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Win-Win Strategies at Discount Stores

Barbara Deleersnyder, Marnik G. Dekimpe, Jan-Benedict E. M. Steenkamp, and Oliver Koll

How can national-brand manufacturers and discount retailers work together to align performance objectives? This study offers new insights into the role of pricing and product factors in creating a win-win situation.

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Report Summary

Faced with the growing dominance of the discounter format in the retail packaged-goods sector, manufacturers of national brands are now scrambling to develop trade relationships with them. Previous research has assessed how one can gain at the expense of the other; in this paper, researchers examine how national-brand (NB) manufacturers and discount retailers can work together to create win-win situations.

The study, which examines the performance of 443 national brands at discounters in Germany, Spain, and the United Kingdom, considers three pricing factors:

- within-store price gap between the NB and the discounter's private label (PL),
- between-store gap between the NB's price at mainstream retailers and at the discounter, and
- absolute price level of the NB,

as well as three product factors (outer cases in which the NB is delivered, innovativeness of the NB, and the NB's intrinsic strength).

They find that 108 of the brands (24%) are win-win, which shows that it is indeed possible for the manufacturer's and the discounter's performance objectives to be aligned. The study also indicates that a large within-store price gap between the NB and the discounter's PL is a significant positive predictor of NB joint success at discounters, as is a large price differential between the NB's price at mainstream retailers and at the discounter. Further, the study showed that an attractive outer case is an effective marketing instrument and that more-innovative NBs offer more to both the discounter and the manufacturer than less innovative ones.

Discounters currently tend to set NB prices close to the NBs' prices at traditional retailers, but the findings of this study reveal that discounters may be missing an opportunity to improve their market share by increasing that price gap. Manufacturers, for their part, have an opportunity to increase their market share by investing in well-designed outer cases to make the NB stand out in what is otherwise a generally drab environment. ■

Introduction

Due to an increasing saturation in their home market, Western retailers have become involved in a fierce market-share battle, from which the discount format has emerged as one of the few formats that has managed to consistently grow. In 2002, for example, all regular German grocery retailers experienced a considerable sales drop (some by up to 10%), while leading discount chains, such as Aldi and Lidl, grew by up to 15% (IGD 2002). Not surprisingly, this success has led to a considerable expansion of the discount format across other European markets as well. Aldi and Lidl, which largely pioneered the concept, have entered foreign markets (each now operates thousands of outlets in more than ten countries). Several new discount chains have also emerged; these include Dia in France, Netto in Denmark, Rema 1000 in Norway, and Mercadona in Spain. In almost all instances, they successfully captured market share from "mainstream" retailers and now have a formidable market position (Bachl 2003). In the United States, large discount stores such as Wal-Mart have dominated the retail scene for many years (Coughlan et al. 2001). Recently, other, even more price-aggressive chains such as Dollar General, Family Dollar, and Save-A-Lot have enjoyed rapid growth in the U.S. market (Adamy 2005).

Discount chains distinguish themselves from more traditional retailers by their unrelenting focus on very competitive prices, their heavy reliance on store brands, and by offering a smaller number of SKUs per category (Aggarwal 2003). To offer lower prices, they typically use a simplified, "no-frills" store format with limited promotional and merchandising activity and few new product efforts (M+M Planet Retail 2005a). Their growing success is a major source of concern for national-brand manufacturers. First, their continued growth puts increasing pressure on traditional retailers to operate more efficiently, which they try to accomplish in part by putting more demands on their suppliers (Bloom and Perry 2001). As a consequence, national-brand (NB) manufacturers complain about worsening trade conditions with their traditional clients (M+M Planet Retail 2005a), increasingly fear that they will be delisted, and face more difficulties in getting their new offers on the shelves (Bloom, Gundlach, and Cannon 2003).

Second, and even more threatening, the growing success of discounters contributes to further, quasi-unobstructed, private-label (PL) growth. Discounters sell predominantly their own brands, and deemphasize national-brand offerings in their assortment. Aldi, which already accounted for 16.7% of the German grocery retail market in 2003, relies almost exclusively on its own store brands (Bachl 2003).

