Manufacturer Referral, Retailer Private Brands in Supply Chain

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It has become a common commercial phenomenon for retailers to establish their own brands. The manufacturer referral strategy is studied through a model which includes a manufacturer, a traditional retailer and a store brand retailer. For the manufacturer, any referral strategy is better than no referral strategy, and in most cases, the manufacturer prefers nonexclusive referrals. The traditional retailer is willing to accept the manufacturer's referral cooperation, and the traditional retailer's profit is better under the nonexclusive referrals; while most store brand retailers are willing to choose the nonexclusive referrals.

supply chain manufacturer referrals store brand retailer

1. Introduction

The development of the digital economy has created huge wealth for society [1]. The global digital economy reached $32.6 trillion in 2020, with a nominal year-on-year growth of 3.0% and accounting for 43.7% of GDP (Gross Domestic Product). In January 2021, the number of people using the Internet in the world reached 4.66 billion, and the global Internet penetration rate was 59.5%. According to a CNNIC (China Internet Network Information Center) report, in December 2021, the number of Internet users in China reached 1.032 billion, and the Internet penetration rate reached.

73.0%. (Accessed from: http://www.199it.com/archives/1405773.html accessed on 22 July 2022). In addition, the deep integration of the Internet and manufacturing industry has spawned new business forms [2]. With the emergence of new digital forms of business and technology, the scale of Internet users and policies provide convenient conditions for manufacturers to "access the network" to upgrade. At the same time, manufacturers also need to be able to distinguish themselves in the massive amount of information to attract consumers.

Many manufacturers set up their own official websites to meet consumers' needs for product information, but the biggest drawback of this approach is the conflict between the manufacturer and the retailer's sales channels [3]. To avoid competing with retailers, some manufacturers set up official websites but do not sell directly through them. The main function of the official website is to display the product information and the purchase link of the retailer channel to consumers [4]. Ennew et al. [5] refer to the way that manufacturers show consumers the URL links of authorized retailers on their official websites as "referrals". This model of manufacturers indirectly selling products through the network is called "manufacturer referral" [6]. Many well-known companies have taken the manufacturer's recommendation approach such as L'Oréal Paris, Ultimate Ears, Rene Furterer and Meifubao [7].

However, with the development of the retail market, an increasing number of retailers want to capture more profits from the vertical structure by developing their own brands. However, with the development of the retail market, there is increasing evidence that retailers are starting to establish their own brands in the hope of obtaining more profit.

They not only distribute the manufacturer's products but also build their own production bases or entrust related factories to produce products bearing their own trademarks after fully understanding consumer demand through sales data [8]. In this process, store brand retailers are fully responsible for a series of activities, such as product procurement, storage, advertising and promotion. In this way, store brand retailers and manufacturers are both cooperative and competitive. This model first appeared in large physical supermarket chains such as Metro, Walmart and Carrefour [9]. Later, many well-known companies gradually followed suit; for example, Amazon launched Amazon Basics, Amazon Essentials and other brands, and Costco developed the Kirkland brand [10][11]. With the needs of market development and the support of government policies, Chinese enterprises have also begun to attach importance to the establishment of private brands. Large platform retailers such as Taobao, Suning and JD.com have launched their own brands [12]. There is a great development space for store brands, but they are a serious threat to manufacturers. Therefore, manufacturers must re-examine the relationship with store brand owners in supply chain management.

The manufacturer's referral plays a positive role in supply chain management. On the one hand, manufacturers can prevent the development of retailers' own brands by promoting traditional retailers; on the other hand, they can also realize the coordination between the manufacturer's products and the retailer's own products. Interestingly, manufacturers are not only promoting traditional retailers that focus only on selling the manufacturer's products but are also increasingly involving store brand retailers [13]. For example, L'Oréal Paris, a well-known French brand, enables consumers to find the website link of Watsons from its "How to Buy" page after logging in to its official website. Watsons is the most representative private label retailer, with more than 1200 private brands covering multiple categories such as personal care, which compete with L'Oréal Paris [14]. However, there are also manufacturers that display only information about traditional retailers to consumers, such as Pampers. When consumers click "Buy now" on its official website, they enter the Suning.com website through the referral link to make purchases [15]. Of course, many manufacturers do not display any information about their retailers to consumers. Based on the above analysis, it can be found that there is a "cooperative–competitive" relationship between manufacturers and retailers. When there are store brand retailers, the manufacturer's choice of referral strategy and retailer's quantitative decision affect the operation and management of enterprises.

2. Manufacturer Referral in the Supply Chain

Most scholars' research on supply chain channel management found that customer preferences, information asymmetry, market environment and environmental concerns affect manufacturers' channel selection [16]. At present, there are few studies on manufacturer referral. Ghose et al. [17] mentioned the referral service of the Internet in an earlier study and explored four scenarios: no referral, retailer referrals from an infomediary, retailer referrals from both the infomediary and manufacturers and manufacturers clearing the infomediary. By studying the competition between the manufacturer referral and infomediary referral, it is found that manufacturers can deal with the infomediary through wholesale prices and capture the profits of the infomediary. However, in some cases, the manufacturer referral is not a complete substitute for the infomediary referral. Wu et al. [6] considered an e-commerce environment where a manufacturer sells its products through two heterogeneous retailers to study the manufacturer's referral strategy. They found that when the recommendation segment is large enough, the non-exclusive referral is the equilibrium choice of the manufacturer. Wei et al. [18] introduced the retailer prediction information sharing mechanism and discussed whether manufacturers should promote the official mall or promote both the official mall and the retailer. Li et al. [19] concentrated on the impact of online cost of dual channel manufacturing on its recommendation strategy. With a linear cost structure as the benchmark model, it is found that when the recommended market size is small, manufacturers are only willing to recommend official malls. When the market scale is large, the manufacturer adopts the strategy of both promotions. Li et al. [20] analyzed the manufacturer's best recommendation strategy under different risk aversion characteristics of retailers and manufacturers. However, none of these studies take into account the recommendation behavior of manufacturers when retailers have their own brands. In the actual business operation, many retailers establish their own brands, and this has a significant impact on manufacturers' referral behavior.

