

CUSTOMER SERVICE RESPONSIVENESS OF NATIONAL AND INTERNATIONAL PRIVATE LABEL DISTRIBUTORS AND MANUFACTURERS

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ABSTRACT

This exploratory study looked at the level of customer service of national and international private label distributors and manufacturers. Private label retail products have exponentially increased in the United States and internationally. Retailers are adding more private label products to their product lines, improving revenue while also offering consumers alternatives to the lower margin national brand products. Retailers are indeed directly involved in customer satisfaction; however, private label organizations do not typically deal directly with the public or final consumer in the retail distribution channel. Private label organizations work within the channels of distribution to move goods to the retail floor. What is the commitment of these organizations in providing consumer satisfaction beyond the retailer to the end user or final retail customer? Private label organizations were identified for the study using the 2003-04 Private Label Directory. To ensure a large "n," the domestic and international private label food distributors and manufacturers were used in the study. Selected for the study were 363 United States (U.S.) and 152 foreign organizations. Customer service was measured against communication responsiveness (e-mail and time), usefulness, and quality.

Over 66 percent of organizations researched either failed to respond to the e-mail request for information or had an invalid e-mail address. Of the 515 e-mail requests sent out by the researchers, 231 (44.9 percent) organizations failed to respond within the designated time-out period. Primary responses generated by a human and received within the first 24 hours totaled 96 (18.6 percent). An additional 32 (6.2 percent) responses generated by humans were received by the end of the second day.

Based on the results of this exploratory study, it appears further research is needed in private label manufacturers and customer responsiveness.

Introduction

Once termed "generic" products, the growth of private label brands has intensified since the early 1980s. Private label brands now represent one of every five items (17 percent) sold daily in U.S. supermarkets, drug store chains, and mass merchandisers (Damon,

2004; PLMA, 2004), resulting in more than \$50 billion of current U.S. retail sales. European private label brands, a much more mature and established industry than in the U.S., represent over 35 percent of European retail sales (PLMA, 2004). Today over 3,000 businesses worldwide offer private label products.

According to the Private Label Manufacturers' Association (PLMA), U.S. shoppers like private label brands, also known as store brands, and accept these products like any other national brand. "In a landmark nationwide study by The Gallup Organization, 75 percent of consumers defined store brands as 'brands' and ascribed to them the same degree of positive product qualities and characteristics – such as guarantee of satisfaction, packaging, value, taste, and performance – that they attribute to national brands. Moreover, more than 90 percent of all consumers polled were familiar with store brands, and 83 percent said that they purchase these products on a regular basis" (www.plma.com, 2004).

Private label brands are becoming the category leaders for milk, cheese, paper napkins, and many other products found in supermarkets, drug store chains, and other retail outlets. Private label sales have grown and outperformed many national brands as consumers are getting used to the cost savings and improved quality of private label brands.

Marc Levinson, of JP Morgan, concluded in an analysis that private label brands in food have gained shares in many categories, at the expense of top brands. The analysis showed total sales in 85 food categories in supermarket and drug channels grew 7.8 percent during a four-year period ending in June 2003. For those same segments, besides milk sales, private label brands gained 11 percent, which is almost twice the rate of branded items. Name-brand products gained share in only 17 categories (Anonymous, 2003).

In the early 1990s, retailers realized not only the importance of managing store brands, but also the importance of building a strong relationship with private label suppliers and manufacturers (Weinstein, 1994). Today's retailers outsource to many suppliers

and distributors to offer their customers the optimal merchandise mix. The use of private label brands is one retail strategy to meet the needs of diverse customers, with retailers relying on private label suppliers to efficiently supply products.

Critical to retail management success is the integration of a total distribution approach or supply chain management. Regardless if one refers to this as supply chain management or efficient distribution, one common thread to success is a focus on the end-user or customer throughout the movement of the product. Dadzie, Chelariu, and Winston (2005) emphasize the importance of customer service to logistics supply chain through web design. Their study found that that only retailers had a significant impact on customer service and loyalty, with other channel members lacking in customer service responsiveness.