Manufacturers understandably deplore that they are largely excluded from this increasingly popular retail format, and therefore have tried to develop trade relationships with these discounters. Indeed, encouraging discounters to carry more manufacturer brands and deeper assortments may be an effective way to keep PLs in check (Dhar and Hoch 1997).

For their part, several discounters have developed an interest in adding NB offerings to their assortment. At present, price tends to be the dominant determinant of store choice for discount shoppers. This makes incumbent discounters' market position vulnerable should more-efficient discount competitors enter the market. As their density increases, discounters are looking for opportunities to differentiate themselves from one another, thereby moving beyond pure price-based competition (M+M Planet Retail 2005a). One important way to build stronger store loyalty and create a sustainable competitive advantage is to add attractive NBs to the assortment (Corstjens and Lal 2000; Dhar and Hoch 1997). As some discounters adopt this strategy, we see discounters falling into one of two categories: hard or limited-line discounters such as Aldi that offer almost exclusively PLs, and soft or extended-line discounters such as Lidl that include a limited set of branded items—often market leaders—in their assortment (Aggarwal 2003).

Having a balanced offering of both PLs and NBs may enhance that discounter's performance, as NBs are known to be major traffic builders (Ailawadi and Harlam 2004; Ailawadi, Neslin, and Gedenk 2001). The managerial relevance of this situation is nicely illustrated by a recent article in the popular press, showing that even Aldi appears to be no longer immune from the lure of NBs:

> *According to reports in Lebensmittel Zeitung, Aldi is in talks with Ferrero about the sale of Ferrero confectioneries at its stores as Germany's leading discounter is planning to win over customers from its biggest rival Lidl, which in addition to its private label ranges also sells a wide choice of manufacturers' branded products. Currently, Aldi's product range is made up of private labels almost exclusively.* (M+M Planet Retail 2005b)

In sum, both channel parties have a growing interest in collaborating with each other. In so doing, they may be able to move their traditional competitive relationship into a mutually more beneficial form of co-opetition (Brandenburger and Nalebuff 1996; Kumar, Scheer, and Steenkamp 1995). While intuitively appealing, this may not be easy. First, manufacturers' and discounters' interests are not necessarily aligned. Manufacturers' performance is mostly assessed in terms of their ability to acquire share over competing brands at the store, while discounters, like other retailers, evaluate performance primarily in terms of total category demand (Bayus and Putsis 1999; Raju 1992).

Second, for many years, manufacturers have been losing share to PLs, which has made PLs their most threatening competitor (Steiner 2004)—and discounters tend to rely even more on their PLs than traditional retail chains do. Third, both parties have limited experience in dealing with one another. While previous experience and research has resulted in many insights into how NBs can be successfully traded at conventional retailers (see, for example, the extensive literature stream on the Dominick's database in Pauwels and Srinivasan 2004 or Ailawadi, Kopalle, and Neslin 2005), some of these practices may be less appropriate when working with discounters. As indicated before, discounters have a strong price focus, which forces them to use a more simplified store format with narrow assortments, limited promotional and merchandising activities, and fewer new-product introductions—very different from mainstream or traditional retailers, with their strong focus on heavy marketing activities, attractive store layout, extended services, and seemingly unlimited assortment variety.

In this study, we make a partial attempt to fill this gap by examining how NBs can be traded successfully through the discount channel, resulting in positive performance for both manufacturer and discounter—a win-win situation. We study the performance of over 400 branded goods sold through six discount stores in three major European countries. Based on an analysis of the drivers of positive joint performance, we recommend that NB prices be set significantly higher than those of the discounter's PLs, but still at a lower price than regular retailers typically charge. Brand success is also greater when manufacturers pursue brand innovations and invest in attractive, well-designed, outer cases which the discounter can put unpacked in its store.

Drivers of Brand Success at Discount Stores

A national brand generates a win-win situation for manufacturer and discounter alike if it increases its sales at the discounter while simultaneously generating additional category demand for the discounter. Building on the win-win concept, we identify a set of pricing and product characteristics that may influence brand success at discount stores. The pricing factors are (1) the within-store price gap between the NB and the discounter's PL, (2) the between-store price gap between the price of the NB at mainstream retailers and its price at the discounter in question, and (3) the absolute price level of the NB. The NB product factors are (1) the type of outer cases used, (2) the innovativeness of the NB, and (3) the NB's intrinsic strength.

