

**Value Creation or Destruction: The Role of Private label in UK Grocery Category Management Decisions**

BENSON, Michael, BERESFORD, Paul and HIRST, Craig

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Value Creation or Destruction: The Role of Private label in UK Grocery Category  
Management Decisions

**Authors**

Authors: Benson, Michael C., Beresford, Paul, Hirst, Craig

**Authors: Contact Details**

Lead Author: Michael Benson [m.benson@shu.ac.uk](mailto:m.benson@shu.ac.uk)

Paul Beresford [p.beresford@shu.ac.uk](mailto:p.beresford@shu.ac.uk)

Craig Hirst [c.hirst@shu.ac.uk](mailto:c.hirst@shu.ac.uk)

**University Affiliation**

Sheffield Business School, Sheffield Hallam University, City Campus, Howard Street,  
Sheffield, S1 1WB.

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# Value Creation or Destruction: The Role of Private label in UK Grocery Category Management Decisions

## Summary

Category management is a collaborative approach between food manufacturers and retailers to manage product categories rather than individual brands. It operates at both strategic and operational levels and seeks to create value ultimately for the consumer. The paper contributes to the literature and practice. It uses a qualitative interview study of twenty five senior practitioners and explores the role of private label products within UK grocery categories as consumers continue to switch due to lower prices and comparable quality to the traditional brands. The research also examines how private label manufacturers can create value within the category management relationship and how they can aspire to category captainship if they generate retailer specific and differentiated category strategies. The paper accepts its limitations and explains how further research in this important field of retailing is necessary to update the literature and help practitioners navigate their way through turbulent sector change.

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## 1.0 Introduction

Category management is a collaborative approach between food manufacturers (suppliers) and retailers to manage product categories rather than individual brands (IGD, 2019; Gooner et al., 2011; Hubner, 2011; Nielsen, 2006). Category decision making is a fundamental aspect and output of category management and this process is now used extensively in the UK grocery sector. This research is to explore value co-creation and value co-destruction in a category management relationship within the context of the increased use of private label in the UK grocery sector. Kantar (2019); IGD (2019); Shopper Intelligence (2019); Mintel (2019) state consumers are switching to unbranded label products at an exponential rate to take advantage of lower prices and improved quality. Today, private label is holistically the biggest brand in the world (Lincoln and Thomassen 2008). IGD (2019) state its growth is outpacing that of national brands, and, in countries with established private label markets such as the UK, consumer acceptance of private label products is significant. There is growing acceptance that private label are just as good as traditional branded products. In some cases private label goods have moved into premium product territory due to

improvements in actual quality and consumer quality perceptions (Lincoln and Thomassen 2008; Dunne and Narasimhan 1999). UK premium supermarket Booths (2019) say that their private label fresh ready meals range is of a higher quality than branded equivalents, as they strive to ensure only fresh, traceable ingredients are used. Private label products are no longer competing on price alone and now have lines developed to respond to specific consumer needs, such as organic, gluten, wheat or milk-free. According to McNeill and Wyeth (2011) retailers find private label to be an attractive option as they provide higher margins and in turn greater profitability. They state that alongside higher margins they generate strong visual identity and brand message to help retain consumers and increase consumer loyalty. Recently food manufacturers (suppliers) have been concerned with the growth in private label products as they have progressed from generic cheaper alternatives lagging in technology and quality to taking shape as products comparable with the true brands (McNeill and Wyeth 2011). McNeill and Wyeth (2011) state that premium private label is now comparable to international brands where effective marketing has directly influenced consumer buying behaviour. IGD (2019) state that the growth in private label purchasing by consumers is growing exponentially and shoppers are switching to private label in all three of their product marketing tiers (basic, standard and premium). Makkonen and Olkkonen (2017) state that value is created, or not, in collaborative business relationships, and have begun to explore and map the relationship between value co-creation, no creation and co-destruction in interorganisational relationships.

This research investigates to what extent value is co-created for private-label food manufacturers (suppliers) and the retail buyer in a category management relationship. As the UK grocery sector has experienced a significant shift from branded to private label (own-label), the findings will be of interest to category management practitioners. The research employs a qualitative study using one hour interviews of senior category managers from private label and branded suppliers alongside interviews with retail buyers. All participants are senior decision makers within their organisations, and in response to recommendations made by Lindbolm and Olkkonen (2008), this study encapsulates privileged data due to the seniority of the participants. The participants used within the study are made up of twenty five practitioners with two-thirds from the supplier side and the remainder from the retailer side. The research findings reveal that the co-creation of value by a private label supplier will contribute to a strong category management relationship in the same way as traditional branded suppliers. Furthermore, it may well lead to the private label supplier being appointed as the category captain; something that was not possible previously as the branded suppliers always dominated the market. The next section will detail the research aims and objectives, along with the research question.