Successful organizations focus on customer relations in each critical area of the supply chain. Auroamo, Kauremaa, and Tanskanen (2005) studied the importance of IT in supply chain management, finding that technology improves customer service throughout the channel. Lambert (2004, p. 2) succinctly describes effective supply chain management as: ". . . executives in leading organizations are recognizing supply chain management as the management of relationships across the supply chain." This includes customer relationship management (CRM) and customer service management (SRM). Lambert's model integrates CRM and SRM throughout the channel of distribution, including the focus on the end-user or the retail customer.

Steve Rubow, having worked in the private label industry for over three decades, states that customer relationship marketing is critical for all levels of the distribution channel (Rubow, 2004). This is more than just using customer data for improving customer relations, but also entails communicating with the customer. Private label are "brands" in themselves, and private label suppliers and manufacturers must manage the brands (Rubow, 2004). Private label suppliers and manufacturers are inextricably connected to the end-user.

Clearly, private label brands are effective in the marketplace. Supply chain management literature tells us that effective supply chain management must include a focus on the end-user of the private label brands. Research is lacking, though, on the customer service responsiveness of private label manufacturers and suppliers. The purpose of this

exploratory study was to determine how responsive private label organizations are to the end-user.

METHODOLOGY

This study was designed to explore the rate of customer service responsiveness among manufacturers and distributors with the end consumer. Private label organizations do not typically deal directly with the public; their growth and primary business is in manufacturing and/or distributing private label products directly to retail outlets. Of course, consumers are the target of these retailers.

Private label organizations were chosen from the 2003-04 Private Label Directory. After choosing the food industry from the multiple categories listed in the Private Label Directory, the researchers compiled a list of possible organizations located within and outside the U.S. Researchers selected 363 U.S. based organizations as well as 152 foreign-based organizations for the study.

In order to ensure consistency and fairness in the study, all selected organizations were sent the same generic e-mail request for information: "I recently came across some information about your products. Could you please tell me what stores and locations have your products available? Thank you. [signed consumer]"

For further consistency, organization responses are tabulated based on the number of business days between the delivery of the original message and their response. Messages that are sent after business hours have ended, based on the location of the organization's operations (domestically or internationally), are tabulated as being sent the following day. These standards allow businesses of all sizes and locations to have equal advantage for responding to a retail customer.

When a response was received, the lapsed time was tabulated. In the event that an organization needed additional information before responding, information from the researcher's fictitious consumer was provided and the subsequent time of response recorded, based on adding the original response time with the number of business days between the delivery of additional information and the organization's final reply. Requested information by various private label organizations included, among other information, location of end user, specific product interest, and knowledge of the organization. The same location of the consumer was provided (the Seattle area) and, when product interest was

requested, a random product was chosen from the organization's product offerings.

Responses were divided into nine basic categories: invalid e-mail address, automated response, response on first day, response on second day, response on third day, response on fourth day, response on fifth day, response within second week, and no response within the time period. Same day responses as well as next day responses are tabulated as first day responses. When an organization sent only one response message, the analysis was measured on that time. If two or more responses were received, the analysis was conducted with a time that is calculated in one of two ways. If the multiple responses are either equal in lapsed time or within one day, the lesser response time was used. If the lapsed times differ by more than one day the average response time was calculated and used in measuring customer service.

If an automated response was received before an actual response, all data was based off the actual response. In the event of an invalid e-mail address, the entry in the directory created for this study was reviewed and compared to the original entry in the 2003-04 Private Label Directory. If a keying or entry error had been made, the organization was once again contacted, this time at the correct e-mail address, with the identical generic consumer message. Response time was based off the new sent date rather than the previous.

Data was also collected for each organization based on product line, advertisement, usefulness of response and perceived attitude. Organizations were categorized by product line: baking and supplies, beverages, bread products, canned items, dairy, dressings and sauces, dry mixes, fruits and vegetables, meats, snack foods and candies, or other/multiple product lines. Organizations with Private Label Directory advertisements are compared with those without advertisements using the organization logo as an identifier.