We discuss to what extent each driver may (1) influence the category's attractiveness at the store to improve the discounter's performance, and (2) affect the national brand's relative attractiveness within the category to improve the manufacturer's performance.

Pricing factors

Within-Store Price Gap. Consumers typically assess the acceptability of a brand's price by comparing it to some standard or reference, such as other prices listed in the store (Rajendran and Tellis 1994). A higher-priced NB is more likely to improve the overall attractiveness of the discounter's assortment, as the differential may signal superior or additional benefits (Bronnenberg and Wathieu 1996). This will result in less direct competition, since the NB caters to a different market segment than the discounter's PL, namely, quality-focused as opposed to value-oriented consumers. In contrast, closer substitutes with similar prices are less likely to improve category attractiveness, as consumers are largely indifferent to which of the similarly-priced offerings they choose (Bell, Chiang, and Padmanabhan 1999), resulting in larger cross-price effects (Sethuraman, Srinivasan, and Kim 1999). Hence, larger NB-PL price differences are expected to generate more incremental category demand, which benefits the discounter. Moreover, a higher-priced national brand will clearly stand out against the discounter's no-frills PL, so that incremental category demand is likely to accrue to the national brand as well, improving manufacturer performance. We therefore hypothesize:

H1: A larger price gap between national brand and private label is more likely to result in a win-win situation.

Between-Store Price Gap. A retailer's price image is one of the key factors in a shopper's decision to select a particular store format (Rhee and Bell 2002). As discounters are known to compete aggressively on price, consumers will expect the price of a given NB to be lower at the discount store than at mainstream retailers (Bell and Lattin 1998). When the between-store price gap increases, it becomes more beneficial to buy NBs at the discounter than at the more expensive mainstream retailer. Therefore, regular shoppers at mainstream retailers may switch stores (thereby increasing store traffic at the discounter), while consumers that generally shop across different stores (the so-called cherry-pickers) will also find it more attractive to buy the brand at the discounter (Hoch and Lodish 1998).

H2: A larger national-brand price gap between mainstream retailers and the discounter is more likely to result in a win-win situation.

National-Brand Absolute Price Level. Apart from the aforementioned relative price effects, the NB's absolute price level may also affect its sales at discount stores. In particular, the "one-dollar" concept, where prices of a substantial fraction (or all) of the assortment are set at a level below or equal to $1, has become popular with many U.S. retailers (M+M Planet Retail 2005a).[1] The success of one-currency-unit prices can be explained by the fact that when consumers evaluate prices, certain round prices (like "1") can form a psychological barrier that consumers use as a heuristic in their buying decision (Gedenk and Sattler 1999). Specifically, when prices are set equal to or below this level, consumers may underestimate prices, or the price may register as a favorable discount, which increases consumers' propensity to buy. As discounters are expected to attract predominantly price-sensitive shoppers, they may benefit when they stock NBs that are priced according to this strategy. Thus, when this pricing strategy for NBs is employed at discounters, it is expected to generate more brand sales, which may improve both brand and category performance.

H3: A national brand with an absolute price level that does not exceed one currency unit is more likely to result in a win-win situation.

National-brand product characteristics

National-Brand Outer-Case Design. The boxes in which products are shipped from the manufacturing plant to the retailer are commonly referred to as *outer cases*. While traditional retailers use them only for transportation, they may serve an important marketing purpose at discount stores. Indeed, to keep product-handling cost and shelf-replenishment time low, discounters often request easy-to-handle outer cases that can be put directly on the shelf. Richardson, Jain, and Dick (1996) show that consumers make extensive use of packaging and labeling in evaluating brands. If the NB is presented in an attractive outer case, consumers are likely to perceive it to be of higher quality, which will obviously benefit the NB. Moreover, an attractive NB outer case can make the entire category more salient in an otherwise plain and dull store environment. Therefore, presenting NBs in a nicely designed outer case is likely not only to improve its own attractiveness but also to raise category demand.

