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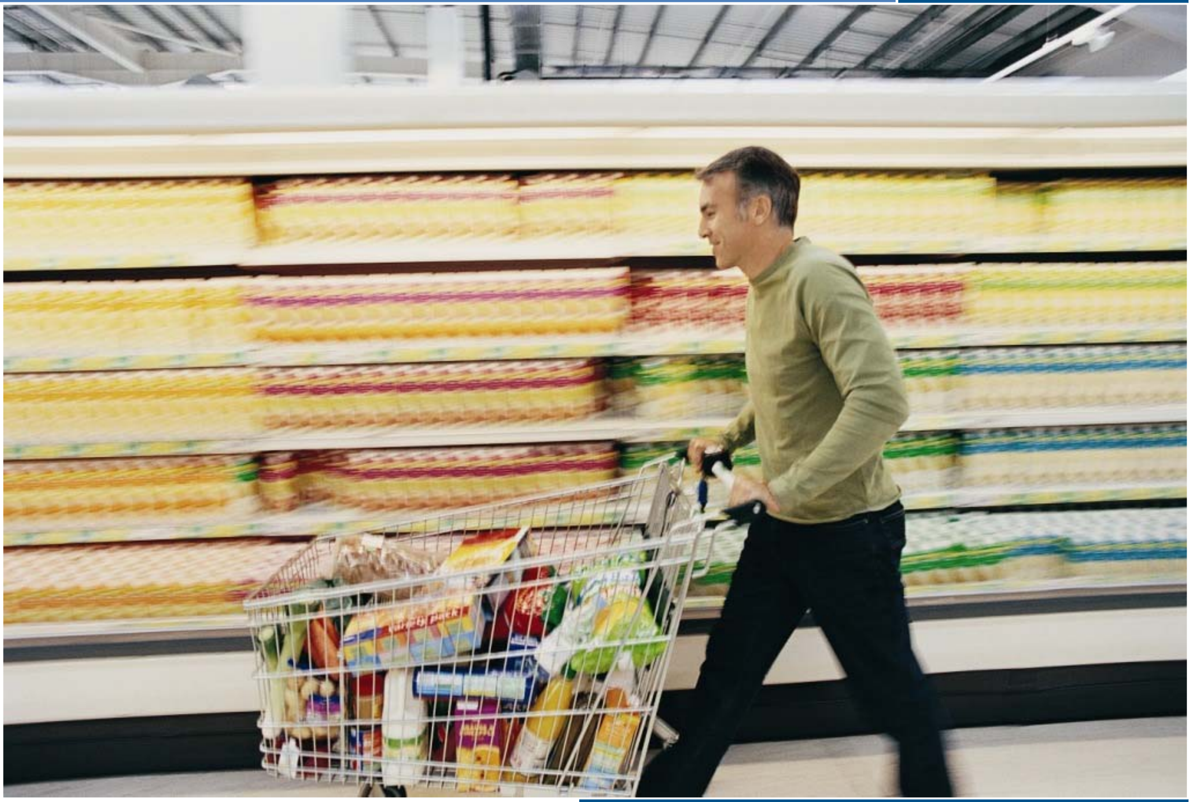
Retail Therapy

So what's in a (Private) Label?



The ACRS Thought Leadership Series

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Published July 2007

MONASH University
Business and Economics

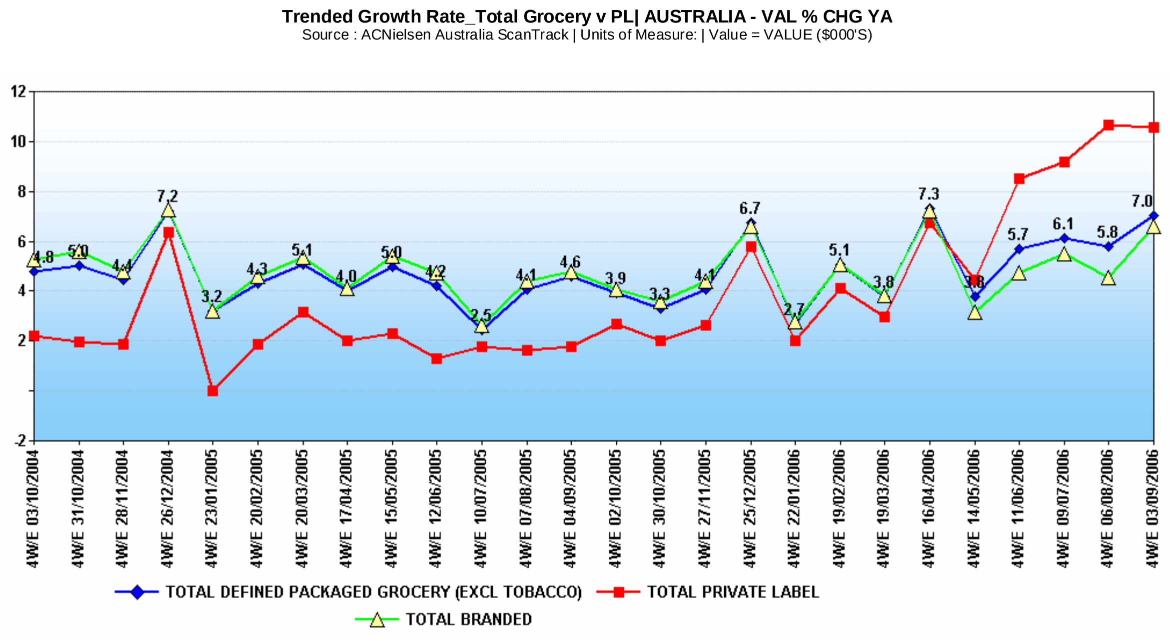
So what's in a (Private) Label?