The analyses of usefulness and perceived attitude were tabulated by the depth of information provided and the language and diction of the response. Usefulness was categorized by not applicable, not useful, somewhat useful, very useful, and extremely useful. Attitude was categorized as not applicable, poor, fair, good, or excellent. These two categories were indeed determined by the researchers' personal opinion, but personal opinion was viewed as valuable to the final analysis of customer service.

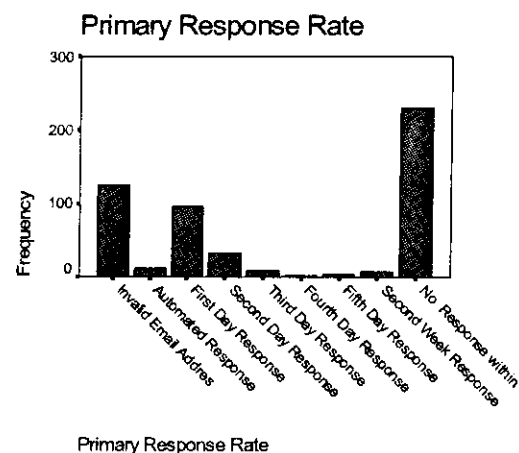
The private label customer service level was measured by region (U.S. vs. foreign organizations) and analyzed based on the same personal opinion standards. The results for each group is measured based on organization location, product line, advertisements, usefulness, and perceived attitude.

DISCUSSION

Primary Response Rate

Of the 515 e-mail requests sent out by the researchers, 231 (44.9 percent) failed to respond within the designated time-out period, as seen in Table 1.

TABLE 1



Approximately 124, or 24.1 percent, of the 515 private label organization e-mail addresses used by researchers appear to be invalid and therefore generated non-delivery reports (NDRs). Of the remaining responses received, approximately 2.3 percent (12) were auto-generated responses sent by pre-configured auto-response software running on e-mail servers. Primary responses generated by a human and received within the first 24 hours totaled 96 (18.6 percent). An additional 32 (6.2 percent) responses generated by humans were received by the end of the second day.

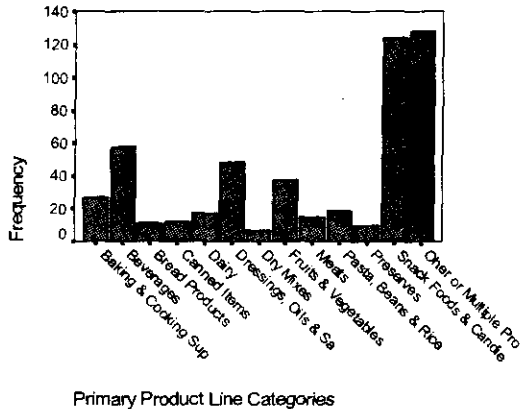
Primary Response by Product Line

The Snack Foods and Candies product line had the highest return rate of an individual product line, responsible for approximately 24.1 percent of the total primary responses, as shown in Table 2. The Snack Foods and Candies product line had a significantly larger percentage of responses than the next best categories: Beverages, with an 11.3 percent response rate; Dressing, Oils and Sauces,

with 9.3 percent of e-mail responses; and Fruits and Vegetables with 7.4 percent rate of e-mail responses. The "Other or Multiple Product Lines" had the highest rate of responses with 24.9 percent. However, this category combines different product lines controlled by one organization and so a direct comparison with single organization product lines may not be statistically accurate. (See Table 2).