H4: The presence of an attractive national-brand outer case is more likely to result in a win-win situation.

National-Brand Innovativeness. Because of their heavy reliance on low prices, discounters typically do not engage in new product development (which is expensive), and they score poorly on innovativeness (Steiner 2004). Moreover, there is a tendency for PLs to be followers, or me-too brands (Hoch and Banerji 1993). Given that reality, a highly innovative NB will clearly stand out in a PL-dominated assortment, and the perceived distance from existing offerings will be higher. As such, an innovative brand may improve its relative position in the assortment (Nowlis and Simonson 1996). However, innovative NBs are also more likely to generate additional category demand, as they can make the discount store more attractive to the relatively untapped consumer segment that values innovativeness (Gielens and Steenkamp 2004). Indeed, brand innovativeness carries over to the evaluation of the assortment as a whole, which may raise category demand (Mason 1990).

H5: An innovative national brand is more likely to result in a win-win situation.

National-Brand Intrinsic Strength. In a similar vein, the addition of a leading, high-quality NB is expected to improve the perceived quality and variety of the discounter's assortment as the NB will stand out more against an otherwise PL-dominated assortment. More diversity helps to meet consumers' heterogeneous tastes better, which can raise total category sales by attracting new shoppers to the store who prefer leading, high-quality brands and by appealing to those discount shoppers who have been less satisfied with established offerings (Dhar, Hoch, and Kumar 2001).

H6: A leading national brand is more likely to result in a win-win situation.

Control variables

Several control variables are included, related to the degree of competition between NBs in the category (Drèze, Hoch, and Purk 1994), the discounter's strategic store-brand focus in the category (Dhar and Hoch 1997), and the type of category in question—food or nonfood (Dhar, Hoch, and Kumar 2001), as well as five store dummies (Dhar and Hoch 1997). Controlling for these variables provides for a stronger test of our hypotheses.

Method

Europanel, an international data provider owned by the global market research agencies GfK and TNS, provided us with aggregate performance data for 443 NBs from 2001 to 2002. These brands were sold through six major soft discount chains located in three large

European countries: Germany, Spain, and the United Kingdom. Consumer packaged-good (CPG) companies regard Germany and Spain as two key European markets with respect to discounters. Germany is by far the largest discount market in Europe. Discounter share is rapidly increasing in Spain, which is also the home of Mercadona, one of the most successful and fastest-growing soft discounters in Europe (IGD 2002). While discounters still occupy a lower share of total grocery sales in the United Kingdom, this format is experiencing tremendous growth in an otherwise stagnant market.[2]

In Germany, we studied NB success at the country's two largest soft discounters, Lidl and Penny, where PLs account in both instances for over 60% of total grocery sales. The Spanish discount chains we examined, Dia and Mercadona, are not only the country's largest discounters, but also the two most important Spanish grocery retailers. Both rely heavily on PL brands (more than 50% of total sales). Mercadona is a particularly interesting case as it increased its PL share from about 3% in 1997 to 51% in 2002, during which time its market share increased from 3.5% to 12.6%. The U.K. discounters in our study are Asda and Kwik Save. Asda, since 1999 a wholly-owned subsidiary of the U.S. chain Wal-Mart, is seen as one of the most price-aggressive grocery retailers in the United Kingdom and is especially known for a strong emphasis on its PL program. PL sales represent over half of total grocery sales at both Asda and Kwik Save (M+M Planet Retail 2005a).