## **2.0 The Research**

### *2.1 Research Aim:*

To explore the position of private label products within the UK grocery product mix, and examine if private label suppliers can aspire to the role of category captain in a changing market, and do they co-create value, add no value or cause value co-destruction within a category management relationship.

### *2.1 Research objectives:*

- To explore the shifting position of UK private label within the UK grocery product mix

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- To ascertain if the private label manufacturer (supplier) can aspire to the role of category captain
- To determine whether a private label manufacturer (supplier) co-creates value, adds no-value or causes value co-destruction within a category management relationship in a changing UK grocery marketplace

### *2.2 Research Question:*

What is the changing role of private label products within the UK grocery product mix, and can a private label manufacturer (supplier) co-create value, add no value or cause value co-destruction within category management relationship in a changing marketplace?

The following section explains the literature that has been used within the research. This includes the theoretical lens of value, value co-creation and value co-destruction and the effects of service dominant logic. The contextual lens of the research focuses upon category management, category captain and UK private label grocery products.

### **3.0 Literature Review**

Category management research is currently mainly empirically based using a quantitative approach, and this scholars believe does not directly address the issues faced by the practitioners (Kurtulus et al., 2014; Kurtulus and Toktay 2011; Chun & Cadeaux, 2010; Lindblom and Olkkonen, 2008; Georges and Eggert, 2003). As the UK grocery retail marketplace is changing, the experience and understanding of the practitioners has become increasingly more important for future research. Qualitative research seeks to understand these issues by asking questions of the practitioners (Kurtulus 2014; Kurtulus and Toktay 2011; Chun & Cadeaux, 2010; Lindblom and Olkkonen, 2008; Georges and Eggert, 2003). Nielsen (2006) state, the gathering of information by the suppliers and retailers is critical to understanding the impact of category management. IGD (2019); Kantar Worldpanel (2019) claim consumers' are switching from well-established branded products to retailer private-label or own-label products (unbranded) as the quality and value for money has improved over recent years. Kurtulus and Toktay (2011) state that a non-branded product supplier has little control over the category management relationship and is unlikely to be considered as category partner or category captain. These are suppliers chosen by the retailer to manage the category on their behalf and make recommendations for the category. How then does a non-branded supplier develop a category management relationship with a retailer to add value to meet the retailer criteria and then progress to category captain? Aastrup et al. (2007) argue that value creation is central to category management, and that the closer the supplier-retailer interactions the greater potential for increased value creation through sharing information and resources; improved co-ordinated tactical efforts and an alignment of category aims and objectives.

Value creation is fundamental to category management; initially this was placed with the retailer where they had to create value themselves for the consumer (Gummerus, 2013). More recently the introduction of service dominant logic has placed value creation within the interactions between the supplier and the retailer (Vargo and Lusch (2008). Category management by nature brings the supplier and the retailer closer together, and IGD (2019) state that the success of category management in the next few years will come from more collaborative working between the supplier and the retailer to create more innovative consumer solutions. Chandler and Vargo (2011) argue that co-creation exists in a collaborative relationship, however if the relationship is not equitable then value co-

