

Experimental Investigation of Cannibalisation by Introducing a Global Brand Abreast Existing Indian Store Brand

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ABSTRACT

Globalization of consumer brands and liberalization of the Indian retail sectors are enabling consumers to conveniently purchase their aspirational Global brands. India being one of the fast-developing countries with world's second largest population and the majority of the retail market being serviced by unorganized retailers, many Global consumer brands are trying to penetrate into the Indian retail market through various routes viz, exclusive branded outlets, franchising and licensing. Ever since the penetration of Global consumer brands have started, the majority of Indian retailers' and consumers' perspective towards their own private/store brands is expected to have changed. This change in perspective has put the majority of retailers in India into a quandary and they think that this is surely leading to cannibalization and thereto impacting the store profitability along with losing out their market share slowly to Global brands. In this research, authors have carried out an experiment by introducing a reputed Global apparel brand abreast an existing Indian store apparel brand/private label to investigate; (a) proof, (b) pattern, (c) magnitude, (d) significance, and (e) impact of cannibalization and transpired the outcomes of this experimentation into suggestions to enable brick-and-mortar retailers to design appropriate brand mix strategies.

Keywords: Cannibalisation, Global Brand, Store Brand, Private Label, Brick-and-mortar store, Offline store, Physical store, Store Profitability, Indian Retail.

1. INTRODUCTION :

The overall market size of the Indian retail industry which was at 950 billion US\$ in the year 2018 might cross 1.1 trillion US\$ by the year 2020 (IBEF) [1]. It is expected that this level of the retail market size in India and the potential of growth in organized retailing market share coupled with the recent paradigm shift in consumer preference towards the global brands/products which is believed to be a status of the symbol (Steenkamp, et al, 2003) [2] for them attracts many global retailers and brands to penetrate into Indian retail market. It is becoming difficult for Indian retailers to cope up with this change in consumer preference toward brands. Unlike a store brand/private label which is controlled by the retailer from the conceptualization of a product to the making of it and finally marketing it at a price commercially viable for both retailer and consumer (Steenkamp and Dekimpe 1997) [3], it is very difficult to have control over Global brands especially on the aspects relating to pricing of a product which primarily depends on the country's import duty structure, Global brand's product sourcing base and their Global price positioning. Apart from these control factors over Global brand's pricing, another important dimension

of retailers difficulty is related to their fear about cannibalization of existing store brands/private labels which are relatively yielding them higher gross margins. It is inevitable for retailers to constantly work on their brand-mix or product assortment strategy to address consumers changing preferences over brands along with having a competitive edge over other retailers (Meyer and Lehnerd, 1997 and Kim and Chhajed 2000) [4] [5].

2. LITERATURE REVIEW :

The earliest possible mention and study of cannibalization could be traced back to 70's. Heskett (1976) [6] defined the concept of cannibalization. Thereafter the concept, influencing factors, effects, models for measurement and different types of cannibalization was studied by many researchers viz., Kerin et al. 1992 [7], Carpenter and Hanssens 1994 [8], Masoon and Milne 1994 [9], Nadler 1997 [10], Lomax et al 1997 [11], Meredith and Maki 2001 [12], Chen and Yu 2001 [13].

Tauber (1981) [14], defined flanker brand as the one which is newly introduced by a company abreast existing brand representing the same category of products and this new brand cater to a new set of target group of consumers to avoid any possible damage to the existing brand. Even though Tauber's study and findings were focussed on new product extensions exploiting existing brand's image, it was useful for us to note these findings and relate the 'existing brand' in Tauber's study to 'existing retailer' in our study while planning and executing the experimentation.

Srinivasan S.R. et al. (2006) [15], categorize two key sources of cannibalization into internal and external factors. Under the internal factors category, they consider a) new product, b) price elasticity and c) marketing, whereas a) competition and b) market trend were grouped under external factors. The insight gained here is that of not looking at cannibalization phenomenon in isolation which if isolated could possibly lead to incorrect strategy decisions thereby leading companies to refrain from experimenting new product or brand extensions within the same category along with not enabling the company to cope up with changing market trends, be it globalization, liberalization or changing consumer preferences over brands. Laroche and Brisoux (1989) [16], suggested that as far as the consumers preference over brands is concerned, the relativity of alternatives/brand attitudes or attractiveness (overall) plays the major role. Biel, A. (1993) [17], consumer preference or choice of brand and success of a brand depending upon the brand's personality. It is important for the marketer to constantly work on strategies to convert the existing brand image into equity. This insight helped us in arriving at criteria for the selection of the Global brand to be introduced for this experimentation.