The NBs were provided by local divisions of Europanel in Germany (106), Spain (125), and the United Kingdom (212) and cover a wide range of CPG categories, including breakfast cereal, yoghurt drinks, dental floss, air fresheners, frozen vegetables, cat and dog treats, and sanitary cleaners, among others.[3] For each brand, Europanel provided the following performance information: (1) the change in brand share within the discounter and (2) the change in total category share commanded by that discounter.[4] We used market share information rather than absolute sales or profits because market share (1) implicitly controls for changes in total market demand (e.g., growth or decline caused by economic conditions), on which firms themselves generally have little impact, (2) is a better predictor of the effectiveness of managerial decisions, since a brand's market share is relative to that of competing brands, and (3) is easier to derive than brand profitability (Dhar, Hoch, and Kumar 2001). We focused on *changes* in brands' shares as most managers seek profitable long-run growth for their products and services (Nijs et al. 2001). Moreover, a positive evolution in performance for both the manufacturer and the discounter makes it more likely that their collaboration will be continued. For manufacturers, growing their brand share at the store is a key strategic objective that will allow them to occupy a more favorable position at the chain and is likely to result in higher future cash flows (Varadarajan 1983).

The discounter's total category share is its share of total (national) market sales in the product category. We evaluated the evolution in category share against the evolution in the discounter's market share across all categories. We considered it a win scenario for the discounter when growth in a particular product category exceeded growth in overall performance. This is especially relevant for discounters that grow across most, if not all, categories. Dhar, Hoch, and Kumar (2001) applied a conceptually similar "correction" by calculating a "Category Development Index" that was the ratio of retailers' share in a particular category relative to their total market share across all categories.

Combining both measures, a NB is considered a win-win brand if (1) it is able to grow its share relative to competing brands at the discounter while at the same time (2) growing the discounter's share in total category sales at a faster rate than the discounter's growth across all categories.

To analyze the impact from the hypothesized drivers and control variables discussed earlier,

Table 1

Summary Statistics

Variable	Source	Measurement unit	Mean (st. dev.)
National-brand performance (win-win or not)	Consumer panel	0-1	24%
National-brand price	Consumer panel		
Within-store price gap		ratio	2.04 (1.49)[a]
Between-store price gap		ratio	1.04 (.20)[a]
Low absolute price level (≤1)		0-1	24%
National-brand outer-case design	Store check	0-1	
Nicely designed outer case			6%
Brand-claim-only outer case			23%
Plain outer case			12%
No outer case in the store			59%
National-brand innovativeness	Expert judges	0-1	56%
National-brand intrinsic strength	Consumer panel	percentage	14% (16)
National-brand competition	Store checks + consumer panel	number	7 (6)
Discounter's store-brand focus	Consumer panel	percentage	41% (27)
Food category indicator	Expert judges	0-1	73%
Discounter indicator	Consumer panel	0-1	
Penny			12%
Lidl			12%
Dia			14%
Mercadona			14%
Asda			32%
Kwik Save			16%

[a] To better interpret the price variables, we report the price ratios prior to their log transform.

we obtained additional consumer panel data in combination with two other data sources: store checks and expert judgments based on qualitative surveys. Details on their operationalization can be found in the appendix. Table 1 summarizes the relevant descriptive statistics for each of our variables.

Table 1 shows that the branded goods included in this study exhibit substantial variation in absolute and relative price, brand strength, brand innovativeness, as well as in the control variables. Based on our performance criteria, out of 443 brands analyzed, 108 brands (24%) were classified as win-win, which illustrates that it is indeed possible for the manufacturer's and the discounter's performance objectives to be aligned.

Given our objective—to test factors underlying the probability that a NB will be a win-win brand or not—our dependent variable is dichotomous. Therefore, we used a probit model to link this binary dependent variable to the set of drivers advanced in the section on drivers of brand success at discount stores, as formalized:

$$Pr(WIN-WIN) = 1 - \Phi(-X'\beta) = \Phi(X'\beta), \quad (1)$$

with $\mathbf{X}$ being the vector of independent variables in the model, β denoting the vector of associated parameter coefficients informing on the direction and significance of each variable in $\mathbf{X}$, and Φ the cumulative distribution function of the standard normal distribution. As the NB cases were sampled from six different discount