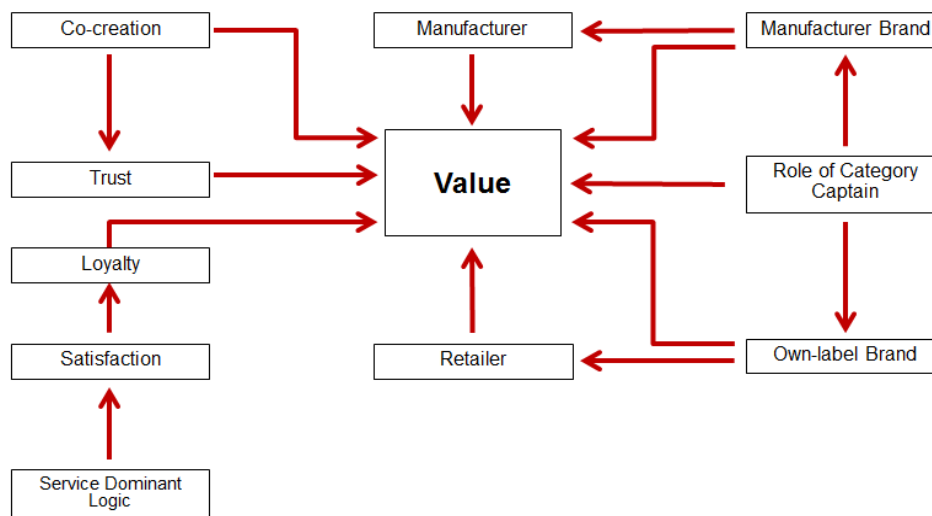
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destruction can occur. This argument is supported by Echeverri and Skalen (2011) who say it is the downside to the relationship, for example where there is no alignment of supplier and retailer strategies. Finally, Makkonen and Olkkeonen (2017) have explored the idea of value no-creation which is where both the supplier and retailer get no benefit from the relationship. Neither party gain or lose from the relationship, but as both parties enter into a category management to deliver value for the consumer it can lead to value co-destruction in the future. The next section will review the conceptual model used in the research with value being the theoretical lens of the research, and category management, the category captain and private label products the context of the research.

### 4.0 Conceptual Framework

The conceptual framework in Fig.1 shows the linkages between the perceived variables of the research. These formed the basis of the semi-structured interview research questions asked of the practitioners. The interviews have been transcribed and currently being analysed and it is hoped responses will validate the accuracy of the variables and introduce new ones to the framework.

Fig. 1 Conceptual Framework - Value Creation in Category Management Relationships: A Comparative Analysis



### 5.0 Research Methodology

The research is inspired by value theory, and sits within the paradigm of interpretivism, having a subjectivist epistemology and ontology. The paper has adopted a phenomenological methodology to understand the question using practitioner's views of their daily activity. This explores how private label, category management and the category captain appear to be in the minds of the practitioners rather than the actual phenomena themselves. Lewis and Staehler (2010) state that in phenomenology things do not just appear they need to appear in our conscious minds and so can be believed to be true. The research grounded in phenomenology uses participant discourse analysis. Cassell and Symon (2004) state discourse analysis is concerned with how individuals use language in specific social contexts including the workplace. They state that research participants are able to produce an explanation of

themselves, their world and construct their own realities. In this research so enable the participants to openly explain what they believe to be their individual reality within category management activities and how they perform their roles. Cassell and Symon (2004) argue that critical discourse analysis is underpinned with a social constructionist epistemology and assumes that where people construct their own reality helps them to 'make sense' of it, but also to challenge ideals that exist within their world.

Saldanha and O'Brien (2013) states that, if inductive research is used then the real world of the participants will start to emerge, and so the methodology followed an inductive approach. In the research the practitioners provide answers they believe correct at the point of interview. Many of the initial one hour interviews were followed by a further one hour interview once the researcher's had transcribed the first session that required further investigation. This included asking further questions and expanding the points raised at the first interview. The interviews consisted of semi-structured questions, and so allowed the practitioners to expand on the interviewer's question in any way they felt appropriate. The interviewer was however able to keep the interview relevant to the question by keeping referring back to the aims and objectives of the research. The research was conducted interviewing both the manufacturer (supplier) and the retailer to ensure both perspectives were obtained. The semi-structured questions allow the participants to freely discuss their day to day activities from the privileged position of a category management and buying decision maker. The main research was able to secure participants from having strong networking contacts from previously working in the UK grocery sector. The participants varied from senior operational managers to strategic decision makers including main board level. The difficulties associated with engaging with this level of management, and the privileged data this produces is seen as a significant contribution to the research in its own right.

The research has produced over 150,000 words of verbatim data from voice recordings and then transcribed by the lead author. The interview transcripts were coded and divided into two main sections being from the suppliers and the retailers. The transcripts were coded with Nvivo software, and it was surprising most of the themes that emerged were consistent across both groups. There was approximately 160 nodes (codes) established within both the supplier and retailer folders, and this was then further analysed to produce three main themes. These were in line with the research aim and objectives, notably the participants views on the positioning of private label, the impact of private label suppliers on category management, and if it is possible for a private label supplier to become the category captain. The findings from the three themes are discussed in the next section, but are still being analysed. It is hoped by the time the paper is submitted in June the findings will be complete, and justified recommendations, contribution, management implications and further research established. The full paper will still be in the final stages of development, but subject to feedback and input from academics at the BAM 2019 conference the paper will be ready for writing up as a journal submission. The authors will submit the paper to the British Journal of Management (BJM) Journal. The main findings from the data re discussed in the next section, and these findings lead to the contributions and limitations of the research and the identification of areas for future research.