Retail in Australia has seen an explosion in Private Label (PL[1]) products; from recent entrants such as Aldi with over 95 percent of their range representing PL products, to the significant increases in the PL offerings of major supermarket operators such as Coles and Woolworths. But these are not the only retailers to display a growing range of PL products – a walk through any number of retailers such as Officeworks, Amcal, Mitre 10, Bunnings, or David Jones will demonstrate the ranges of PL products now dominating our shelves.

With the growing presence of PL in Australia, we ask the questions - How is the sector performing? Do retailers actually require a PL strategy? Who will be best placed to succeed? What does this mean for manufacturers?

The Case of Supermarkets and PL

Supermarket operators in Australia perhaps provide the best snapshot of what is happening to our shelves with regard to PL products. As can be seen from the graph below, mid-2006 showed a marked jump in PL products stocked in grocery stores. From June onward the number of PL products on supermarket shelves can be seen rising – more than doubling from May 2006.



[1] Brands developed by the retailer and sold exclusively through their stores.

Woolworths currently operates 900 PL SKUs under three main brands:

- HomeBrand (entry level) - Woolworths currently offers 830 products under its generic brand.
- Woolworths (brand equivalent) - The retailer offers three sub-brands under the 'Woolworths' private-label: Organics, Naturya and Fresh.
- Woolworths Select (premium label launched in May 2005) - The retailer plans to increase this range from 300 products to 1,000 by year-end 2008.

Coles supermarkets began its PL initiative in June 2005, with the introduction of the mid-tiered "You'll Love Coles" brand, first sold in outlets in New South Wales and Victoria. The retailer now operates 3 PL brands across its supermarkets:

- $mart Buy (entry level) - currently available on 225 SKUs with a further 300-500 products planned.
- You'll Love Coles (brand equivalent) - aims to be a brand equivalent, but with a lower price position. Currently available on 1,602 SKUs, with a further 3,000-5,000 planned.

- Coles Finest (premium label) - their newest range of 200 premium products was launched by year-end 2006.

However despite this influx of PL products, recent statistics have shown that the decision by leading Australian retailers, Woolworths and Coles Group, to expand their PL ranges have not shown significant growth. Figures from ACNielsen have shown that PL products in Australia saw their share of total sales, excluding cigarettes and fresh food, rise from 18.8% in Q2 2006 to only 19.4% in Q3. The research also showed that consumers spent an average of AUD$141.60 on PL products in Q3, up from AUD$134.90 in the previous quarter. While this is an improvement it is perhaps not the growth that retailers would have hoped for following the investment in their PL strategies.

Why have a PL strategy for your business?

In reality you are not compelled to develop a PL strategy, but if you do, there are a number of considerations that must be addressed – including what type of PL strategy should be offered. According to Kumar and Steenkamp (2007) there are four types of PL strategies an organisation can adopt – Generic, Copycat, Premium and Value Innovators. Generic PL products are cheap and undifferentiated and provide the customer with a low-cost option. Copycat labels copy the offerings of the brand leader but offer them at a slightly lower price. Premium PLs provide added value and differentiation; prices are either close to or higher than the market leader. Value Innovators provide the best performance to price ratio, much cheaper than the leader but provide exceptional value for money.