Table 2
Parameter Estimates

Variable		Coefficient[d]
Within-store price gap	(H1)	**.401[a]**
Between-store price gap	(H2)	**.710[b]**
Low absolute price level	(H3)	.169
Nicely designed outer case	(H4)[e]	**.528[c]**
Brand-claim-only outer case		.195
Plain outer case		–.149
National-brand innovativeness	(H5)	**.390[a]**
National-brand intrinsic strength	(H6)	.108
National-brand competition		.004
Discounter's store-brand focus		.059
Food category indicator		**.458[a]**
Lidl		**.505[c]**
Mercadona		.299
Dia		.317
Asda		.425
Kwik Save		.358
Intercept		**–1.987[a]**
$N = 443$	$\chi^2(8) = 18.55$[b]	

[a] $p < .01$; [b] $p < .05$; [c] $p < .10$; [d] p-values are one-tailed for directional effects (H1–H6) and two-tailed otherwise (control variables and fixed effects); [e] Due to missing observations for this variable, the corresponding estimate is based on a limited data set of 329 observations

stores, a fixed-effects correction was used to account for potential store differences.

Results

The probit model was able to explain the difference between win-win brands and others to a significant degree (likelihood ratio $\chi^2(8) = 18.55$; p-value = .02). An overview of our key findings can be found in Table 2.[5]

Consistent with H1, the within-store price gap was found to be a significant positive predictor of NB success at discounters ($\beta = .401$; $p < .01$).[6] Thus, a larger price difference between the NB and the store's PL improves NB performance for both the manufacturer and the discounter. Further, as expected (H2), the between-store price gap was positive ($\beta = .710$; $p = .04$). A larger price differential between the NB's price at mainstream retailers and at the discounter is more likely to result in a win-win situation. H3 pertained to the one-currency-unit concept (i.e., prices that do not exceed €1 or £1). Although the effect was in the expected direction, it failed to reach statistical significance ($\beta = .169$; $p = .15$).

Attractive NB outer cases were found to be an effective marketing instrument when selling NBs through the discount channel, as posited in H4.[7] The dummy associated with NBs sold at the store in attractive, nicely-designed outer cases was positive and significant ($\beta = .528$; $p = .07$). Note, however, that presenting the NB in a plain outer case, or simply putting a brand claim on it, is insufficient to improve its performance ($p > .10$ in both instances).

Our results also supported H5. Compared to less-innovative NBs, innovative NBs were found to be more successful at the discounter ($\beta = .390$; $p < .01$). Finally, it appears that powerful NBs are not necessarily more successful at the discounter, as the parameter associated with NB strength failed to reach statistical significance ($\beta = .108$; $p = .42$). Thus, H6 is not supported.

Discussion

The successful development of discount stores and those stores' deemphasis of NBs is a major concern of branded-goods manufacturers. Manufacturers feel increasingly compelled to develop (stronger) trade relations with discounters, as this allows them to benefit from the discounters' rapidly growing market position and offers the possibility of slowing down overall private-label growth. Well-known discounters such as Lidl, Mercadona, and Kwik Save have extended their assortment with attractive NB offerings as a strategy to differentiate themselves from other discounters and to build stronger and more sustainable consumer relations, thereby moving beyond purely price-based competition. In trading NBs through the discount channel, it is critical to establish a win-

win situation for both partners. If the manufacturer is able to benefit from selling its NB, but only at the expense of the discounter's own (store or other) brands without contributing to its overall category performance, the collaboration is unlikely to last long. Indeed, if the manufacturer is unable to offer discounters the desired performance benefits, there is a chance that the latter will switch to a competing manufacturer that will take over scarce slots on the shelf. In sum, given the limited number of NB positions and the considerable number of potential branded candidates, it is in the manufacturer's best interest to understand which brands to bring to the store and how to sup-port them in order to create a win-win situation.

In this study, we collected information on over 400 NBs sold at six major discount chains in three countries, and we evaluated their contribution to the performance objectives of both channel members. We found that almost one-fourth (24%) of all branded goods in the sample were considered successful for both partners. Earlier research has predominantly assessed how either channel partner can gain at the expense of the other (see, e.g. , Sethuraman, Srinivasan, and Kim 1999; Steenkamp and Dekimpe 1997). We show that *both* channel members can improve their performance, creating a more sustainable win-win situation.