## **6.0 Findings and Discussion**

The paper is still in development and not all the transcripts have yet been analysed, though the full findings will be available in the June 2019 submission. Early findings supports the view that private-label grocery products are growing in popularity and reveals that the co-creation of value by a private label supplier will contribute to a strong category management

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relationship in the same way as traditional branded suppliers. Furthermore, it may well lead to the private label supplier being appointed as the category captain; something that was not possible previously as the branded suppliers always dominated the market.

Research objective one was to explore the shifting position of UK private label within the UK grocery product mix. Consumers are switching from branded to private label, a claim that is also supported by the literature (Kantar, 2019; IGD 2019; Shopper Intelligence (2019); Mintel 2019). Kantar (2019) state, consumers are switching at a rate of 6% every year, and this is predicted to rise even further every year for the foreseeable future. This change signifies a shift in consumer behaviour where consumers are looking to benefit from lower price and recognise that private label quality has improved. This is being reported as one of the main reasons for the growth in market share of the Discounters including Aldi and Lidl. Findings from this research demonstrate that this shift in consumer purchasing behaviour has moved the attention of retailers towards the private label manufacturers. The retailers operate very stringent food safety and quality controls which the private label manufacturers have to adhere to. Private label manufacturers are at the behest of the retailers, as it is the retailer that owns the brand and if the private label suppliers cannot compete commercially the retailer will quickly change supplier. The private label only suppliers are therefore reporting they are now operating under more pressure than the branded suppliers as they are manufacturing products directly for the retailers.

Research objective two was to ascertain if the private label manufacturer (supplier) can aspire to the role of category captain. As consumers require more flexibility private label manufacturers need to be more innovative and be in touch with worldwide trends. Private label suppliers operate to tighter operating profit margins and cannot afford to provide the same levels of resource as do their branded equivalents. This puts them in a weaker position for category captaincy. Branded suppliers have historically made the recommendations to the buyer; however the early findings reveal that this category captain role can now be fulfilled by private label suppliers. Deeper insight and knowledge of the sector and the shopper are required to satisfy the buyer. The data indicates that private label suppliers are often closer to their products and categories than the branded equivalents and so put them in a stronger position. Some of the branded suppliers, who supply different categories, for example hot beverages, adopt a more generic approach to category management which viewed negatively by buyers as each category is different and should be treated differently. It's reported that smaller suppliers and private label suppliers who specialise have a much more flexible approach and deeper knowledge and understanding of their sector to provide the buyer with this differentiated insight and new and creative ideas. If any supplier cannot produce new ideas and indeed if trust towards the category manager is low then the buyer will turn to other suppliers.

The final objective of the research was to determine whether a private label manufacturer (supplier) co-creates value, adds no-value or causes value co-destruction within a category management relationship in a changing UK grocery marketplace. The findings state that as category captains private label supplier are in a position to co-create value and often have multiple categories within their portfolio's to create generic category management strategies. Effective category management is where the category is a unique entity and strategies are introduced specific to that category only. A generic approach does not work. As private label or own-brand is growing with consumer choice and private label suppliers are often only involved with a single category they have a much deeper understanding of the category market than does a company with multiple categories. The concern for the private label



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suppliers that can lead to co-destruction is where the retailer expects to make a relatively high margin at the expense of the private label supplier or will simply take their own label product to another private label supplier who is happy to make a small margin.

The research findings suggests that the new reality has made the opportunity for the private label to aspire to category captain if they can create retailer specific strategies aligned to both businesses and create a competitive advantage for that retailer. One of the most controversial issues that have emerged is that the category management function needs to evolve to from a management function to being a leadership function. Traditionally, category management has been the supplier category team looking holistically at the category range, merchandising and store location with a detailed understanding of the retailer customer's competitors. This service operated independently of the supplier's sales team so it would remain objective considering the whole category first and foremost, and their own branded products secondary. The category function was managerial and sat in the middle of the suppliers organisation and the retailer, with limited influence to make recommendations only based on insight and research. The retailer would make the final decision and often encourage other suppliers to input their category recommendations, and so taking the responsibility away from the preferred supplier. This caused frustration with the preferred supplier as they often contributed resource and significant time to propose the recommendations. The retailers have been unhappy with the service provided by the preferred supplier, arguing they only propose data from third party sources rather than taking an entrepreneurial approach to making game changing recommendations. The suppliers are equally frustrated and argue that to make step changes in the category they need to take a lead role and be given the freedom to lead both the supplier (their own organisation) and the retailer with the best overall category decision. This will encourage them to think deeper about the retailer's consumer demographic, and what really needs to be implemented into the category to make a significant difference. The next section will review the contribution of the research for both academic and practice.