3. Retailer Private Brands in the Supply Chain

In recent years, scholars have focused on research on the introduction of private brands by retailers.

Karray et al. [21] found that co-advertising between manufacturers and store brand retailers can reduce the harm to manufacturers by store brands. Amrouche and Yan [22] suggested that opening an online store is an effective strategy for manufacturers to deal with retailers introducing their own brands. Huang et al. [23], studied the equilibrium solution of a supplier establishing a complementary direct selling channel and a retailer introducing private brand based on the four-stage dynamic game. It is found that direct selling is the dominant strategy for suppliers and brand introduction is the dominant strategy for retailers. Ru et al. [24] constructed a Stackelberg game model led by retailers, and the study finds that retailers can reduce the double marginalization effect of the supply chain by introducing private brands. Kim et al. [25] studied the relationship between manufacturers and retailers and found that the high power and knowledge specificity of retailers increased the dependence of manufacturers on private label retailers, thus increasing the growth of private label sales. Choi [26] focused on the price competition between national brand manufacturers and retailers, and found that if a retailer wants to promote its own brand, its retail price may eventually rise, thus motivating it to increase brand awareness of domestic manufacturers. Amrouche et al. [27] built a game model of an online store competition between a manufacturer's brand and a retailer's private brand. The results showed that the quality difference, potential and cross-price competition between the manufacturer's brand and the retailer's private brand are the important factors for the introduction of a private brand. Hara and Matsubayashi [28] found that when there were only store brand retailers, it was difficult for manufacturers and retailers to coordinate, but high-quality private label products could benefit both parties. Bauner et al. [29] analyzed manufacturer's coupons, retailer's national brand coupons and retailer's private label coupons to explore couponing strategies in the competition between manufacturer and retailer. They found that the products and characteristics of private brands play an important role in the couponing strategies of manufacturers and retailers. Huang and Feng [30] constructed a game model of a money-back guarantee on a manufacturer brand and a retail store brand and found that the money-back guarantee strategy can be used as a strategic tool to help retailers develop their own brands. Han et al. [4] used Stackelberg game modelling to explore the impact of different referral information levels on manufacturers' profits, professional agents' profits and private brands' decisions when retailers developed their own private brands. The study found that only when the information referral level satisfies certain conditions will the manufacturer promoting professional agents be good for both sides; otherwise, the profits may be damaged, and the level of information referral is affected by the professional agent market scale. However, if the information referral level reaches a certain threshold, the retailers' own product helps to obtain more profits. Luo et al. [31] developed a game model to study how manufacturers' online channel choices affect retailers' store brand strategies. The study shows that retailers will adopt defensive strategies when online channel threats are high, but when threats are low, retailers tend to cooperate. Li et al. [32] studied the encroachment strategy of private brands and constructed a one-to-one supply chain composed of national brand manufacturers and retailers. They found that high-quality private brands are more conducive to the development of retailers under certain conditions. Chen and Xu [33] studied private brands under asymmetric information. The results suggest that the establishment of private brands by retailers may expand the total product demand and improve the profits of retailers and national brand manufacturers.

The above studies mainly discussed the relationship between manufacturers and private brand retailers from the aspects of private brand pricing strategy, advertising strategy, return guarantee and so on. However, few studies explored manufacturer referrals as a cooperative strategy.

Most existing studies are based on vertical cooperation between manufacturers and exclusive retailers, and less attention is given to the influence of store brand retailers on manufacturer referral strategies. In fact, the relationship between store brand retailers and manufacturers is more complex because they are both vertical partnerships and horizontal competition. In addition, studies on manufacturers' strategies dealing with private brands are mostly focused on quality differences, price differences, channels and advertising strategies.

Although Han et al. [4] considered both manufacturer referral and nonreferral, they did not consider whether to exclusively recommend traditional retailers, nor did they deeply analyse the referral cooperation among supply chain members. Therefore, when private label retailers exist in the supply chain system, should manufacturers choose not to promote, exclusively promote traditional retailers or nonexclusively promote all retailers, how will the manufacturer's wholesale price and the retailer's order volume change because of different referral strategies? What are the best referral strategies for the quantity ordered by the manufacturer and the output of the retailer's own product? When a manufacturer promotes store brand retailers, some consumers give up buying the manufacturer's products. How will the loss of these customers by the manufacturer affect the referral cooperation choice of supply chain members? These problems will be the focus. Based on previous studies, herein, it is analysed that the pricing or quantitative decision of supply chain members under the competition and cooperation relationship between manufacturers and retailers, studies the role of manufacturer referral and the choice of strategy, expands the results of this research field and provides some management inspiration.

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