This study provides new insights into the impact of both price- and product-oriented factors in creating a win-win situation. Discounters and manufacturers both benefit from a large price difference between the NB and the discounters' PL variant. A large price gap signals that the NB and the discounter's PL are not mere substitutes, but rather that they target different consumer segments or purchase occasions. This result extends established findings by Dhar and Hoch (1997). They found that larger price differentials exert an important positive influence on store-brand performance. We show that this strategy simultaneously benefits the manufacturer.

The NB price charged by discounters is usually very similar to the price charged by other retailers (see Table 1). It appears that discounters are maximizing the within-store price gap (as their private labels are usually lower priced than the private labels of mainstream retailers) and trying to manage their price image using their private labels. Discounters may be missing an opportunity here. NBs play a key role in consumers' evaluation of the price image of a store, and we find that a larger difference in the price of the NB at mainstream retailers and at the discounter results more often in a win-win situation.

We find no evidence for the efficacy of the popular one-currency-unit concept for NBs at discounters. However, our finding that absolute price level does not limit an NB's ability to perform well is important for discounters who prefer larger package sizes, given that the absolute price level for those large sizes can become quite substantial.

As discounters operate in a simplified, no-frills store environment without much merchandising or promotional activity, a NB's ability to stand out and attract consumers' attention is more limited. In order to reduce costs, discounters often do not unpack the outer cases when displaying NBs in their store (see Table 1: 41% of NBs were unpacked in an outer case). Based on our results, we recommend that manufacturers invest in creating attractive, nicely designed outer cases for their NBs shipped to discounters; we also advise discounters to present these NBs in their shop in these well-designed outer cases. Thus far, few manufacturers have taken advantage of this box as a marketing tool: only 14% (6% of 41%) of the outer cases presented in the shop were nicely decorated and attractively designed. Note too that a simple brand claim on the box is not sufficient to improve NB performance. Given that discounters make extensive use of outer cases, while not many manufacturers are currently taking full advantage of the outer case's marketing potential, this is an important new finding that is likely to improve NB performance at the discount channel.

When deciding which NBs to sell at discount chains, it is advisable to add innovative NBs. Over half the NBs in our sample (56%) were involved in product innovations in the past three years (see Table 1). Manufacturers are encouraged to invest in brand innovations for their offerings at the discounter. These results generalize the results of earlier studies on NB performance at regular retailers, which found that new product activities are one of the strongest weapons in the manufacturers' arsenal to compete with other brands on the shop floor (Steiner 2004). Innovative brands not only stand out more in a discounter's low-innovation (PL-dominated) assortment, they can also enhance the attractiveness of the entire category. Finally, it is not necessary to pick only the more popular NBs. Less popular, but perhaps more targeted, branded goods can be sold successfully at the discount store.

In sum, even though at present manufacturers have only limited influence on how discounters carry out their operations, their influence may grow, provided they are able to demonstrate the mutual benefits of their recommendations (IGD 2002). The current study has yielded a number of interesting new insights regarding selling NBs through discount stores. Several aspects remain in need of further study, however. Future research might investigate NBs' contribution to profitability as opposed to market share. This is especially relevant when consumers switch between brands that make a different contribution to total category profitability. Another fruitful research direction is the broader impact of NB additions across different retailers, including discounters. ■

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Appendix: Variable Measurement

Within-Store Price Gap
All retail price information was obtained from 2002 consumer panel data. In line with Nijs et al. (2001), average unit prices were derived by dividing total annual value sales by the corresponding volume sales. The price gap between the manufacturer's brand and its most important competing PL at the store is defined as the ratio of the NB price to the PL price (for equivalent units). This is conceptually similar to the operationalization by Dhar and Hoch (1997). Since this approach tends to skew the variable distribution (values below 1 are restricted to a range between 0 and 1, while values above 1 have no upper limit), we follow common econometric practice and use the log-transformation of this ratio in our analysis (Ruppert and Aldershof 1989). In the few instances where multiple PLs are carried by the discounter, the store brand that occupies the largest shelf space in the store was chosen as the benchmark.

Between-Store Price Gap
In a similar way, the between-store price gap reflects the difference in price between the NB when sold at mainstream retailers and the NB when sold at the discounter in question. It is quantified by the (logarithm of the) ratio of the average, market-share-weighted NB price charged at regular retailers to the NB price charged by the discounter.