But whatever your strategy, clear selection of the type of PL products you are developing is critical. It was not that long ago that a simple change of label or package on a product from what the overseas manufacturer had applied to something with more local appeal constituted PL development – no product differentiation, just a cosmetic change from many similar products in the same marketplace. Given what consumers are being exposed to with sophisticated product, packaging and promotional developments the old way no longer works – certainly not if you are serious about PL or if you really care about your 'own brand'. However, you do not have to offer PL alternatives in every category – a key to deciding which category is to look at what areas will offer the greatest differentiation, particularly in quality and ideally in high growth and high value segments. Also understanding your brand and those categories with which you may be best aligned is key to ensuring your customers accept and develop loyalty to your brand.

From a Retailers point of view PL products can offer:

- Potential sales growth – potential because unless the ranges are managed together with other brands, the real rewards may not be realised;
- Potential margin enhancement – potential because margin and volume management are critical to ensure that real dollar margins grow and are not just theoretical percentages, particularly given some of the wide price gaps between National Bran and some PL products
- Differentiation and leverage – important for retailers to stand out from their competitors particularly in categories that may be considered as commodities. Some categories are unique where the national brand is so dominant there is no real advantage in going head to head – Chewing Gum as an example where Wrigley holds around 98% market share;
- Increasing retailer influence and control over a category – again important when influencing customers to buy one brand over another especially where the quality of the product(s) are equal to or superior to national brand alternatives;
- Opportunity to build brand equity and store loyalty – PL products are usually only available at the retailers that have developed them, or negotiated to have these products exclusively in their stores. Rather than the supplier stance of "buy it anywhere…we don't really care, just as long as you buy it", retailers have a chance to

build loyalty because their philosophy will be more reflective of “buy it from *us*…again and again…*we do care that you buy from us* “;

- The opportunity to create consumer value – very important when considering the ranges of products to be developed; the greater the purchase frequency, the more often customers will revert to those that offer ‘value’
- A downside in that customers may find their choices further diminished by just having a National Brand and PL choice with no real newness or innovation in ranging
- An opportunity to create a value perception across the store a PL products are generally perceived to offer good value

Success influencers

While there are many benefits of a PL strategy there a number of factors that ultimately influence success, these include:

- The fact that unless innovative, first to market and supported by substantial marketing resource, development of PL will be more successful in mature categories;
- The number and strength of existing National Brands;
- The investment and commitment that the retailer is prepared to put behind their labels;
- Expansion into categories not usually associated with PLs;
- Low perceived risk for consumers;
- Quality/value – must be excellent otherwise poor performance will reflect directly on the retailer, not their competitors;
- Logistics and shelf space – majority of consumer buying decisions are made *in the store* so having a well thought out merchandising and logistics plan is crucial;
- Lifecycle management – as with any other products, category reviews must take place and appropriate action taken; and
- Packaging and ‘shelf awareness’ – how does the product appear on shelf? How does it compare to the brand leader? Does it leap off the shelf and scream ‘value’?

Implications for Retailers

PL strategies are not easily implemented and to be successful require a number of actions from the retailer. In particular *new skill sets are required*. The development of PL products is not a part-time activity or one to be entrusted to inexperienced staff. Retailers engaged in this activity need skills in brand development, research, legal, design management, and IP ownership. Retailers will also need to revaluate their *space management capability* and influence; suppliers have merchandisers and Sales Reps to assist their field activities. How will your PL products be merchandised in store? Where? How? Do store staff know the attributes?

They will need to also develop a total understanding of *costs*. This is something that many retailers struggle with, but it needs to be addressed for every product developed. As the Retailer is charged with driving sales of their PL products they need to consider *unique advertising and POS*. Is there a budget for promotion? Is there PR planned? Have the costs of POS been taken into account? Finally, there needs to be an assessment of the *total supply chain management*. A PL retailer is responsible for managing their supply chain and sales forecasting to ensure availability for promotional activity etc – is this capability within the company?

Working with your Design and Manufacturing Partners

The design of a PL is also particularly important as a key success factor will ultimately be "how does your brand look on shelf compared with its competitors?" Is the positioning reflective of your stores? How do consumers perceive your brand – has the research been done pre and post implementation to ensure that the brand is being widely accepted? National brands generally bring customers to store, PL has to work harder at point of purchase: price, visual appeal or 'shelf awareness', credibility and clear articulation of product benefits. Therefore they should:

- Ensure that there is a clearly articulated brand strategy
- Decide whether there is a brand vs. product line focus
- Establish agreed actions across the brand and category management team
- Define production parameters early – and clearly
- Bring partners together – ensure that there is a shared vision
- Consider the real opportunity costs of a PL vs. national brand
- Decide if there is a manufacturing synergy between national brands and PLs
- Determine if there specialty PL suppliers who can provide innovation and exclusivity
- Ensure that potential trading terms and marketing initiative sacrifices or gains are clearly evaluated prior to embarking on the program
- Understand where innovation occurs, this is a real issue if your national brand manufacturer is also your PL manufacturer

For Suppliers…

Needless to say that it is the suppliers and manufacturers who have been impacted the most by the move to increase the presence of PLs in retail outlets. While PLs have always existed to some extent, what is most threatening to manufacturers is that PL quality has improved. In some food taste tests, PL products have in some cases even surpassed the quality and appeal of national brands. In all retail segments PLs now represent a real option for the consumer. And while PL have improved, manufacturers have, in some instances, been increasing prices and in some cases investing less in their brands – this creates a real opportunity for PL products to fill the void and in some cases overtake weak National Brands through value positioning.

PLs have filled a gap and consumers are responding favourably – the growth of Aldi and sharp increases in PL development by other supermarket operators shows the response to consumer demand. However, opportunities for manufacturers and suppliers outside traditional retail channels to enter into supply are surfacing – an interesting development whereby manufacturers whose own brands may have only been second or third tier, have the opportunity to manufacture products under a specific retailers PL and compete with the top brands.

For suppliers, speed to market and innovation will be critical in order to compete effectively and to ensure that brands remain market leaders. Classic communication techniques such as 'above the line' advertising may help reinforce brand strength while brand stretch may also provide opportunities for those suppliers looking to step out of commoditised and/or mature categories. In order to succeed suppliers and manufacturers can should partner and 'manage' the relationship with their retailers. Innovate and differentiate to ensure that their brands are those that customers prefer, and invest more in their brands. They need to also be more proactive and understand the business, pricing and risk areas to a greater degree and develop competitive tactics at store level.

In summary:

The complexity of PL decision-making, and the wide-ranging impact that these decisions will have on the rest of a business, means that a one-size-fits-all approach is not appropriate for either retailers or suppliers. Instead, each organisation will need to find the correct strategy to meet their organisational requirements and aspirations.

In particular, continued innovation and format adaptation as well as targeted communication strategies will help ensure visibility of PL ranges in store. PL will also be a key competitive measure to reinforce price perception and drive simplicity in-store to compete with continued discounter growth. Those retailers and suppliers which are able to identify and capitalise on future growth areas will be at an advantage, although any developments to PL will need to take the consumer into account. Both retailers and suppliers also need to understand the key PL growth markets to ensure corporate strategy is focused correctly (IGD, 2006).

As for manufacturers some will thrive; some will disappear or diversify; some may go direct to consumers. Regardless of their strategy suppliers will be forced to refocus on their brands and the 'value' they represent – innovation will be paramount in meeting the PL challenge. New suppliers will develop a retail supply capability to focus on PL while retailers will control the supply chain.

- PLs will grow
- PLs will become Brands
- Not all PLs will be successful
- Innovation will grow in importance for manufacturers – and Retailers
- Retailers power will grow
- PLs are here to stay
- Consumers will ultimately decide where the value is!

About the author
Jeff Rogut has been in the retail industry for over 20 years and has seen the evolution of Private "Labels" from a generic product, sometimes of very average quality from a second tier manufacturer and simply had a retailers label attached to today's Private "Brands" where retailers care about them, understand how they impact on their categories and business and also understand the sales and margin opportunities if they get it right as well as the downside if it goes wrong. Recently Jeff had responsibility for the Private Label development for Mitre 10 in Australia and so understands the factors that influence the decision to go down the Private Label path, or not. Jeff is now the Executive Director of the ACRS.

About the Australian Centre for Retail Studies

The Australian Centre for Retail Studies provides research driven education to those involved in the retail sector through broad based research and information generation, management education programs and the promotion of retailing as a career.

As a commercial centre within Monash University's Business and Economics Faculty and Department of Marketing, the ACRS is a bridge between the academic and the commercial retail worlds, enabling clients to access resources and knowledge that may not be otherwise available to them.

The centre engages in the following areas of activity throughout Australia, New Zealand, South East Asia and Asia.

- Management development programs
- Presentations, conferences and seminars
- Retail research, reports and publications
- Study tours

The ACRS builds skills, knowledge and understanding at all levels of management from first line appointees to CEOs; because of its unique retail focus the Centre offers advantages over other general management training providers.

Enquiries

Please contact us if you have any enquiries about Retail Therapy or the centre itself. Also if you would like further information about this paper or contributing please feel free to contact Jeff Rogut.

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