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## **Marketing Innovation in the Modern Distribution Channel with Use of Own Brand**

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## **MARKETING INNOVATION IN THE MODERN DISTRIBUTION CHANNEL WITH USE OF OWN BRAND**

### **Summary**

The research problem dealt with in the paper concerns the identification of the types and significance of marketing innovations in the scope of using the private label in a modern distribution channel of retail trade. The authors sought an answer to the question regarding the scope and diversity of marketing innovations used in modern distribution channels and own brand forms. The search for the answer to the question was based on a review and analysis of the subject literature, analysis of secondary data of domestic and foreign research centers / agencies. It was found that modern marketing channels use marketing innovations in a broad sense, in order to improve the functioning of a commercial enterprise and to increase the level of marketing utility offered to consumers. Marketing innovations and the use of own brands stimulate the sales of retail chains and are a sphere of expanding the experience space of the buyers, for example through the use of modern technologies in the communication, service, purchase processes, the involvement of buyers facilities in large-area stores. In the modern channel, is observed the use of third-generation own brands.

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Marketing innovations in the marketing –mix area applied by modern channel participants are of fundamental importance for shaping the value for the buyer.

**Keywords:** marketing innovation, modern distribution channel, own brand

**JEL codes:** O32, M3, M4

## Introduction

The importance of marketing innovations is growing in the creation and maintenance of competitive advantage through the brand's own activity in the modern distribution channel. An important factor determining the development of the market of own brand products is the trend of smart shopping. This trend aims to optimize shopping carts. It invests consumer time in analyzing product characteristics, searching for promotion information, comparing offers and saving. The consequence of this trend is the emergence of a smart shopper, for whom the price of the product is relevant to its quality, composition, functionality and the real need to own a product (Reformat, 2014, pp. 611–624). Over the last decade, the private label has grown at a rate that is at least twice as fast as the famous brands (Linkoln, Thomassen, 2012, p. 13). The development and implementation of marketing innovations in the brand's own space in the modern distribution channel is an important factor in the competition within the channel as well as its participants with external competitors. It also requires a sphere of co-operation within the value chain to deliver an ever-increasing level of consumer satisfaction through marketing innovation. The purpose of the paper is to present the importance and types of marketing innovations in the modern retail distribution channel and use of the private label as a marketing innovation area in the modern channel.

### 1. Marketing innovations – concepts and applications

Commercial activity is characterized by a high level of innovation in creating and delivering value to buyers in order to achieve and maintain a desirable market position by traders. They have a very large number of transactions in many individual clients with different needs. The term "innovation" broadly implies that it is the implementation of a new or improved product (product or service) or technological

process, a new organizational method or a new marketing method in economic practice, organization of the workplace or in relation to the environment (Podręcznik Oslo, 2008, p. 48). Each innovation must contain a specific novelty. Three levels of novelty are defined in the context of innovation: for the company, for the market and for the world (Podręcznik Oslo, 2008, p. 60–61). From a marketing perspective, innovation is about generating new and better solutions to better solve buyer problems. The basic criterion for the division of innovations, as viewed as a research object, is strategic and tactical innovation (in terms of resulting consequences / results of innovation). Strategic innovation is a long-term undertaking pursuing strategic objectives. Tactical innovations make it possible to increase the efficiency of the economy and are introduced in the current activities of making changes in the technology of production, work organization and in products. The division of innovation is also made due to:

- the subject of innovation – as innovations: product, process, marketing, organizational,
- the originality of change – as innovations: creative and imitative.
- Given the nature of the innovation, they can be divided into:
  - technological (the result of applying new technology),
  - non-technical (changes within the organization itself and in its marketing).

In terms of scope and importance, the following types of innovation are distinguished in the trade sector: a. radical (breakthrough), b. evolutionary, c. social, d. technical (Sławińska, 2016, p. 164). The place of innovation, divides innovation into internal ones (oriented towards improving the organization's internal management capacity, which can affect the cost level) and market (used in targeted market activities) (Sławińska, 2016, p. 164).