Laroche and Sadokierski (1994) [18] studied and investigated the correlation among the competition of brands, formation of consumers' attitude and intention to choose a particular brand or alternative with many brands or alternatives being offered to the consumers at a given point of time and place. The findings of this study confirm that consumers' evaluations, understandings, and knowledge about a particular brand of their choice are not just the key influencer of creating intentions of buying a product belonging to a brand, it is also consumers' perspectives and perceptions toward another alternative or brand available in the offering. This particular finding of Laroche's research seeded various thoughts in our mind to include existing store brand/private label in the advertising proposition during the experimentation period. Past research carried out in the developed countries where the retailers have already gone through (a) a phase penetration of Global brands, (b) liberalization of the retail sector, (c) changes in consumer preferences over brands and have provided many guidelines to retailers on various frameworks for them to calculate/estimate/predict cannibalization and create ideal brand-mix strategies relevant for them. We could not find relevant answers to our research questions; (a) can we implement the recommendations of various researches carried out in developed countries in an Indian context? (b) does an introduction of a Global brand s part of the existing brands mix cannibalize the existing store brands/private labels? (c) if there is cannibalization, what is the magnitude and significance of it in the Indian context where there are many Global brands penetrating into Indian market? (d) if there is no cannibalization, what are the key factors influencing it?. To find answers to these questions it was imperative for us to carry out a one-shot pre-test post-test experiment with a select brick-and-mortar retailer at a large scale and for a longer duration to answer our key research questions.

3. OBJECTIVES :

Key objectives of this research were to;

- (a) understand the impact of introducing a global brand abreast existing store brand/private label by determining the change in;
 - i. demand for existing store brand/private label,
 - ii. demand for existing categories irrespective of brands,
 - iii. profitability of overall store
 - iv. consumer mix and base,
- (b) compare(like-for-like) all the above listed changes during the experimental phase with the pre-experimental phase for the same period of the preceding year and;
 - i. if cannibalization is present, determine;
 - i. pattern of cannibalization
 - ii. magnitude cannibalization
 - iii. significance and impact of cannibalization
 - ii. if cannibalization is absent, determine;
 - i. factors arresting the cannibalization
 - ii. significance and impact of no cannibalization on overall store profitability
 - iii. significance and impact of no cannibalization on overall consumer mix and base

4. METHODOLOGY :

Stage I: One organized brick-and-mortar retailer in India was selected who is having stores all over India across (a) mall stores, (b) high-street stores (c) neighbourhood stores (d) tier 1, 2 and 3 cities, (e) offering multiple-categories and multiple-brands at mid to high price positioning catering to pregnant women, new moms, babies, infants and kids up to 8 years. 30 percent of the stores across India were randomly selected from the list of existing stores of the select retailer for experimentation (experimental group).

Stage II: A reputed global apparel brand was introduced exclusively in these select stores abreast existing store brand/private label which was the only brand serving consumer's needs in the apparel category.

Stage III: The new global brand and existing store brand/private label was offered to consumers for a period of nine months (experimental phase).

Stage IV: Results obtained during the experimentation stage were collected, analysed using appropriate statistical methods and compared with the pre-experimentation the same period of the preceding year.

Stage V: In this stage, insights and inferences from the research findings were used to propose a way forward for brick-and-mortar retailers to enable them to design appropriate brand mix strategies.

5. KEY FINDINGS AND INSIGHTS :

Research findings indicate no proof of cannibalization, in fact, it is noticed that the experiment of introducing a Global brand despite of failing to deliver brand level profit, was able to show a positive impact on existing store brand, overall category and overall store across (a) demand, (b) earnings, and (c) profitability. In addition to these impacts, it is also noticed that 0.27 percent of customers who purchased the newly added Global brand were existing customers but had never purchased products from an existing store brand. Once we were not able to find any proof of cannibalization, our next objective was to find out the key factors for the absence of cannibalization. The Pearson correlation (0.05 level 2-tailed) between the average selling price of overall category and overall category profit the post-test was found to be 0.731 which is significant, whereas the same was 0.311 during the pre-test period.

