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Reprint #05162CON55
This article was first published in *Design Management Review* Vol. 16 No. 2

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Innovation in Private-Label Branding

by Charlie Conn

Retailers need to think like a brand and act like a retailer.

—Richard J. George, PhD, Professor of Food Marketing, Haub School of Business, Saint Joseph's University

Private labels are taking on the national brands. Putting price aside, specialty retailers, supermarkets, and chains, such as Starbucks and Target, are creating high-margin, high-quality consumer goods and experiences that are enticing growing numbers of loyal and profitable customers. Charlie Conn distills the elements—including credibility, consistency, distinctive content, and strong communications—that yield success in this arena.

Charlie Conn, Director of Branding, Proteus, Boston

Private-label brands give retailers, regardless of size, the ability to control and manage their shelves and to create another level of relationship with consumers.

In recent years, private-label branding has leveled the playing field among retailers and manufacturers by enabling retailers to source products economically from around the world and apply their own brand names. This gives retailers more control over what happens at the point of sale—they can design not only their planograms but also their presentation of products in a way that competes directly with national category leaders.

In the grand scheme, private-label branding gives retailers more control over their destiny for two reasons. First, it enables them to compete with and decrease their reliance on national brands, the majority of which, in the US, are owned by just 24 companies. Second, it allows them to differentiate from other retailers in a highly competitive environment. Consider two competing supermarkets, for example. Each carries an overlapping subset of nationally branded, category-leading products. What's to stop consumers from walking past one store to another on their way home from work?

Success in private-label branding boils down to a retailer's ability to build a brand and control and manage it on a

At Shaw's Supermarkets, private-label snacks appear alongside national brands.

local level to create relationships with consumers. The challenge is to provide consumers with unique experiences that are as good—or better—than those of the national brands and their competitors. This becomes easier when less of the retailer's budget is needed to support the introduction and marketing of traditional consumer brands. "As audiences for network television diminish, advertisers are coming to believe that one of their best opportunities to reach consumers is in the store—at the point of sale," according to a recent *Financial Times* article.[1] This bodes well for retailers who ultimately have control over the point of sale.

1. Gary Silverman, "Retailers pack new punch in battle with the brands," *Financial Times*, Nov. 16, 2004.

Private-label branding is no longer strictly a me-too solution or a value offering. It has expanded into exclusive, premium-quality brands that are as good as the national brands. Upon walking into Joan's on Third, a premium, high-end deli in Los Angeles, the expectation is that everything associated with its brand is of the highest quality—not just "as good as" the category leader, but better.

Consumers will try a brand once because they're curious. But if the experience isn't good, it's extremely difficult to lure them back. The mark of a successful private-label brand is repeat purchase. The strategy then becomes making the retailer a destination for uniquely positive experiences.

The quality is visually evident inside Joan's on Third, a premium, high-end deli in Los Angeles.

The State of Innovation in Private-Label Branding

Retailers have come a long way since generics graced their shelves. The *Financial Times* article mentioned earlier explains that "store brands are no longer copying the competition. They are setting their own style trends. The ugly ducklings of the supermarket shelves are growing into swans."

But is private-label branding today truly innovative? There's a difference of opinion in the industry. Some experts believe that the national brands and category leaders are setting the bar for innovation because they have the resources and ability to develop, test, sample, advertise, merchandise, and market innovative products.

"Consumers have greater trust in nationally branded products because they have been around longer, receive more promotion, and have higher levels of recognition," said Bob Robbins, founding partner with Cymbal Branding. "This equity lets large companies take more risks in creating and introducing innovations to the market."

But others see innovation coming from the private-label brands. By creating unique brand experiences for consumers, such retailers as Starbucks, Whole Foods Market, and Trader Joe's have created truly innovative brands that encourage repeat purchases. From a private-labeling perspective, Starbucks is innovative because it provides exclusive, private-label products that are in line with the lifestyle experience it has created. Starbucks reached the pinnacle of success in this area when one of its exclusive private-label music CDs, "Ray Charles: Genius Loves Company," won Album of the Year at the 2005 Grammy Awards, after being nominated in 10 categories. This and other exclusive products contribute to the emotional benefits experienced by Starbucks' customers, and as a result they contribute to the bottom line.