## **2. Conditions for the development of marketing innovations in commercial enterprises**

Nowadays, commercial companies use marketing innovations because of internal (enterprise-dependent) and external (determinable changes in the environment) conditions. As a result, measurable and non measurable benefits can be achieved. The effects of implementing such innovations can be, for example, increased market share, higher sales, increased profits, acquisition of new markets / segments,

improved image, enhanced brand reputation, enhanced customer relationships, and more.

Marketing innovations are interpreted in a narrow and broad perspective. The first is that marketing innovations are new or significant changes in the classic marketing-mix. According to a narrow view, these are the changes in the product or service that result in usability or functionality not being changed. In terms of the wide range of marketing innovations, the marketing-mix tools are enhanced by the fifth instrument – Personnel, creating a 5P marketing-mix. (Śmigielska, Wiśniewska, 2015, pp. 60–62). A broad interpretation relates to the application of any area of the company's marketing activities to meet the needs of customers by providing new value. These concepts, in terms of marketing innovations, can also be referred to services where we distinguish innovation:

- a) product – for example, offering new or significantly improved services, or changing the way you offer your existing service, a new range of features and applications; the scope of service improvement can vary widely and depending on the expected benefits of the purchaser, such as functional enhancements such as offering technology, software and hardware, simplification of service and use;
- b) processes – may involve the introduction of new, improved customer service methods, orders, communications, practical aspects related to the most common new way of providing services;
- c) organizational – for example, the introduction of an enterprise, e.g. a new organization of work, a way of doing business, maintaining internal relations and communication;
- d) marketing – their application means introducing significant changes in the service itself as a result of introducing a new marketing method, which can also affect other marketing-mix tools, including new market positioning strategies, marketing communications, modification / change of business model.

In the retail trade, innovation means acting as an absolute or relative novelty for a trading company or retail sector, which means that they were first developed or first acquired and implemented from other companies or sectors. It is actions and ways of thinking that differ from the hitherto undertaken in the business relationship system – relationships and relationships in the value chain – the market. The ultimate goal is to improve the quality of life of consumers, while achieving the company's goals in

the form of improving its functioning (Kucharska, 2017, pp. 221–223). The process of innovation in retail trade involves changes and / or modifications of existing activities, functioning systems and relationships. They can also be interpreted in terms of results and considered in the context of the achieved results of the change process. Both are present in the retail trade. Innovations here may relate to fulfilled functions by retailers in the form of new features and / or new ways of doing things. They may also be related to particular areas of activity of commercial enterprises. Retail innovations occur at the sector level (integrating business activities with other activities, organizing and creating new formats of outlets, developing new cooperative formats), and the commercial enterprises themselves (changing / modifying the business model in the area of new value creation, new activities logistics, supply and customer service, marketing, brand management and image).

### **3. Own brand in modern distribution channel**

A modern distribution channel, also known as an international network, defines large-scale stores. Participants in the modern channel are the following types of large-size stores: supermarket, hypermarket, discount, convenience stores. Modern channels are dominated by the fast-moving product industry (FMCG, Fast Moving Consumer Goods). They are represented by product categories such as: cosmetics, groceries, household chemicals. The Deloitte report points out that average revenue growth for 2010–2015 was 5%. 22.8% of the retailer's revenues were derived from activities outside the home country (Deloitte, 2017). The average number of countries in which the network operates is 10. The modern retail channel in the domestic retail market has a relatively low share, which amounts to 6% in volume terms. In Poland, the modern distribution channel is dominated by discount stores like Biedronka (18.9%) – a chain of discount stores owned by the Portuguese company Jeronimo Martins (Karasiewicz, Trojnowski, 2016, p. 29). Test results ARC market and Opinion show that among more than 70% of consumers are aware of the existence of trade networks of own brands (ARC Opinia i Rynek, 2017).

According to the latest Nielsen data we can see that market share for retailer brands has climbed to all-time highs in 9 European countries and for the first time stands at 30% or above in 15 of the 20 countries. The 2017 Yearbook statistics reveal that private label's market share reached all-time highs in Germany, Italy,

the Netherlands, Belgium, Poland, Austria, Sweden, Norway and Denmark. One of the biggest market share increases were posted in Poland – up 1.4 points to 30% (PLMA's International Private Label Yearbook, 2017).

