise planning, performance management, and strategic planning. Customer research, such as using different polls which customers can fill out and express their opinions. By merchandise planning, it is suggested that retailers should have a cohesive map of their product offering; the map also helps the process of narrowing the offering-need gap. Performance management during recession should include scorecards with information about what is the position of the retailer gaining a headroom, which means customers who the firm does not yet serve. In strategic planning, retailer should for example pursue closing the need-offering gap and reach after costs that customers aren't willing to pay for. (Favaro et al. 2009, 64-72)

As earlier mentioned, a food remains a necessity for all consumers (Kotler 2003, 196) despite the consumers' income levels or the situation in the economy. Business cycles however, may affect on what *kind* of food is consumed in the economy. When a consumer's income is limited, it seems that basic ingredients are valid as opposed to having higher income, which can act as an incentive for consumer to purchase more expensive commodities. Purchasing of inferior goods such as potatoes, depend on the income level of the consumers; as consumers' income level increase, they are likely to switch more consumption from potatoes to products which are less inferior, such as vegetables (Pohjola et al. 2007, 54).

3.1.3 Buying behaviour

Levy & Weitz (1996, 402) define a consumer’s buying behaviour as:

“The activities customers undertake when purchasing a good or a service.”

The activities include processes such as a consumer recognizing a need, followed by information search, then evaluating of retailers and finally selecting a retailer. As the Table 3. presents, four different types of buying behaviour can be distinguished; complex-, variety-seeking-, dissonance-reducing-, and habitual buying behaviour. Usually of the four types, the habitual buying behaviour is seen relating to low-cost, frequently purchased goods such as groceries; a consumer’s decision making involved in these products is not complex and purchasing the product is mostly done out of a habit. (Kotler 2003, 201) Groceries are usually considered to be commodities, which attain limited problem solving from the consumer’s part; consumers are found to purchase usually same products from the same retailers (Levy & Weitz 1996, 60). Therefore, could the aforementioned theories seen applying to PLs as well; they are bought out of habit and involvement is usually considered to be low.

Table 3. Four types of buying behaviour (Kotler 2003, 201).

	High Involvement	Low Involvement
Significant differences between brands	<i>Complex buying behaviour</i>	<i>Variety-seeking buying behaviour</i>
Few differences between brands	<i>Dissonance-reducing buying behaviour</i>	<i>Habitual buying behaviour</i>

Consumers’ buying behaviour follow the business cycles as the conclusion can be drawn based on the industry report by The Economist Intelligence unit (2010). According to the report, food retail sales in Finland had been rising steadily until the recession in 2009 hit the Finnish economy, when the sales of food decreased; this could be due to chain event where unemployment rises, therefore spending is cut down leading to a situation where consumers become price sensitive. On the positive side, the report predicts that food retail sales will begin to see growth again in 2012. However, consumers remain cautious in their buying behaviour due to slow

economic growth and low wage and employment growth; low cost items, such as PLs, are predicted to gain popularity among consumers. (The Economist Intelligence Unit: Industry report 2010) Generally, consumers' purchase decision is greatly affected by their income levels, especially the consumers' who have a lower income (Akabay & Jones 2005, 628).

Factors, which are seen to affect a certain product's amount demanded, are the structure of a consumer's needs, the price of the product, the price of other products and the consumer's income. (Pohjola et al. 2007, 38) As an example, during a recession, consumers' needs are not likely to change; however, the prices and consumer's income could be seen having a great impact on the demand of a product. In addition, Bowman et al. (1999, 155) find evidence that consumers' buying behaviour varies more greatly when responding to a contraction rather than to an expansion in the economy. Therefore, it could be noted that during an economic downturn, such as a recession, consumers' buying behaviour between NBs and PLs varies. Adding to this, Aaltonen (2011, B3) views that PLs are popular during a recession due to overall uncertainty in the economy.

Consumers' buying behaviour can be seen changing accordingly with business cycles: during an economic growth consumers' budgets can be more flexible than during an economic downturn. Viewing more from an economic perspective the concept of consumer choice could be considered relating to consumers' buying behaviour. Mankiw (2004, 453-469) depicts the theory of consumer choice from three different perspectives: consumer's budget constraint, - preferences and -optimization. However, it should be noted that the following figures and the theory presented do not divide products into any particular brands, which are the core of this study; rather, the following theory presents the overall consumer choice.

A budget constraint presents the amount of goods that a consumer is able to purchase with a given income; in other words, *what the consumer is able to afford* (Mankiw 2004, 454). The following Figure 5 illustrates the consumer's budget constraint; in which, with a given income, a consumer is able to purchase product Y A2 amount and product X the amount of B2.

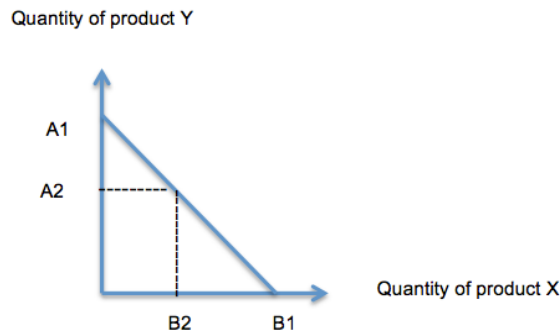


Figure 5. The consumer's budget constraint (Mankiw 2004, 455).