Low Absolute Price Level
Prices are expressed in local currencies (pounds in the United Kingdom, euros in Germany and Spain). Following Rao and McLaughlin (1989), an indicator variable is used to determine whether NB prices are higher or lower than €1 or £1.

National-Brand Outer-Case Design
Data on NB outer cases were obtained through store checks and refer to the boxes that contained the NBs in our sample. To operationalize the attractiveness of the outer case, four classes were distinguished: (1) no outer case available, (2) plain outer case, (3) outer case with only a brand claim, and (4) a nicely designed outer case. Based on this coding, three dummy variables were created that were set equal to 1 if the outer case belonged to a particular class, and 0 otherwise. During store checks, information could be traced for 329 branded goods in our data.

National-Brand Innovativeness
Expert judges at Europanel assessed the degree of NB innovativeness (see Steenkamp and Gielens 2003 for similar expert assessments). They were asked to indicate for each NB whether it had been involved in innovative activities (e.g., added a new ingredient or improved its effectiveness) over the past three years. Information on NB innovativeness was subsequently represented by a dummy variable with a value of 1 if the NB was involved in new product innovations during that period and 0 otherwise.

National-Brand Intrinsic Strength
Following Gielens and Steenkamp (2004), we operationalized NB intrinsic strength through the brand's market share, which we derived from consumer panel data. To avoid potential endogeneity problems, 2001 (rather than 2002) data were used to construct this measure.

National-Brand Competition
Following Raju, Sethuraman, and Dhar (1995) and Steenkamp and Gielens (2003), we operationalized national-brand competition at the discounter as the number of competing brands present on the discounter's shelves. In Germany and Spain, we gathered this information by means of store checks. In the United Kingdom, we relied on consumer panel data.

Discounter's Store-Brand Focus
In line with earlier studies (Dhar, Hoch, and Kumar 2001), we quantified PL focus or PL success in the category as the category share occupied by the store brand in the discounter's store. Again, to avoid potential endogeneity problems, 2001 data were used.

Category Type Indicator
We used a category dummy variable to differentiate food (1) from nonfood (0) categories.

Discounter Indicator
Finally, we used five discounter-specific dummy variables as a fixed-effects correction for store differences.

Notes

1. While 99-cent endings were very popular in the past, pricing supermarket articles below or exactly at one dollar is a more recent phenomenon popularized by discounters such as Dollar General and Family Dollar. It has recently been expanded to several other retailers, including Albertsons, which introduced a "dollar zone" in its outlets (M+M Planet Retail 2005a).

2. In 2002, U.K. discounters were able to grow their total sales by 15% (M+M Planet Retail 2005a).

3. The various brands were selected by local data providers prior to their receiving any information on the covariates we would consider in our model, which limited potential sample-selection bias. Moreover, the categories covered in our study are representative for the operations of the particular discounter, as the NBs' average category share at the discounter closely resembles the total market share of that discounter in its particular country. NBs' average category share at Lidl, for instance, as derived from our sample information in 2002, was 7.5%, which is close to the national market share of Lidl in Germany that same year (7.4%). The corresponding category shares for NBs at the other discounters (as derived from our sample) were 3.5% at Penny, 13.9% at Mercadona, 14.0% at Dia, 12.6% at Asda, and 3.2% at Kwik Save, while those discounters' national market shares across all categories were 3.6% (Penny), 13.8% (Mercadona), 11.7% (Dia), 12.7% (Asda), and 2.8% (Kwik Save).

4. All market shares in this study represent value shares (price × quantity) as opposed to volume shares (quantity).

5. The likelihood ratio test compares the full model, with 13 predictors, with the fixed-effects-only model that includes only five store indicators, resulting in eight degrees of freedom.

6. Unless noted otherwise, all reported *p*-values are one sided.

7. Due to missing observations, the parameter estimates associated with the outer-case dummies were obtained from a reduced data sample of 329 observations. In estimating this model, the findings on all other covariates remained substantively the same.

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