### **7.0 Contribution**

This section will explain the contributions of the research to academia and practice. It is the main author's desire to close the gap between academia and practice where the literature reflects the activities of practice and are not just theoretical. In response the practitioners will follow the academic recommendations to stop the existing culture of solving problems through 'firefighting'. The quality and relevance of the data established from the researcher through gaining unique and privileged access to senior category management practitioners has significant contribution to the literature. The data is 'rich' and presents the everyday real issues faced by the industry decision makers considering both the supplier and retailer perspective.

Category management literature is limited, and during researching the literature it was found that most of the academic journals are pre 2010, and the latest book published in 2006. Practitioner category management information is kept up to date through the work of the Institute of Grocery Distribution who have an insights department focused on UK grocery category management. The next contribution is that the research has identified the weakness of the detail in existing category management literature as it discusses the role of the category captain which has now been replaced by the preferred supplier status in either branded or private label suppliers. The papers recommends marketing and retailing academic research this area further and use more qualitative studies to gather data relevant to daily category management practice.

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Referring back to the research aim: To explore the position of private label products within the UK grocery product mix, and examine if private label suppliers can aspire to the role of category captain in a changing market, and do they co-create value, add no value or cause value co-destruction within a category management relationship, it is evident the research has achieved this and contributions to academia and practice made. The research explores the co-creation or destruction of value in the use of private label products within UK grocery category management relationships. The consumer switching to unbranded products has facilitated the focus on the differences between branded and non-branded suppliers, and the use of sharing resources including data for improved consumer insight. This includes how companies progress to being selected as the category captain (category partner); and why certain suppliers are selected over others (Kurtulus et al., 2014). The existing literature is limited addressing problems mainly from a quantitative retailer perspective, so the research includes both the supplier and retailer perspectives using qualitative methods. The significance of the supplier remains important as they often commit most of the resources within the sharing process and add the most value (Gooner et al., 2011). The research has found that is no longer necessary, and the provision of resources known as a 'marketing contribution' is no longer necessary. Private label suppliers, who historically work on lower margins than branded suppliers can now be considered for category captaincy. The research has identified that the retailers want the suppliers to be more imaginative and entrepreneurial when making recommendations for the category. The recommendations also need to have that retailers consumer at the heart of the strategy, and so relevant to that retailer.

There will be a contribution to marketing and retailing theory, value co-creation and value co-destruction theory, and business relationship and category management theory. The research will also help practitioners to see the importance of value co-creation in category management relationships, and the private label suppliers to recognise they are now very much part of the process and able of aspiring to the category management role. The author presented the research at the June 2018 Institute of Grocery Distribution, IGD Shopper Marketing and Category Management Conference in London (IGD, 2018). This was the first time in the twelve year history of the conference that an academic has been allowed to present to the audience of over three hundred suppliers and retailers. The presentation was very well received by the delegates, and this has led to many of the practitioners wanting to work with the lead author and look to Sheffield Hallam University becoming a Centre of Excellence for Category Management. The lead author has also been asked to sit on the committee of the Category Landscapers forum, which is a committee of senior category managers from leading blue-chip fmcg grocery companies. The author is an ex-practitioner and wishes to close the gap to ensure the theory reflects practice, and practitioners learn from academia. Academic journal publications will also result from the research. The final section of the paper will conclude the research and make recommendations for further research due to the limitations of this study.

### **8.0 Conclusion / Further Research**

To conclude, the contributions that have been made from this research are shown in points (1) (2) and (3).

1. The first contribution is the research has closed the gap between academia and real life practice. The aim of the paper was to explore the position of private label products within the UK grocery product mix, and examine if private label suppliers can aspire to the role of category captain in a changing market, and do they co-create value, add no value or cause value co-destruction within a category management relationship. The context of the research

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focused on the category management literature, and by use of qualitative interviews established the views of the practitioners to help to bring the literature up to date. Previous studies are quantitative and have never got close enough to the practitioners to try and understand their perspective. The research was also taken from a supplier and retailer perspective. Once the literature is updated the key author is confident that the practitioners will engage with it further, and use academic support to help them address the current industry challenges. Further qualitative studies are required to supplement the findings of this study, and it is suggested using a wider range of categories and participants. Once a platform of practitioner opinion is found a bigger quantitative study across the full UK grocery sector would increase the number of participants and reflect the needs of the wider category sector. The qualitative studies are still required first to ensure the questions asked in the quantitative study are relevant to practitioner needs.