Consumer's preferences in turn, mean *what the consumer at times wants*. In this case, they are presented as indifference curves (1,2,3) in Figure 6. Once the consumer's budget constraint and –preferences are known, can the optimization be derived. Optimization means *what the consumer ultimately chooses*. (Mankiw 2004, 456, 460)

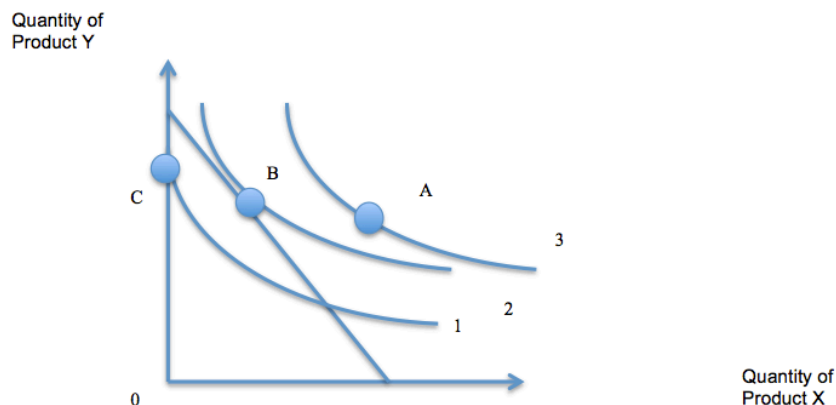


Figure 6. A consumer's optimum (Adapted from Mankiw 2004, 461).

Applying the theory based on the Figure 6 on PLs, when deciding on purchasing a PL product, a consumer's optimum can be found from the highest indifference curve on the consumer's budget constraint, which is point B shown in the Figure 6. The reason why the consumer does not choose PLs in point C, even though a consumer is able to afford them, because products lie on the lower indifference curve, consumer does not take them. Accordingly, the amount of products on point A the consumer cannot afford. Relating the theory of consumer's optimum to purchase of PLs, due to changes in the consumer's income, the consumer's budget constraint might shift. As an example, if the economy has been experiencing growth lately, the

consumer's income could be higher, therefore the consumer's initial budget constraint would shift upwards, to the right, meaning that a consumer would be able to consume more both, product X and Y. In the end, the consumer's budget constraint would be on the indifference curve 3 and the consumer's optimum would be on point A. In summarizing consumer's buying behaviour, regardless the situation in the economy, consumers are able to purchase goods as long as their budget constraint, preferences and optimization meet and these factors largely depend on the consumer's income. (Mankiw 2004, 453-469)

Reflecting the aforementioned theory more with PLs, if the changes in the economy have enabled the consumer's budget constraint to shift higher, meaning that a consumer is able to consume more product X and Y (being both or other a PL), this undoubtedly increases the sales of the retailer. In contrast, in case of a recession, when the consumer's budget constraint might have shifted left, the consumer is able to purchase a lower number of goods X and Y (being both or other a PL). In summary, the changes in the economy have an effect on the position of the consumer's budget constraint, which in turn affect the sales of retailer's PLs.

When looking at different consumer characteristics, two different types of characteristics can be distinguished according to Ailawadi & Harlam (2004, 147-165): heavy-users and light users of PLs. Heavy PL users have been found to buy less items in total than the light PL users; reasons for this type of behavior could be a reluctance to purchase more due to low income of the heavy PL consumers. Because heavy PL users purchase fewer commodities, they are less profitable to the retailer compared to consumers who buy less PLs. As Ailawadi & Harlam continue noting, it is important for a retailer to realize this difference between light and heavy PL users among the PL customers.

3.1.4 A Giffen's paradox

Mankiw (2004, 468) defines a Giffen's paradox, also known as a Giffen's good, as:

"A good for which an increase in the price raises the quantity demanded. Giffen goods are inferior goods for which the income effect dominates the substitution effect. Therefore, they have demand curves that slope upward."

Pohjola et al. (2007, 223) define Giffen good as "a good, which demand curve rises to the right." The theory of a Giffen good was introduced by Robert Giffen, who was the first economist to observe the changes in the contents of a shopping basket, to the different phases in the economic cycles (Mankiw 2004, 468; Tiusanen 2008). A Giffen good somewhat challenges the "Law of demand"; a law known in the economic doctrine noting that when the prices of products increase, the consumption decreases. Conversely, in the case of a Giffen good, as the price increases, the consumption increases accordingly. (Mankiw 2004, 468) Giffen goods are viewed to belong to inferior goods, which are goods that consumers purchase less when their income increases (Mankiw 2004,463). Characteristic for inferior goods, such as potatoes, is that a rise in income leads to decline in demand: previously introduced consumer's demand curve shifts to left. (Pohjola et al. 2007,53,54)