The competitiveness of retail chains is being developed through own and private branding strategies. In the commercial practice, self-branding is defined as the goods produced for a particular network of stores or wholesalers, which are only available at the stores of those networks or branches of wholesalers; their packaging is marked with the name of the network (shops/wholesalers) for which the product was manufactured (Szumilak, 2007, pp. 157–158).

The names can also be found in the private label, retail brands, brand names. Among the many types of trade brands created by retail chains, the main ones can be classified as flexible products; exclusive brands; discount; own brand of the first available price; own brands that are exclusive brands; network brands. The products of higher quality brands of the first available price are often cheaper than the famous brands (Lubańska, 2011, pp. 88).

Products as a brand are all products marked with a brand or specially designed for a particular retailer with a logo (e.g. *Biedronka*). The purpose of introducing the own brands is to increase the overall sales of a particular category at a particular point of sale. There is a tendency in discounting to evolve from an own brand to a private brand (a brand that fights as a brand of its own brand) and is a third generation brand. "Biedronka" brand is available in the following categories: groceries, electronics, clothing, kitchen accessories. The "Lidl" network offers brands in the following categories: dairy products, cold cuts, household chemicals, beer. "Netto" has its own brand in the furniture category. These brands are prepared to compete with world-renowned brand names.

Commercial networks, are now deciding on the brand portfolio, but also on the attributes of the products they offer to consumers, carry out in-depth marketing studies to verify the value of the offer. Imitation of packaging manufacturers is becoming less and less frequent. Increased range of communication strategies with consumers, extended buyer experience area. Networks want to participate in setting market trends (Ogórek, 2017). Lidl shopping network offers more than 100 brands of their own. A survey carried out by GFK on behalf of the Lidl (blind test) indicates the high level of appreciation offered by network products as own brands. For example, most of the Poles recognized the taste of the cheese Pilos

for just as good (19%) or better (36%) than cheese number 1 in the market. In the case of Lord Nelson black tea, respondents indicated that this tea tastes the more (45%) or the same (10%) as famous tea manufacturer. Most of the Poles recognized the taste of the coffee beans Bellarom for just as good (8%) or better (44%) than coffee number 1 in the market (Lidl.pl). Commercial network activity changes the direction of development of own brands that increasingly have to build more loyalty of buyers with a unique offer (e.g. on the Web Currently Carrefour private brand products generate about 10% of the sales network in Poland).

4. Marketing innovations in developing a brands' new offer and customer satisfaction in a modern retail distribution channel An important factor in the success of innovation, also marketing is their acceptance by consumers. The essence of trade innovation is the change in the fulfillment of the function of trade as an intermediary in the exchange of goods and services, which requires acceptance by buyers of value for money (Śmigielska, Wiśniewska, 2016, pp. 60–62). As a result of the implementation of new solutions, there is a change in the way a commercial company operates and changes in market behavior of consumers. Among marketing innovations in the retail trade can be mentioned retail business model and its types subject to periodic changes:

1. Low operating costs in relation to sales levels, large scale of operations, fast turnover of goods.
2. High margin and relatively high quality of commercial services (Śmigielska, Wiśniewska, 2016, pp. 60–62).

Marketing innovations in retail outlets in the modern distribution channel are varied, among which are identified actions such as:

- stores with new sales formats – the concept store (as a dissemination of a lifestyle along with its associated assortment and service offer, as well as providing customers with new knowledge and experience) or pop-up store (as a short-term business activity in the chosen location – testing a new offer or brand activation),
- localization of stores in many geographically different locations – e.g. multichannel distribution integrating various channels of offering products and services,
- changing the structure of the trade offer – as an extension of the offer with new personalization services,

- expanding marketing communications – with the growing share of mobile technology personalizing the activities,
- presence and expansion of e-commerce and mobile shopping applications,
- brand positioning of the store (private label) and its offer with the growing share of the brand itself in the structure of the offer of modern channel.