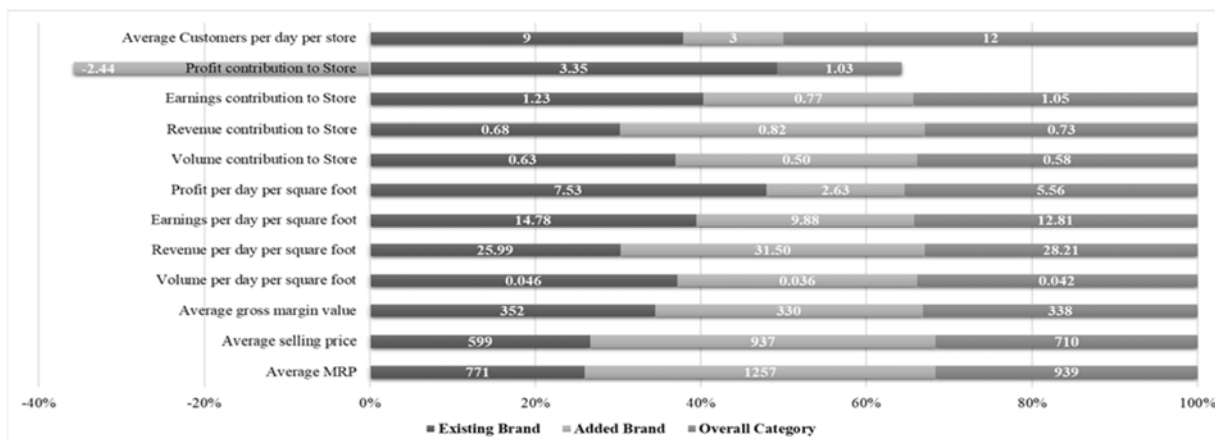


Fig. 1: Even though the newly added Global brand could not yield profits, it indirectly enhanced profit levels of overall category and the store.

Table 1: Introducing a Global brand at an average MRP (Maximum Retail Price) of 1257 which was 0.63 percent higher than the existing store brand was able to enhance the overall category MRP by 0.26 percent.

Average MRP			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	745	745	744
Post-test	771	939	729
Change	26.3	194.7	-15.2
Change per cent	0.04	0.26	-0.02

Table 2: An average of 0.19 percent higher discount offered on the Global brand increased the overall category discount levels by 0.23 percent, even though the discount levels were more or less maintained same as the pre-experiment period.

Average discount per cent			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	0.17	0.17	0.22
Post-test	0.18	0.21	0.19
Change	0.01	0.04	-0.03
Change per cent	0.08	0.23	-0.13

Table 3: Even though the Global brand had generated new demand, overall store demand has decreased by 0.14 per cent. Nevertheless, it could not cannibalize the demand for existing store brand.

Per day per square foot volume			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	0.036	0.036	0.083
Post-test	0.046	0.042	0.071
Change	0.010	0.006	-0.011
Change per cent	0.27	0.15	-0.14

Table 4: Even though the Global brand had generated additional revenue, overall store revenue has decreased by 0.10 percent. Nevertheless, it could not cannibalize the revenue of existing store brand.

Per day per square foot revenue			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	20.21	20.21	42.83
Post-test	25.99	28.21	38.41
Change	5.79	8.00	-4.41
Change per cent	0.29	0.40	-0.10

Table 5: Unlike revenue, Global brand, in addition to bring in new earnings, it has also enhanced earnings of overall store and most importantly it could not cannibalize the earnings from existing store brand.

Per day per square foot earnings			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	11.65	11.65	11.88
Post-test	14.78	12.81	12.40
Change	3.14	1.17	0.52
Change per cent	0.27	0.10	0.04

Table 6: Introduction of a Global brand resulting in 0.16 percent increase in the overall category profit along with increase in the profit of existing store brand and the overall store.

Per day per square foot profit			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	4.79	4.79	5.02
Post-test	7.53	5.56	5.15
Change	2.75	0.78	0.13
Change per cent	0.57	0.16	0.03

Table 7: Global brand on an average could acquire 2.79 customers per day per store out of which 0.27 percent of them were existing customers who have never bought products belonging to this category from the store.

Consumers per day per store			
Phase	Store Brand	Overall Category	Overall Store
Pre-test	7.54	7.54	37.48
Post-test	8.72	10.32	38.46
Change	1.18	2.79	0.98
Change per cent	0.16	0.37	0.03

6. CONCLUSION :

With reference to data and comments shown in tables 1, 2, 3, 4, 5, 6, 7 and chart 1. It is practically impossible to change consumers aspirations to purchase Global brands in short-term. It is also not a

universal phenomenon that adding a new brand abreast existing brand serving a common need of a consumer always cannibalizes the demand for an existing brand. If the retailer is able to choose the right Global brand which brings in visible differentiation in comparison to exiting store brand/private label along with being an aspirational brand, the probability of cannibalization of existing brand's demand under the same category is either low or nil. Retailers need to look at the overall category and store profitability along with optimal utilization of existing consumer base while altering the existing brands-mix and not just the profitability of the newly added brand in isolation.

7. SUGGESTIONS TO BRICK-AND-MORTAR RETAILERS :

Based on this experimental research outcomes, we would like to suggest few do's and don'ts to brick-and-mortar retailers to deal with the globalization of brands and liberalization of Indian retail industry while making decisions regarding introducing a Global brand in their stores abreast existing store brands/private label;

Don'ts:

- a) average pricing is lesser than existing brands,
- b) presence is global, but the awareness is yet not,
- c) already present in other retailing formats,
- d) decreased focus on existing store brands/private labels, and
- e) Introduction across all stores serving different catchments.