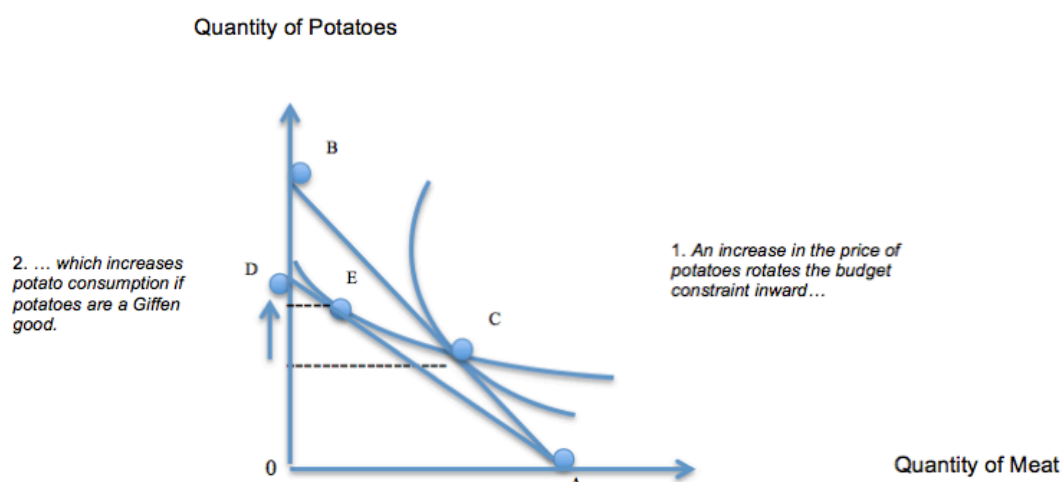


Figure 7. A Giffen Good (Adapted from Mankiw 2004, 469)

Figure 7 demonstrates a situation of a Giffen good where the price of potatoes rises and therefore a consumer's optimum is no longer point C, but has instead shifted to

point E. As a result, the consumption of potatoes has risen despite the increase in the price of potatoes.

The reason why the theory of a Giffen good is seen relating to this study, is that retailers' selection of products, PLs and NBs, can include products that could be viewed to belong in the group of Giffen goods. Since a retailer has various products in its offering, the distinction between the characteristics of products could be viewed important in order to understand the factors explaining the level of sales of certain products. Examples of Giffen goods are products, which are considered to be staple food, such as potatoes, rice and noodles (Jensen & Miller 2008, 1553). Most of the commodities in a grocery store can be regarded as normal goods; which amount purchased usually increases when consumer's income increase (Mankiw 2004, 463). Nevertheless, for a retailer to understand the relation between a consumer's variable income levels and product purchasing, helps the retailer to further plan its offering. Accordingly, a retailer is capable of targeting PLs according to consumers' income level depending on the situation in the economy.

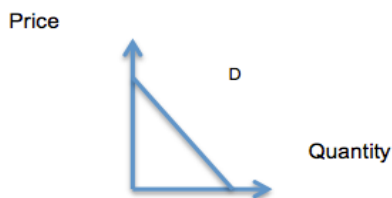


Figure 8. A demand curve (a normal good)

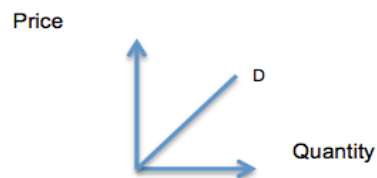


Figure 9. A Giffen good

Figure 8. Presents a demand curve (Pohjola et al. 2007, 39) and Figure 9. Presents a demand in the case of a Giffen good (drawn based on the theory by Mankiw 2004, 469 and Pohjola et al. 2007, 223).

To summarize, as the consumers' income levels change due to fluctuations in the economy, consumers might change their previous customary consumption habits. As can be seen from the situations regarding of Giffen goods and inferior goods: purchasing of these products has been associated to depend on consumers' income levels. Therefore, if the retailer is able to notice these changes in consumers'

behaviour, it will be able to adjust its operations such as brand building to fit better for the current situation.

3.2 Summary of business cycles' effects on private labels

Depending on the direction of the business cycle, different outcomes can be observed in the sales of PLs. During an economic growth, the demand of packaged goods has been noticed to rise. As most of the firms during an economic decline seem to cut down on product innovation and research, during a recession retailers have the opportunity to pay attention to various aspects such as customer research, performance management and strategic planning in order to provide the consumer an improved PL. Even though purchasing of groceries can be viewed belonging to the concept of habitual purchasing, during a recession consumers might have to change habits and switch consuming a product, which the consumer is able to afford.

4. Empirical research

In this chapter the execution of the research is described and the findings based on the interviews are presented, following the structure of the theory part. Furthermore, the aim of the empirical section is to describe how the PL brand building, -offering, attributes and the effects of business cycles are managed in practice in two Finnish retailing firms.

4.1 Execution of research

The following section introduces the execution of the empirical part of this study. Aspects regarding of how the information is collected, processed, and analysed are covered. Since the elaborate nature of the answers given in the interviews, the companies hereinafter are referred to as firm A and firm B.

First, the reason why an interview as a research method is regarded suitable for this study is the limitations concerning the length of this study. Whereas, conducting a larger research surveying more than two retailers in Finland, a quantitative research would be in place.

The interviewees are product managers from two retailing groups in Finland; other interviewee, in particular, is in charge of the firm's PL product management. By interviewing product managers, enables gaining of valuable knowledge about PLs in the Finnish retailing industry. Accordingly, it is the product managers who make the final decisions concerning the pricing, quality and packaging of the products, which in turn, will have effects on the future of the products.

The nature of the interviews differs from one another: the first interview was a face to face – interview, which took place in the firm's headquarters; in addition, the interview was recorded. The recorded material is not transcribed, however it was listened while writing down the findings. The other interview was a phone interview, which was not recorded; however, the information was collected by note taking.