Starbucks' private-label products support the lifestyle experience the company has created with its customers.

In many over-the-counter categories, such as pain relievers, private-label products and national brands are similarly regulated and contain the same ingredients.

Private-label branding has been most prevalent in supermarkets and drug chains. According to the Private Label Manufacturers Association, supermarkets rang in $42.9 billion in sales of store brands in 2003, representing 16.3 percent of overall sales.[2] Drug chains reached an all-time high of $3.8 billion in store brand revenues that same year.[3] In both sectors, growth of private-label brands exceeded the growth of manufacturer brands.[4]

This trend sparks new interest in the debate over innovation in private-label branding. With retailers adding to their quantity of private-label brands, the question becomes, is it truly innovative to private-label a new recipe for pasta sauce or salsa? Or to add more chocolate chips into a dessert than anybody else?

"I'm not sanguine about the major supermarkets," says Richard J. George, professor of food marketing at the Haub School of Business, Saint Joseph's University, Philadelphia. "To be

2. "PLMA's 2004 Private Label Yearbook: A Statistical Guide to Today's Store Brands," Private Label Manufacturers Association, 2004, p. 3.

3. Ibid, p. 5.

4. Ibid, p. 3, p. 5.

successful, supermarkets need to look to customers to determine the set of needs that can be uniquely satisfied. Brands are more than products on the shelf (national brand or private label.) Retailers are brands and need to focus on what the customer wants and how the retailer can positively differentiate the brand. It's all about customers, not products. Retailers need to think like a brand and act like a retailer."

The reality is that although private-label branding is increasing in scope, there's little innovation involved in adapting recipes and formulas. True innovation occurs only when retailers approach private labeling from a branding perspective and create unique experiences that build another level of relationship with their consumers. To achieve success, retailers need to shift their focus beyond the label and build brands in a broader sense.

One retailer strategically using private labeling to build upon its relationship with consumers is Wal-Mart. In 2003, Wal-Mart began serving local markets through its Neighborhood Market format, which tailors private-label grocery products to regional consumer tastes.[5] In this way, the largest retailer in the world is able to get closer to consumers by building a familiarity with them based on local preferences. Smaller, regionally based retailers stand to learn from Wal-Mart's example.

"The opportunity for private-label innovation is dependent upon the ability of retailers and global vendors to transform retailers into store brands worthy of supporting interesting new products. Without sufficient improvement in the store brand, the rest does not work," says Richard Hastings, retail economist at Variant Research Corporation. "Specialty apparel is a case in point. A store brand like Chico's or Bebe has no problem innovating itself at the product level, because the store brand is fully developed. This is not as consistently true for many grocery, mass market, or chain drug retailing companies."

5. "Wal-Mart: Private labels on parade," *Datamonitor*, April 2003.

Basic Branding Principles Apply

Innovation requires retailers to think like the national brands. A brand is more than just a name and logo. It's a set of associations that lives in the consumer's mind—the sum total of everything the brand represents for that consumer. To fully understand what a brand stands for—private-label or otherwise—retailers need to ask themselves:

- How appropriate is the brand?
- What makes it unique?
- Who are the target consumers?
- What functional, rational, and emotional benefits does it offer consumers?
- How adaptable is it?
- Is it protectable?

Based on understanding these brand attributes, retailers can put some definitions around their positioning statements. It used to be that retailers thought that private labeling was about packaging and about making a value offering. Now, they're seeing a much broader opportunity. "It's experiential, and it involves changing the way people perceive the brand through not only its product and packaging, but its whole experience," said Michael Brown, a partner at business development company Enventys.

Trader Joe's has created its own brand and consistently maintains it

Trader Joe's private-label products speak to the uniqueness and quality expectations of its customers.

across all the products they sell and all channels of brand communication—everything from weekly fliers and in-store collateral to signage and the dress of the store staff. At the same time, the retailer has fulfilled the expectations of its consumers through the quality of its products.