2. Understand if the private label supplier can aspire to the role of category captain. The research shows that both parties believe there is a bigger opportunity for the private label supplier to aspire to the category lead or 'preferred supplier' role within the category management relationship. The term 'category captain' is not used very often now in UK category management despite the claims in the literature the role is still dominant. Retailers require all their suppliers to have an equal opportunity to provide differentiated, almost entrepreneurial recommendations to the category and ensure the strategy reflects the needs of the retailer and their consumer. Further research is required to establish if the category captain role is still prevalent in the US grocery market and the literature updated accordingly. Retailers argue that the role of the private label supplier will become more important as consumers switch to private label and specific strategies around private label will need to be introduced. Private label products also meet the needs of point (1) as the products are suited to the individual needs of particular retailer's shoppers and unique to that retailer only.

3. Traditionally branded suppliers were seen as the only suppliers who can co-create value within a category management relationship as they were often selected to be the category captain due to the resources they were able to afford to the retailer. This 'marketing contribution' was made up of a payment to support the category, the use of analysts paid for by the supplier but based in the retailers offices, data and insight and regular category meetings between the category captain and the retailer. The recommendations did not always create value, and often disappointed other category suppliers including the private label suppliers as their products were not always considered. The category captain favoured their own brands. The growth in the popularity of private label and the needs of the retailer to be differentiated has led to the growth in own-label products. These give the retailer a higher margin, retailer brand recognition and the ability to quickly introduce and discontinue products if they are not selling. Private label are often tailored to that retailers consumers, and meet the demographic expectations of their shoppers. Quality in private label has improved in recent years, and as the selling prices are less than brands consumers continue to switch. Branded manufacturers are often multi-category suppliers and only have generic strategies within category management and so create value co-destruction. Different categories require different strategies, and this is an opportunity for further research to review the use of private label suppliers as preferred suppliers within a range of categories. Private label suppliers usually concentrate on one category only, and similar to smaller niche suppliers have a wider understanding of that categories market. They can then recommend store specific category recommendations which are equitable for the brands within the category, but at the same time raise the profile of own-brand. As the retailers require an more entrepreneurial approach to category recommendations there is less of a need for too much data. Private label suppliers do

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not always have the margin to purchase data, but providing they have the key data a more creative and retailer specific recommendation to category strategy co-creates value. Private label suppliers are therefore now as likely to work as a category partner with the retailer as any. This finding disagrees with Kurtulus et al. (2014) who state that private label suppliers are unlikely to be considered for the role of category captain due to their limited resources and margin aspirations. they do not have the marketing budgets enjoyed by the bigger brands. As the market is changing the traditional approach to category management is no longer enough to manage the assortment, as it requires the specialised knowledge of suppliers who are experts in their product area. Large brands often have multiple brands within their portfolio that are often from un-connected categories and simply operate a generic approach. The detail afforded by private label and niche suppliers are what the retailers are looking for to provide insight into the needs of the consumer and meeting the growing expectation of private label.

Finally, the findings contribute to the literature as the role of private label has not been previously considered due to the dominance from the brands. The category captain role changing to a preferred supplier is not discussed in the literature despite this has been happening in practice in the UK for the last five years. Suppliers will however be expected to continue to make category recommendations more from a leadership perspective rather than a management perspective. The supplier with the most creative ideas that deliver sales to the category will always have a seat at the table with the buyer. The suppliers who only regurgitate data will not be the suppliers providing the category decisions any more. Further research is needed into how suppliers can fulfil a leadership role over a traditional management role, and obtaining this research will be better speaking directly to the practitioners through qualitative research.

The research has limitations as it is a small study of twenty-five participants from a qualitative perspective. The aim of the study was to understand practitioner's views from a small number of participants; this would not have been possible from a larger quantitative study. However, as now the initial findings are published a quantitative study would attract a larger audience to establish if the findings are consistent across many grocery and chilled food categories. Further research is therefore suggested to satisfy the research limitations.

The authors will present the paper at the 2019 BAM Conference in Aston University in September 2019. The feedback will then be reviewed and a paper submitted to the British Journal of Management (BJM) or the International Journal of Management Reviews (IJMR) depending upon the suggestions from the academic delegates. The paper will be ready for submission by January 2020.

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