As the course of both of the interviews, even though there were thirty five questions prepared for the interviews, neither of the interviews did follow the exact pattern of the question list (see *Appendix*). For instance, the interviews could be considered being more of as discussions, rather than following the questions from the paper. Both of the interviews did concentrate on the outline of the questions as well as the theory part of the study.

4.2 Review of the findings

The interviews give important information regarding the aim of this study, which is to investigate how the fluctuations in the economy affect the sales of PLs in Finland. As for the characteristics of the firms interviewed, similarities the firms share are that both operate in the Finnish retailing sector and have PLs in their product selection. Nevertheless, the other firm has a significantly larger selection of PLs; lower priced PLs as well as high quality, premium PLs. In brand building, the same firm has years of experience in building its PL selection whereas the other firm could be somehow seen disconnected from the brand building since an external firm provides the PL for the firm in addition to few other retailers.

Furthermore, the notable difference is that the other firm is a larger operator measured in terms of PL sales, grocery store size and product range, whereas the other firm has smaller grocery stores in Finland and therefore the product offering is not as large as the other retailer's. Due to the aforementioned differences, the results of the interviews differ from one another. In spite of the differences, from the viewpoint of this study, by interviewing two different operators in the Finnish retailing sector not only provides variety of point of views to the study but also sheds light to the future research possibilities regarding PLs in Finland.

4.2.1 Brand building

The theory part of this study previously assumed that the firm has a PL brand building strategy and therefore focuses on describing product attributes in detail. However, as it turns out during the first interview, unless the retailer has got a

strategy to build its PL brand, it usually does not monitor as closely the environment related to its PLs. In addition, as the interviewee A reminds, a grocery store has other brands besides PLs in its offering; hence a retailer cannot grow the selection of PLs without the NBs suffering. Similar notion is brought in theory, by Ailawadi & Harlam (2004, 165); noting that retailers should avoid growing PLs into every product category, because this form of action could jeopardize the relationship between the NB manufacturer and the retailer.

The PL brand building varies depending on the firm: firm A does not have a particular strategy to build their existing PL brand, whereas firm B has intentionally build its PL brand over the years and will continue in the future. In fact, firm B notes that their product has been chosen as a “super brand” previously. Firm B highlights that their PL available for consumers today is a result of continuous and purposeful brand building over the years. According to the firm B, firm’s PL has been built in the following manner: on top of a consistent price has been added an equally consistent quality. In adding, the firm B tells that their PL appeals to consumer’s reason through price as well as in emotions through the product quality.

When asked whether they have noticed any changes in their PL sales during the last, 2008 recession, firm A tells that it has not experienced any differences in sales volumes as well as that it has not investigated previously the relationship between business cycles and sales of PLs. On the contrary, Firm B has seen changes as increasing sales of PLs during the recession; especially the sales of its lower priced PL grew relatively higher than their higher quality/premium PLs’.

In order to explain the recession’s different effects on the interviewed firms is the notion that firm A has smaller stores measured by surface area, whereas firm B has large supermarkets where the PL selection is able to grow due to excess shelf space; therefore firm A has to face the limitations of the shelf space. In theory, Amrouche & Zaccour (2007, 648) point out, a shelf space being “an asset” as well as a “limited resource” to the retailer. According to the interviewee from firm A:

“Since the shelf space is scarce, adding one product to the selection means taking one product away and this can have impacts on the overall amount of sales.

Meanwhile, other retailers who have large supermarkets are able to grow their PL selection because of excess shelf space.”

4.2.2 Offering

In planning and deciding on the product offering, both of the firms emphasize that the *customer* is the one who decides the offering on the shelf. Firm A tells that the product offering in the shelf “does not follow business cycles but rather what is familiar to the consumer”. Therefore, if the consumers purchase more of PLs, both of the firms will provide consumers with these products with certain limitations such as previously mentioned shelf space. Also, as the theory discusses, as consumers have shown more interest in organic and local food in Finland, has the offering of PLs increased in these categories accordingly; by the year 2012 firm B’s plan is to double the amount of organic products in their PLs’ selection (Aaltonen 2011, B3).

Firm A is willing to offer PLs as long as there is enough shelf space and that the selection of NBs does not suffer. Firm A’s main strategy is offering their customers familiar products regardless the situation in the economy or the product type (a NB or a PL). In addition, the firm A views that “how a PL is able to succeed in a certain product category is completely dependent on the category”. For instance, the interviewee mentions that PLs in general, are most known in product categories such as canned food: hence the firm offers PLs in this category. Firm B on the other hand, states that it will offer PLs to consumer in various categories but when asked whether it will offer PL in every product category, firm points out that based on their previous research, their PL products do not “stretch” into every product category such as a service desk in a grocery store. In accordance, the theory suggests that as retailers are planning different product categories where PLs could be introduced into, they should simultaneously keep in mind the consumers’ acceptance (DeVecchio 2001, 247).