Target has not only been effective at creating a consistent store brand in its value offering, but it has also established exclusive and premium products that support the whole position of what Target is—a sponsor of well-designed solutions. Target fulfilled this position by aligning with renowned designers and creating exclusive items that can't be found anywhere else, and by supporting its position as a design-conscious company in its communication and advertising.

Some of Target's store-brand value offerings shown with competing national brands.

Retailers need to define how they communicate with the consumer through all available means: label and packaging, unique point of purchase merchandising, consumer and trade advertising, weekly fliers, environmental graphics, website presence, and so on. The more integrated these communications are and the more consistently they are presented, the more they support the brand. Successful retailers look at communications from a totally integrated approach.

Communications and R&D represent the two greatest costs of innovation in private-label branding. As the cost of communications continues to drop, and the variety of methods for communicating on a smaller budget grows, even small retailers can now afford to use private labels. The caveat is that they may not understand the scope of the opportunity. It's much more than having their own logos put on a product. The more integrated the branding experience a retailer provides, the greater the opportunity to increase confidence and build trust within the target audience.

Trust, differentiation, and consistent delivery represent the three key tenets to private label branding. Trust, especially, is a factor that will lead to repeat purchases.

Brand Boundaries—Setting Parameters

Successful store brands support the vision, mission, and overall brand of the retailer. If a particular product falls outside these parameters, the retailer can consider creating a nonendorsed brand, or a private-label solution that does not carry the store brand association or store name on the packaging. Nonendorsed brands serve to create more choices for the consumer, but are not directly associated with the store brand. Retailers may create nonendorsed, private-label brands to offer wider selection, understanding that if a nonendorsed brand fails, it is not a direct reflection on the store brand.

Target's well-designed, exclusive private-label products from three of its designer lines: Archer Farms, Method, and Michael Graves.

This strategy reduces risk to the retailer.

For example, Kroeger and Safeway have transitioned into full-fledged group brands and store brands as a result of ineffective, nonendorsed private-label strategies. This indicates that a collection of numerous nonendorsed brands may be too fragmented to manage properly. Such retailers addressed this by combining more products under what's called a group or umbrella brand.

Group brands encompass a wider range of products; for example, President's Choice encompasses everything from beverages to edibles and other grocery items for its retailer, Loblaws. The distinction is that group brands do not carry the store brand or name, much like President's Choice products do not state the retailer Loblaws' name on them. This is a different strategy than Tesco's well-known store brand, for example.

As consumers grow more used to seeing private brands, they are accepting the idea of retailers developing exclusive, premium brands of a quality that is as good as, or better than, that of the national brands.

To determine which categories of product support the retailer's mission, the retailer must establish brand boundaries. Setting brand boundaries enables a retailer to (1) endorse and put its name on only those brands that specifically support its positioning and core competencies, and (2) create quasi or nonendorsed brands bearing different names for those categories of product that don't support the retailer's core positioning.

The key is for the retailer to fully understand who it is, what its brand stands for, and what it wants its brand to be. This allows the retailer to tailor solutions that are appropriate and in line with its vision, mission, and positioning. Offering products that fall clearly outside the retailer's brand boundaries confuses consumers. No one would expect, for example, to find motor oil branded with the Starbucks name.

The Opportunity Is Trust

As pointed out earlier, trust is a key factor leading to repeat purchases. But what creates trust in consumers?

In terms of private-label brands, consumers' trust is predicated on their trust in the retail brand. When a retailer's name and logo appear on a product, it represents an endorsement by that retailer that the product is of an expected quality, and that by purchasing it the consumer will reap the expected rewards.

When consumers trust a retailer's brand, they give the retailer license to do innovative things with it. As consumers grow more used to seeing private brands, they are accepting the idea of retailers developing exclusive, premium brands of a quality that is as good as or better than that of the national brands. Price has become a big factor in this connotation of quality, because today private-label products are often not the cheapest on the shelf. Time is also a factor, as consumers may be less tolerant of brands that have not yet withstood the test of time.

"Still, national brands remain the benchmark that private-label brands are measured against," says Cymbal Branding's Bob Robbins. Retailers that create brand experiences by offering quality products, points of differentiation, and consistent communications with their consumers have earned the trust that national category leaders have enjoyed for decades.