Trends in marketing were of particular importance in shaping the current retail format. Product marketing innovations often result from the use of new knowledge and technology or their new combination. Thus, gradually improved products and services, packaging, functions, partly new applications are introduced. Commercial networks often introduce new products, create not only the private label (brand of the network), but also develop an assortment of their own brands, often with branded combatants. Examples of such innovations are the activities of selected retail chains such as:

- the introduction of the private label "Tesco Organic" – a comprehensive range of organic food products, including high quality fruits and vegetables (e.g. organic groats, organic sugar, organic beet),
- combining functions like in "Carrefour" – combining a trade offer with a gastronomic one as creating a network of catering corners,
- in "Biedronka" discount is the development of its own brand "BIO Farma Biedronki" – offering organic products (e.g. baby food, gluten-free products, vegetables and fruits, wines).

In the sphere of prices, marketing innovations in the modern channel are connected with the tendency of combining discount systems with loyalty programs. Innovation is also a dynamic price model based on the volatility of demand over time and the right way to justify buyers of a certain price level and gain their acceptance (Grewal, Ailawadi, Gauri, Hall, Kopalle, Robertson, 2011, p. 47). In this model, they are mainly: the ability to purchase products at a given price and indicated in time only by customers registering in the online store or "conditional promotions" that will be introduced if certain conditions are met (Sławińska, 2015, p. 164).

## **Conclusions**

The importance of a distributor's own brand is embedded in the following aspects: as an opportunity to increase buyer loyalty by offering unique brands / products

available only to a specific retailer; distinguishing the competition from the competition, reducing the value of the competitor, diversifying the product. Entry into the third-generation own brands and even entry into the premium segment is a tougher battle with independent manufacturers' brands and a confirmation of the willingness to provide good quality brands for their own retailers. The marketing innovations in the modern distribution channel are broadly defined, they are determined by internal and external conditions, they improve the functioning of business enterprises, and above all by accepting the offered novelty in the marketing-mix instrument to provide the highest marketing utility to the buyers. The article does not cover the whole topic, which, given the scope and dynamics of marketing innovations and own brands in the modern channel, is a context for broader research and analysis.

## **INNOWACJE MARKETINGOWE W DZIAŁANIACH NOWOCZESNEGO KANAŁU DYSTRYBUCJI Z ZASTOSOWANIEM MARKI WŁASNEJ**

### **Streszczenie**

Problem badawczy podjęty w artykule dotyczy identyfikacji rodzajów i znaczenia innowacji marketingowych w zakresie zastosowania marki własnej w nowoczesnym kanale dystrybucji handlu detalicznego. Autorki szukały odpowiedzi na pytanie dotyczące zakresu i różnorodności stosowanych innowacji marketingowych w nowoczesnych kanałach dystrybucji i form marki własnej. Poszukiwanie odpowiedzi na pytanie oparto na przeglądzie i analizie literatury przedmiotu, analizie danych wtórnego krajowych i zagranicznych ośrodków/agencji badawczych. Celem artykułu jest przedstawienie znaczenia i rodzajów innowacji marketingowych w nowoczesnym kanale handlu detalicznego oraz marki prywatnej jako obszaru zastosowania innowacji marketingowych w kanale nowoczesnym. Stwierdzono, że w nowoczesnych kanałach dystrybucji stosowane są innowacje marketingowe w szerokim ujęciu, w celu poprawy funkcjonowania przedsiębiorstwa handlowego, jak i zwiększenia poziomu marketingowej użyteczności oferowanej konsumentom. Innowacje marketingowe i zastosowanie marki własnej stymulują sprzedaż sieci handlowych i są sferą rozbudowywania przestrzeni doświadczeń nabywców, choćby poprzez zastosowanie nowoczesnych technologii w procesie komunikacji, obsługi, dokonywania zakupów, angażowania nabywców, udogodnień w sklepach wielkopowierzchniowych. W kanale

nowoczesnym obserwowane są marki własne trzeciej generacji i ich stosowanie. Marki prywatne i własne sieci handlowych mają znaczenie w kształtowaniu struktury koszyka zakupowego nabywców. Innowacje marketingowe w obszarze instrumentów marketingu mix, stosowanych przez uczestników kanału nowoczesnego, mają zasadnicze znaczenie dla kształtowania wartości dla nabywcy.

**Słowa kluczowe:** innowacje marketingowe, nowoczesny kanał dystrybucji, marka własna

**Kody JEL:** O32, M3, M4

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