4.2.3 Product attributes

As for the product attributes covered during the interviews, both of the firms highlight the price- factor and mainly provide information concerning prices related to their PL

products. Firm A notes that: "PLs are mostly known for their cheap price". Both firms view essential, that PLs are to be sold with low price; theory finds similarities suggesting that PLs should always be priced below NBs, in order to be attractive to consumers (Miller 1992, 15). According to firm B: "the factors that enable PLs to be sold lower priced, are large purchase volumes of raw material, efficient purchase process and overall minimization of costs." The interviewee continues by noting that: "when the aforementioned factors are well addressed by a retailer, the prices of PLs can be kept low." Since there have been notions of increase in the price of raw materials as well as in production costs, these aspects could have impact when setting the price for a PL.

Other product attributes, product quality and- packaging addressed previously in the theory, were also briefly discussed during the interviews. As far as the quality of the PLs, firm A notes that since their PL is shared with other retailers, they need to have consistent quality within their PLs product range. Firm B points out that their PL's standards of quality are always shown and since their PL has become known for quality (as well as affordable price) over the years in Finland, they have to be able to deliver PLs with certain quality. Firm B ensures the quality of its PLs by regularly conducting product research and also by having consistent quality supervision. Therefore, the suggestion that the quality of a PL might vary depending on the business cycles is not appropriate here, since both of the interviewed firms note that their PLs have consistent quality at all times despite the situation in the economy.

Interviewee A views that the amount of PLs with different quality is continuously increasing in Finland. Especially in the large supermarkets the quality extremity among PLs is noticeable. The interviewee continues by wondering how the retailers are able to manage the large selection of PLs of different quality. The interviewee illustrates that often times the consumer's opinion about a brand can be a result of one particular product. Therefore, if the PLs have not been divided into different categories depending on the quality and the consumer feels that the PL purchased does not meet with the quality expectation, the consumer might define the whole PL brand based on one particular trial. According to the interviewee, a method used by retailers to avoid the aforementioned scenario when managing the different quality PLs, is the introduction of different PLs lines such as low-priced and premium PLs;

this way the retailer is able to divide its different quality PL product range. Therefore, the consumer knows what should be expected of the quality.

As for packaging, firm A views that packaging of PLs should follow the packaging of a NB product. In addition, firm A notes that since a PL is lower priced than a NB, should the packaging of PL be “cheaper looking” in order for the consumer to recognize the PL product. In contrast, in theory Wells et al. (2007, 678) note that packaging is a way to differentiate PLs from NBs; even though often times PLs have been accused of imitating the packaging of NBs’.

Taking into a consideration the limitations of time in the product attributes, when discussing with interviewee A, changing the other attributes in a product is time consuming; unlike changing the prices of products take considerably less. When equating this notion to different business cycles, it can be concluded that as the business cycles often are unpredictable, a firm should know well in advance about a recession when changing product attributes, whereas changing the price of the product can be done even if the economy is already in a recession.

4.2.4 Recession and private labels

As the study’s theory part suggests, based on multiple research, during a recession consumers tend to purchase more PLs. (e.g. Batra & Sinha 2000, 237; Guerrero et al. 2000, 387; Olsen et al. 2011, 19). Hence, retailers should pursue in investigating their customers’ buying behaviour related to PLs and based on the results gained, continue developing the PL offering. When discussing about monitoring of customers during a recession, both of the firms say that they do not have any particular research conducted about consumers during this time. When addressing how the interviewees usually monitor their customers’ wants and needs, firm A does not mention any particular method whereas firm B lists its various sources of information. Examples of sources that firm B has, are channels such as the sales data collected from each of the retailers, feedback section on their internet site as well as different queries. An important comment from the interviewee B, which is compatible with the study’s theory, is that most of their information gained from the previously described

sources, are based on history. As the interviewee notes, in order for the retailer to develop its PL offering in the future, it should have mediums to gain predictive information rather than historically-based.

During a recession retailer is able to increase the sales volume of PLs. Firm A mentions two possibilities; given that it would be their strategy to grow the sales of PLs. First of all, the interviewee emphasizes the importance of price of the PL; by changing the price point of the PL, a firm is able to adjust the sales volume. Interviewee notes that if the firm would be able to lower the price of the PL, the sales would automatically rise. The notion is in accordance with theory earlier in the case of a normal good; as the price of the product decreases, the more consumers buy that particular product (Mankiw 2004, 463). When lowering the price of the product, even though it sounds easier than it is in practice, according to the interviewee: production costs of the PL should be kept minimal as well as the new price should be at the right level, otherwise the store might lose its price conscious customers.

Besides changing the price of a PL in order for a retailer to increase sales, is the PL's physical position in the store shelf. By changing the position of the PL in the shelf, the firm notes that it would have a great impact on sales; the interviewee often refers to the term "hot spot" as the place where the sales of PL would be the highest. In summary, according to the interviewee from firm A, partially in line with this study, in an effort to grow the sales of PLs, two factors are highlighted: adjusting of the price point (i.e. lowering the price of the PL) and placing the PL in the "hot spot" on the shelf. In accordance with theory, by lowering the price of a product, a normal good in specific, the better sales volumes could be achieved.

As earlier mentioned in the theory that a recession could be viewed as an opportunity for the retailer, both of the companies A and B agree that a recession can be seen as "a boost for consumers to try PLs". Despite a recession seen as such a "boost" to PL sales, firm B points out that a downturn in the economy is never something that is wished for and that the firm certainly does not have any particular PL planning in preparing for recessions; rather, the retailer continuously monitors the environment and adapts its offering as the conditions in the economy at certain times require. The interviewee provides an example related to monitoring of the business environment

by mentioning that: “since it seems that there is a demand for butter and meat products currently (fall 2011), we will plan our PL offering to answer this particular demand.” As a result of monitoring the environment, the firm is able to offer a PL in product categories that consumers are interested in due to changes in income levels.