TABLE 2

Primary Product Line Categories

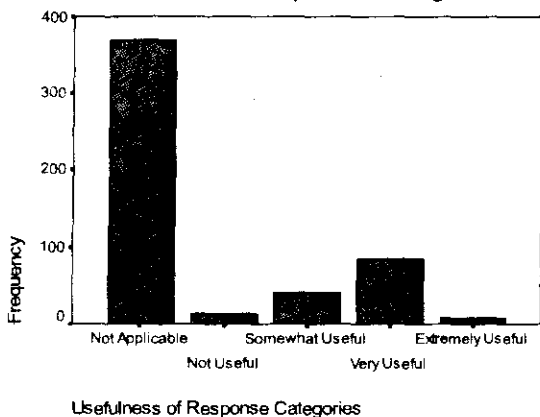


Usefulness of Response Categories

Of the e-mail responses received by researchers, 85 (29.9 percent) had no measurable "Usefulness of Response" value. Combined with both those that never responded and those that did, 369 (71.8 percent) were labeled as not applicable to the end user. Of those rated with some usefulness, 13 responses (2.5 percent) were deemed "not useful" by researchers, 39 (7.6 percent) were "somewhat useful", 85 (16.5 percent) were "very useful" and 8 (1.6 percent) were "extremely useful" (See Table 3).

TABLE 3

Usefulness of Response Categories

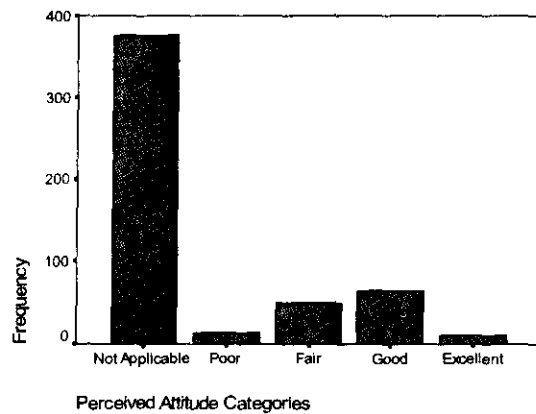


Perceived Attitude

Of the e-mail responses received by researchers, 92 (32.3 percent) had no measurable "Perceived Attitude" value. Combined with both those that never responded and those that did, 376 (73.4 percent) were labeled as not applicable to the end user. Thirteen replies (2.5 percent) were rated to have a perceived attitude of "Poor," 47 replies (9.2 percent) were deemed to have a perceived attitude of "Fair," with 65 replies (12.7 percent) perceived as "Good." Only 11 (2.1 percent) of the e-mail replies were considered to have an "Excellent" attitude (See Table 4).

TABLE 4

Perceived Attitude Categories



Comparison of U.S. and Foreign Private Label Organizations

When categorized by U.S. versus foreign private label organizations, expedient customer service e-mail replies from international private label companies fared better with 19.6 percent of U.S. companies returning a reply within the first five days of the request and 33 percent of the global companies returning a reply within the first five days of the request.

When evaluating the "Usefulness" of the e-mail reply, U.S. private label companies accounted for 18.8 percent on "very useful" and "extremely useful" with global companies at 16.4 percent "somewhat" or "very useful. Both regions had a number of "somewhat useful" and "not useful" reply e-mail (U.S. = 8 percent/ global = 15.8 percent).

When looking at "Perceived Attitude Value" the global private label organizations did better when compared to U.S. organizations. The evaluation of the e-mail on "Perceived Attitude" data from U.S. organization replies indicated that 15 percent of the U.S.

companies replied using a "good" or "excellent" demeanor in their e-mail. Global companies rated at 25.7 percent. Again, both regions had a number of "fair" or "poor" Perceived Attitude reply e-mail (U.S. = 10.2 percent/ global = 17.1 percent). Table 5 highlights some of the reply commentaries.