According to Enventys' Michael Brown: "Over time, if they stay consistent, the retailers will develop trust with the consumer. There's still a place for national brands, and still a place for private-label brands, and both of them are getting better. It's great for the consumer."

At times, it's difficult for retailers to stay the course. For smaller retailers, private labeling carries risks, because they don't have the resources or the flexibility the category leaders have. National brands can often support a loss leader to create pull in a certain category. Smaller companies can't afford to do that.

In the broadest sense, private-label brands give retailers the opportunity to create something new that's specific and tailored in a unique and custom way that can build trust with their customers.

Industries Ripe for Private-Label Innovation

Although the bulk of private-label brands encompass products that are geared to "clean your house, self-medicate, or ingest," says Steven Hoch, chairperson of the marketing department at Wharton School of Business at the University of Pennsylvania, "there are huge opportunities in convenience stores. To the extent that convenience stores are closer to restaurants, the private label is benefited." Convenience stores leading the way include Wawa and 7-Eleven, both of which are moving toward becoming a destination place. As do other types of retail outlets, convenience stores face the challenge of offering products compelling enough for consumers to drive past other stores in favor of theirs.

In the food and beverage arena, Saint Joseph's University's Richard George sees an "opportunity for innovation in chilled meals. Retailers have done a good job with frozen meals, an average job on in-store prepared meals, but chilled meals offer a great way to say what you're all about as well as to offer control in manufacturing. In creating chilled meals, retailers should ask, 'what does this say about our brand and our store?'"

"The other area for innovation is the niche players. The guys who are not in the middle—for example, Trader Joe's and Whole Foods," adds George.

Stephen Hoch sees opportunity for private-label innovation in health and beauty aids, but offers this caveat: "I don't see private labeling doing well in a lot of the beauty categories because of the economic impediment. To go after one bit of business, you need to make a commitment to go after a whole line—20 different flavors. In categories where there are a lot of SKUs, if you don't cover a good chunk of the national brands' circuit, it's just not going to work. You can't offer just a few."

Adds Enventys's Brown: "Health and beauty is an interesting section, because you're relying on that product to get rid of your headache, clean your teeth, or shave with. When you have that hodge-podge national-brand look going on throughout your section, it's hard to build trust with consumers."

Private-label branding presents new opportunities for innovation to smaller retailers. However, some categories are easier than others. Hard goods and hardware may, for instance, present more of a challenge in this regard, simply because they typically involve proprietary design solutions that require significant investments in prototyping. As such, they have more robust requirements than products with a quicker turnaround. Target has been successful in the area of hard goods, with its exclusive product lines designed by Michael Graves, Isaac Mizrahi, and others. For a small retailer to develop a proprietary product line of hard goods would be a significant investment, but certainly not impossible given the right resources.

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Innovative Retailers Can Forge Their Destinies with Private-Label Brands

Building a successful private-label brand is an investment in a retailer's future. The process extends far beyond the label itself, involving a deep understanding of the whole brand experience. In other words, it's not just about creating a package.

National brands have extremely high visibility. People trust them, and have for years. Retailers can apply branding principles honed by large manufacturers by developing an understanding of their own missions and points of difference, and by striving to build consumer trust in their private brands. The result is repeat purchases and, ultimately, brand loyalty.

For private-label brands to be truly innovative, they must exhibit a material improvement that creates a new brand experience for consumers. "To be innovative, a product has to generate a different experiential response," said Variant Research's Hastings. "There has to be a change in the experience of the consumer. If you change the level of chocolate chips, there may be a marginal change in experience. True innovation makes a more material change. Private-label development often is not backed up by enough research and development dollars to generate break-out new products."

That is about to change, as cost barriers fall and the paradigm shifts for retailers seeking to create competitive advantage through private labeling. Innovation in private-label branding provides a creative opportunity to build new relationships with consumers, allowing further control over a retailer's shelves, as well as its future destiny. Retailers who do not investigate private labeling lose an opportunity to establish and sustain a point of difference in an extremely competitive marketplace. ■

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