When discussing of the product improvements, firm A views that during a recession, product range cannot be transformed too much due to lack of time; during a recession time is limited in focusing on enhancing or improving the product attributes. However, as earlier mentioned, changing the price of the product happens within a day if needed. Looking the aforementioned notions from the view points discussed in the theory, retailers could notice that by collecting data and by learning from previous business cycles, they could have the opportunity to provide a right PL for the consumers during next economic decline. In this sense the price of the product would no longer be the only factor that could be changed, as the retailers would have adapted other product attributes based on the previously gained knowledge. As the theory suggests, changes in the product range could be made before the recession as Favaro et al. (2009,) suggest; in this way next time a recession occurs in the economy, based on the information of the last recession, adjustment to the PLs could be made.

4.2.5 Future of private labels in Finland

When addressing the possible future of PLs in Finland the two companies' observations are as follows: firm A notes that it will add PLs in its product range if possible but it will not intentionally reduce the selection of NBs from shelves, since the main idea for the firm is to offer its customers a familiar product and in many cases NBs happen to be the most familiar to the costumers. On the other hand, firm B sees that PLs have room for development in Finland; interviewee views that Finland is far from the overall sales of PLs compared to the central and west European countries, such as the UK. Therefore firm B's notions about the growth possibilities of PLs in Finland are in line with the theory, especially with the Industry report (The Economist Intelligence Unit 2010), which predicts that PLs in Finland will reach more customers in the near future.

As for monitoring the environment and collecting of information from the consumers, firm B predicts that the importance of “electronic world” will increase in the near future. For instance, the firms’ websites are important channels collecting information from. In addition to feedback gained from consumers, firm B notes that since their retailing group involves tens of individual retailers around Finland, the information gained from these individual grocery stores is equally important in an effort on providing the right solution for the consumers.

Firm A ponders the situation concerning the sizes of grocery stores in Finland. As long as the size of their grocery stores remain smaller compared to competitors’, the firm tells that it is not capable of expanding its current product offering. The interviewee A continues by pointing out that the trend of smaller grocery stores is on the rise abroad; in contrast the Industry report (The Economist Intelligence Unit 2010) predicts that this pattern is unlikely to happen in Finland as the it views that “supermarkets and hypermarkets will continue to account for increasing sales volumes at the expense of smaller stores.” In the end, it remains to be seen how the offering of PLs in Finland will find its place in the store shelf depending on the store format in the future.

5. Summary and Conclusions

The purpose of the chapter is to summarize the aspects covered in the theoretical part as well as the findings in the empirical part of the study. In the end of the chapter the conclusions and suggestions for future research are introduced.

5.1 Theoretical summary

PLs are retailers' own brands, which purpose has been to offer a consumer an alternative next to the NB in the store shelf. However, due to variety of factors such as quality improvements and grown product assortment, the PLs have gained popularity among the consumers. Additional factor contributing to the increased sales are the fluctuations in the economy, which have an effect on consumers' buying behaviour. Especially during a recession PLs are able to offer the consumer a quality commodity with a reasonable price.

The advantages of having PLs in a product portfolio are numerous: through PLs a retailer is able to build customer loyalty, they offer more price variety to the consumer, they form inducement to use the grocery store which in turn leads to increased purchases and the margins can be five to ten per cent higher.

PLs' brand equity may not seem as high as the NBs', due to NBs' multiple communication campaigns. In order for retailers to maintain their profitable customers, retailers need to balance between the amount of PL and NB products on offer, since PLs are lower priced than NBs. PL buyers are found buying less commodities than the NB buyers; therefore, the total revenue from a PL buyer to the retailer can be less than NB buyers'. Hence, retailers need to focus in finding an appropriate amount to offer on each brand.

As for the product attributes, PLs are mostly known for their lower prices; therefore the concept of price is an essential attribute. In addition, quality of PLs has become a key factor contributing to increased sales. PLs used to be known as low quality products, whereas today retailers pay more attention in improving the quality of their own products. In addition, retailers have introduced variety of PLs', such as lower

priced PLs as well as premium PLs. As for the packaging as an attribute, theory views it as a sales person as well as a communication tool for PLs.

The sales of PLs' are affected by changes in the environment. As for economic growth, there is increased demand for packaged food as consumers lead more hectic lifestyles. Since large part of PL offering consists of packaged goods, could be conclusion drawn that interest towards PLs has increased. In addition, during a time of growth in the economy, consumers usually have somewhat secured income levels and are able to purchase various types of groceries; however, the finding that PLs' quality (taste, appearance) is similar to NBs', could be interpreted that consumers prefer PLs despite their income levels.

In case of an economic decline, when the consumers' spending is cut down due to lower income levels or overall doubting towards the economy, consumers become price conscious and seek commodities which are lower priced but still manage to offer a decent quality. In addition, consumers are found to respond more greatly to an economic downturn than to an economic growth. Therefore, PLs offer a solution for aforementioned price conscious consumers. Research conducted abroad, shows strong evidence in the relation between economic decline and the increased sales of PLs'.