TABLE 5

Select Replies by Private Label Suppliers

- We are primarily a private label packer. We do sell both Winco and Western Family tomatoes products in your area. It is not clear to me what specific product you have interest. Please be specific in your request for information.
- We sell primarily to manufactures and distributors. Where are you located, and what products are you interested in getting?
- Which products are you interested in? And where did you hear of us?
- Thank you, now tell me who you are and we will be delighted to give a complete list of products and stores.
- Thank you for your inquiry. We sell to the following chains but we are not in all of them: Wal-Mart, Rite-Aid, Target, K-Mart, Office Max, B-J's, and CVS (only under private label). You can also purchase our candy on-line by the following the below instructions.
- We do not have any stores that handle our products in your location. I would suggest you go to our Retail Web site and order from it. Thank you.
- Hello. We received your email. Are you a consumer or a business?
- Try Lawson Creek Red Ale, available at Fred Meyer. I would call ahead for availability. Smooth taste with a robust amber head- very nice brew style. Cheers, XXXX
- We are in numerous stores throughout the Texas and Louisiana. Depending on where you are, you may be able to find us in H.E.B., Market Basket, Sam's Club or Super Wal-mart. If you can provide us with your approximate location, we can give you a better idea of where to find our products. Thank you so much for your interest in Dougel's Rice & Roux. HAVE A NICE DAY!!!
- Thank you for that information. We've checked our records and found that you can buy a nice selection of Sargento shredded and sliced cheese at the following supermarkets in your area. Thank you for your interests in Sargento Foods Inc. and our products. If you'd like to give me your complete postal address, I'd be happy to mail you some recipes and a coupon.
- Thanks for your interest in our products. Our products can be found in just about any health

food store that carries frozen foods, all Whole Food Markets. If you'll send me your zip codes I'll be better able to get a store near you.

- Thanks for the e mail. We occasionally sell these products to Big Lots! Its best to periodically check the nearest location to see if they are in stock.
- The only stores that have placed a recent order with us are: Lake Chelan Winery & Bear foods Market both are in Chelan, WA. Then there's Trader Johns in Entiat, WA. I can send a catalog if you like. Thanks & hope this helps

DISCUSSION

Over 66 percent of organizations researched either failed to respond to the e-mail request for information or had an invalid e-mail address. This becomes problematic in an industry now developing marketing strategy to compete with national brands. Customer service with the end user is touted as one of the elements to strong private label distribution and acceptance (Rubow 2004). Indeed, if the goal is to have communication throughout the supply chain to move private label brands to the customer, such a large failure to respond in a major trade directory does not bode well. Private label suppliers should review their printed and other communication material for accuracy (e.g. e-mail, telephone, web address) as well as review their IT infrastructure for malfunctions (e.g. non-delivery reports – NDRs, database errors, networking errors). Further research is needed to determine why such a high percentage of "failed" responses occurred.

What are the attitudes of the organizations toward customer service responsiveness? The Usefulness of Response Categories suggests that of the few e-mail replies with substance, the private label suppliers are not grasping the use of e-mail communication as an effective tool for generating strong brand loyalty. In fact, of those responding, only 35.2 percent of those private label companies replying to the customer were effective in promoting goodwill or in advising the customer where he/she could locate a particular product in a local marketplace. Of those private label companies replying, 40.7 percent demonstrated a positive Perceived Attitude in their reply correspondence. The Perceived Attitude of those few replies also suggests the private label industry does not understand customer relations. Beyond expressing where to locate a private label product, the tone sets the stage for long term customer relations.

Future research should look at the attitudes of the organizations toward the utilization of e-mail in a business and customer service environment and the

organizations e-mail processing procedures (nonexistent or ineffective)? Perhaps at one time, these organizations believed having an e-mail address that could be used by customers was a good idea. Why then have so many organizations not maintained that functionality? The researchers of this paper are also exploring other areas of private label and the IT component of customer service of private label suppliers using e-mail as a part of their communications mix.

To this end, a recent article in Beverage Industry (2003) exhorts the importance of customer service in private label business. Private label as an industry is aggressively building their businesses, including a customer focus as an important element of their business. Based on the research by Dadzie, Chelariu, and Winston (2005) and this exploratory study, it appears further research is needed in private label manufacturers and customer responsiveness. Additionally more research is needed to better understand the importance and IT functionality of e-mail, web technologies, and general electronic communications throughout the private label supply chain.

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