Dos:

- a) exclusivity agreement with the Global brand,
- b) discounts and promotions of the Global brand under retailer's control,
- c) utilize the Global brand's presence as one of the acquisition propositions,
- d) utilize the Global brand as one of the selling propositions/talking points,
- e) differentiate yourself from other retailers using the fact that the Global brand is exclusively available with you,
- f) promote the overall advantage of existing store brands/private labels over the Global brand, and
- g) chose stores serving catchments relevant to the Global brand's personality.

Over and above all these dos and don'ts it is very important to analyse the existing consumer base, understand as to how many of them are still not purchasing the existing store brand/private label from the category, if it is demonstrated that this bunch of consumers look for an aspirational Global brand in the category, then reach-out to such consumers, make them aware that a Global brand has been added to the merchandise assortment in the category and attempt to make them start purchasing from this category which could then bring in additional revenue to the store from the existing set of consumers.

8. LIMITATIONS OF RESEARCH :

The main limitation of this research is the coverage of the various stakeholders viz., global brands, consumers and retailers in investigating the cannibalization. This might limit the generalizability of the research findings to other set of global brands, retailers and consumers. The second limitation would be the empirical validation is restricted to one retail format i.e., multi brand and multi category baby care store in India and hence the generalizability of the findings and suggestions to other retail formats. However, it provides significant input regarding the ways to utilise these findings as the same was drawn from a nine months long intensive real-time experimentation.

9. SCOPE FOR FURTHER RESEARCH :

It is recommended that this research can further be extended to derive an ideal brand-mix framework/model for brick-and-mortar retailers to enable them to design appropriate sales brand-mix strategies to effectively deal with the increasing penetration of Global brands and liberalization of Indian retail industry.

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Appendices

Findings

Correlations

Descriptive Statistics

Phase		Mean	Std. Deviation	N
Pre-Experiment	Overall Category Average Selling Price	590.78	118.415	9
	Overall Category Profit per day per square foot	4.7856	1.91375	9
Post-Experiment	Overall Category Average Selling Price	710.11	139.822	9
	Overall Category Profit per day per square foot	5.5656	2.78724	9

Correlations

Phase			Overall Category Average Selling Price	Overall Category Profit per day per square foot
Pre-Experiment	Overall Category Average Selling Price	Pearson Correlation	1	.311
		Sig. (2-tailed)		.415
		Sum of Squares and Cross-products	112177.556	564.661
		Covariance	14022.194	70.583
	N	9	9	
	Overall Category Profit per day per square foot	Pearson Correlation	.311	1
		Sig. (2-tailed)	.415	
		Sum of Squares and Cross-products	564.661	29.299
Covariance		70.583	3.662	
N	9	9		
Post-Experiment	Overall Category Average Selling Price	Pearson Correlation	1	.731*
		Sig. (2-tailed)		.025
		Sum of Squares and Cross-products	156400.889	2278.974
		Covariance	19550.111	284.872
	N	9	9	
	Overall Category Profit per day per square foot	Pearson Correlation	.731*	1
		Sig. (2-tailed)	.025	
		Sum of Squares and Cross-products	2278.974	62.150
Covariance		284.872	7.769	
N	9	9		

*. Correlation is significant at the 0.05 level (2-tailed).

T-Test

Paired Samples Statistics

Phase			Mean	N	Std. Deviation	Std. Error Mean
Pre-Experiment	Pair 1	Overall Category Average Selling Price	590.78	9	118.415	39.472
		Overall Category Profit per day per square foot	4.7856	9	1.91375	.63792
Post-Experiment	Pair 1	Overall Category Average Selling Price	710.11	9	139.822	46.607
		Overall Category Profit per day per square foot	5.5656	9	2.78724	.92908

Paired Samples Correlations

Phase			N	Correlation	Sig.
Pre-Experiment	Pair 1	Overall Category Average Selling Price & Overall Category Profit per day per square foot	9	.311	.415
Post-Experiment	Pair 1	Overall Category Average Selling Price & Overall Category Profit per day per square foot	9	.731	.025

Paired Samples Test

Phase			Paired Differences					t	df	Sig. (2-tailed)
			Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
						Lower	Upper			
Pre-Experiment	Pair 1	Overall Category Average Selling Price - Overall Category Profit per day per square foot	585.99222	117.83332	39.27777	495.41751	676.56693	14.919	8	.000
Post-Experiment	Pair 1	Overall Category Average Selling Price - Overall Category Profit per day per square foot	704.54556	137.79745	45.93248	598.62506	810.46605	15.339	8	.000