Consumers' buying behaviour is affected by economic fluctuations since consumers' income levels depend on the fluctuations. In case a PL is considered as a normal good, when consumer's income level rises accordingly does the consumption of that PL. Whereas, if the PL belongs to a group of inferior goods, as the consumer's income level increases, simultaneously that PL's demand decreases. If the product could be interpreted as a Giffen good then, despite the increase in the price of the product, the consumption increases as well. By a retailer knowing the aforementioned characteristics of certain PLs in its offering and those products' response to economic cycles, the retailer is able to first, understand the sales of certain PLs and secondly, plan the offering more suitable for aforementioned types of products.

5.2 Empirical summary

In the empirical part of the study two product managers from two different Finnish retailer chains were interviewed. Both of the interviews give interesting views regarding the study as well as new perspective to aspects covered in the theory section. Due to multiple differences between the retailing firms, therefore the results vary. Aforementioned differences relate to the amount and size of the stores, PL selection and the strategies concerning PLs. The major difference relating to PLs among the retailing firms is that the other firm has a long term strategy to grow its PL product line; whereas the other firm lacks the building of PL due to limitations such as store space.

As firm B tells that its PL sales tend to increase during a recession, various factors enable the grown sales; these factors have over the years helped in building the PL brand become as known as it is today. Having developed a large PL brand equity the firm has been interested in monitoring the threats and opportunities of the environment it operates in. Therefore, the firm is able to notice the differences in sales between PLs and business cycles, not to mention the other equally important aspects that can have an effect on PL sales. The factors contributing to the success of the firm's PLs', are two decades of deliberate brand building, observation of customers, a continuing product quality research and innovations based on consumers' demand.

In contrast, as business cycles have not effected the sales of firm A's PLs, could be due to of lack of research concerning the relation between business cycles and PLs. The reason for the lack of observing the environment could be due to the firm not having a strategy to build its PL brand as well as sharing its PL with other firms; therefore, the firm does not have such a large incentive to monitor the environment and consumers in such a large scale as firm B.

Discussion concerning the product attributes mainly focuses on the price attribute; both firms view price as being the most important factor in a PL. The sales of PLs can be affected by changing the price point of the PL. Even though changes made in the price of a product is considered to be easier than changes in the other product

attributes, the factors behind the product's price must be clarified. As for the quality of the PL, a retailer who has developed its PL line over a decade, views that most importantly the promise of a PL with a good quality and affordable price, has to be kept in order to ensure the sales of PLs. The product quality should be consistent at all times; this is ensured in the firm by a quality control as well as various channels for the consumers to express their opinions about the PLs. In addition, by having a lower priced PL and a higher quality PL in their PL offering, both firms are able to offer the consumers PLs of different quality and price.

When discussing a recession's impacts on PLs, both of the firms tell that they do not have any particular operations done in PLs during a recession. However, despite a recession or a boost in the economy, retailers emphasize in providing consumers what they need at a certain time. Reactions towards a recession in general are somewhat conflicting, as it is seen as "a boost" for consumers to experimenting PLs, albeit it is not particularly wished for.

When addressing the future of PLs in Finland, relying on interviewees' notions concerning the future, the PL offering is set to grow within the Finnish retailing industry. The retailers are willing to grow their PL selection as the consumers need, while taking into account other products in the store as well as the limited shelf space.

5.3 Conclusions

The purpose of this study was finding out whether a relation between business cycles and PLs in the Finnish retailing sector could be found. More specifically, the aim was to discuss how the fluctuations in the economy affect the sales of PLs. In addition, when examining PLs, the supportive factors chosen were product attributes such as a product's price, - quality and -packaging.

The findings support the assumption that business cycles affect the sales of PLs. In answering to the question *how* the fluctuations affect, two separate answers can be concluded. Firstly, during an economic growth demand for packaged goods, such as PLs, increases as consumers are seeking more convenience. Secondly, as the effect

of an economic decline on PLs is covered in more detail in this study, the finding is that as consumers' income levels decline, they become interested in economizing on price leading to purchasing of a quality-equivalent PL instead of a NB.

The effect of an economic cycle can be detected and customers maintained, if the retailer with a strategy to build its PLs observes the business environment. Therefore, a retailer is able to offer the right commodity in a certain economic situation and meet the demand of the average Finnish consumers which in turn, leads to grown PL sales and consumers' awareness of the retailer's own brand.

The other additional question concerning the product attributes highlight the price of the PL; PLs will continue to be associated with low prices in the future. In addition, in order for the retailer to offer a right product to the consumer depending on the situation in the economy, a retailer should focus on the quality and packaging of a PL, not only by altering the price of the PL at given times. Changing the price of a PL seems as a quick fix for a retailer to affect the sales of PLs, whereas attention should be given on the other attributes accordingly.

In the end, a recession could be viewed as an opportunity for PLs, since it can be seen as a boost for consumers to try the products; once the recession eases, consumers may have taken PLs as part of their every day life and continue consuming the retailer's own brands. Therefore, loyalty between the retailer and the customer would be accomplished through PLs. Although the fears of the already centred Finnish retailing industry becoming even more centred are somewhat justified, looking in a wider perspective, the sales of PLs in Finland are still behind from the sales of other western European countries and therefore have room to grow.

5.4 Limitations and suggestions for future research

In order for the findings to be generalized into the Finnish retailing industry here, the key factors are addressed. In theory part of the study, notable is the amount of research conducted abroad; consequently suggestions proposed are from countries with high PL sales as well as different economic situations. Nevertheless, by

reflecting on theory from countries with high PL sales and applying it to the progress of PLs in Finland is a learning opportunity. Another limitation in this study is the lack of findings on the subject of economic growth and PLs; both theory and empirical part mainly concentrate in explaining the effects of a recession. Lastly, is the narrowness of the empirical part; in order to gain cohesive results, should the interviews concern all the largest Finnish retailers.

Due to the aforementioned narrowness of the empirical part of the study, a more extensive research on how business cycles affect the PL sales in Finland would be important; priority should be given to the actions taken by a retailer concerning PLs during an economic growth. Additional, as well as current, research topic would be the Finnish grocery stores' size and the possibility to grow PL selection in a limited shelf space.

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Appendix.

Appendix 1. A list of the interview questions

Introduction

1. How would you define product X, is it a) a Private label b) brand among other brands or c) something else?

The effect(s) of business cycles on private labels

2. Have the business cycles in the economy noticed to have an effect on the product X, for example in its sales or demand?
3. What kind of is the relationship between the PLs and business cycles?
4. If the business cycles haven't been noticed to have an effect on the sales of PLs, what sort of operations are done concerning the product X during, for example, a recession?
5. How have the possible business cycles been affecting the sales or demand of product X?
6. Is the firm X able to see the on going situation in the economy by looking at the sales data of product X?
7. "Researchers (Lamey et al. 2007) have noticed that PLs succeed well during a recession but this success seems to diminish once the recession wears off." Has the firm X noticed a similar phenomenon among X products?
8. As for PLs, does the firm see a recession as an opportunity rather than a threat?
9. "There has been discussion about a new recession in Europe." Is firm X planning currently (or usually) its product offering in the view of an economic decline? (e.g. new products/product expansion)
10. What are the factors that are concentrated on the product planning of PLs' and do business cycles have effect on this process?
11. Assuming that PLs succeed during a recession, what are the operations that are concentrated in X products, in order for the customers to continue purchasing these products after a recession? How important is it for the firm X that consumers

continue purchasing PLs?

12. How does the firm X collect information about its customers considering PLs' future (e.g. product planning)? What is the role of a regular customer card/ register?
13. Are there differences in the firm's own marketing activeness (own marketing input, excluding the industry's marketing support) in different situations in the economy?
14. Does the PLs' portfolio include products that are noticed to succeed better compared to other products during a recession? How the company X operates with these products in order to continue the sales?
15. Are the trends concerning PLs followed from retailing sector in a) Finland b) Europe or c) other countries/continents?

Product attributes: Price, Quality and Packaging

16. Which factors are concentrated in PLs' product planning and do business cycles have impact on the process?
17. Considering business cycles, what weight does product planning has on product's
 - a) Price
 - b) Package
 - c) Quality?
18. PLs are not usually as much advertised as NBs: where do the saved expenses go in a PL product or is it seen only in lower price of the product?
19. What are the factors that enable PLs to be priced lower than the NBs?
20. In general, when setting a price on PL, are the prices of non-branded or branded products' followed?
21. "Consumers became more price oriented during a recession." (Sinha & Batra, 1999). How is this finding shown in the sales of X- products?
22. "The findings concerning consumers' attitude have noticed that many view the quality of PL as "as good as" or "better" than NBs'." (DeIVecchio, 2001) How is X product striving for this; in other words, keeping the quality of products as good as or better than other brands?

23. "Consumers' willingness to pay relates to perceived quality gap between a PL and a branded product." What are the aspects considered in the quality of X products in order for previously stated quality gap to diminish compared to other competing products? Or is it even a retailer's strategy to narrow this quality gap?
24. What is the relation between the quality of the product and business cycles; what kind of quality is expected from PLs during a recession? How will the quality of PLs be developed in the future?
25. What is the difference between (ordinary) X-products and X-Premium products? Can business cycles have an effect on the demand of these premium products?
26. How does product X's packaging (features, design) affect to the sales; do business cycles have an effect on the package of the product?
27. How often is the packaging of product X changed? Are the trends concerning packaging followed from a) Finland b) Europe or c) other countries/continents?
28. In case the sales of product X increased during the recession (e.g. 2008) is the package of those products that succeeded well during the downturn kept the same or is it changed in the same pace with business cycles?
29. Does the firm X continuously strive for developing its products or is the product development dependent on different periods in the economy, such as a recession?
30. Does the firm X aim to have an equivalent PL next to every product in the store shelf? How does firm X see the future concerning PLs; will the emphasis be on particular, successful products or does the firm aim to expand the offering in every product category?
31. What are the factors that PLs have that the competitors product lack of? What factors make the PL appealing to the consumer (during a recession)?

Future

32. What are the most important forms of actions in which the firm X should concentrate on, in order for the PLs to be successful in the future?
33. In case the PLs react to the changes in the economy therefore, how do you see the future for the aforementioned products in Finland? What are the retailer's operations in order for the demand to be consistent and continuous?
34. What improvements do the PLs have in the future?
35. Generally speaking, how does firm X see the development of PLs continuing in the next ten years in Finland?