Why Private Brands should form part of every Retailer’s growth strategy

Thought Leadership Report

dunnhumby

Contents

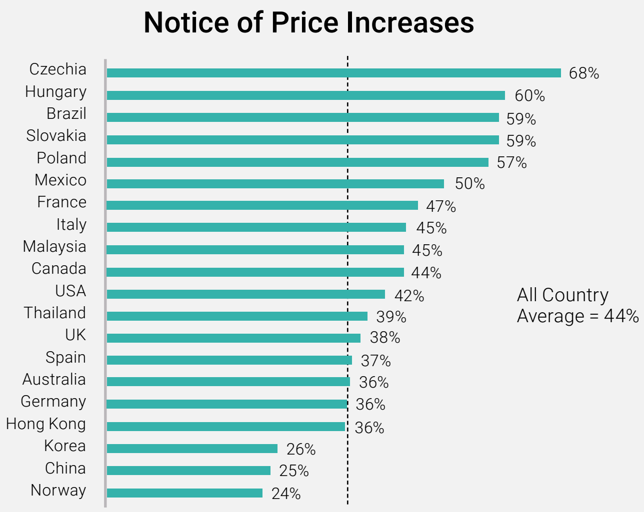
Introduction	3
What's in a name? Private Label vs Private Brand	4
The five main types of Private Brand	5
The perfect blend: how the right Private Brand mix benefits Retailers	7
The Seven Ps: managing your Private Brand	10
Conclusion	13

Introduction

Prosperity can have a pronounced effect on price perception. In a 2001 study that analysed more than four decades of previous research, the authors found that as GDP rises, shopper awareness of pricing declines . Put simply, the more money that we have, the less interested we are in what we pay for the goods we buy.

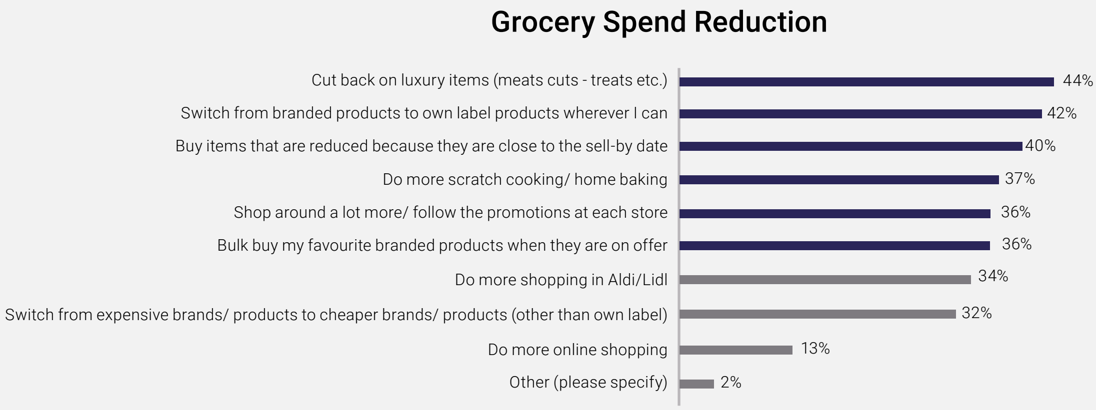
The same is true in reverse, of course. When times get tougher, we become that much more aware of the price we pay and the returns we receive. Value perception can fluctuate as a result. And with the continued impact of COVID-19 beginning to pull the global economy downwards, there is every indication that consumers are already scrutinising the price of goods more closely.

Throughout 2020, dunnhumby conducted a series of research studies designed to gauge the consumer response to the coronavirus pandemic. Among the many insights we discovered, one with the greatest significance for Grocery Retailers is that – even as early as May – Customers were beginning to become concerned about the rising price of goods. Almost half (44%) believed that the price of their grocery shop had begun to rise.



Source: dunnhumby Customer Pulse, May 2020

Amongst other actions, one of the primary ways in which shoppers plan to respond to this growing price sensitivity is to divert their spend towards Private Brands. Again, almost half (42%) of respondents to one of our COVID-related studies noted that they were planning to switch from National to Private Brand products as part of a wider money-saving campaign.



Source: dunnhumby Shopper Thoughts, May 2020

These trends are unlikely to have changed much as the year has progressed. At the time of writing, economists are beginning to warn of the dangers of a “double-dip” recession as new lockdowns come into effect . Retailers will need to continue to demonstrate their value for months – perhaps years – to come yet.

Private Brands offer a compelling way to do just that. Giving Retailers the ability to flex around Customer need states, drive margins, and fend off the competition, a successful Private Brand can be a decisive factor in helping to drive growth through turbulent times. But planning, building, and maintaining a Private Brand can be also be a demanding and time-intensive effort.

In this paper, we provide a framework for creating sustainable and effective Private Brands. Covering everything from the five primary tiers that define Private Brands today through to the factors that define success, the following pages contain a wealth of information for any Retailer looking to use Private Brands as a lever to win and retain loyalty in the months ahead.

What's in a name? Private Label vs Private Brand

On the surface, the only difference between Private Brand and Private Label products might seem to be semantic. The terms are often used interchangeably, with both taken to refer to any goods sold under a Retailer's banner, usually at a lower price than National or FMCG Brand products. Ultimately, this confusion does a disservice to the concept of a Private Brand; there is a difference – and it is one that can be a substantial differentiator for Retailers if executed effectively.

Perhaps the best distinction between the two comes from author, speaker, and Retail commentator David J. Katz. Writing on his personal blog in 2018, Katz notes that "private label merchandise is generic goods, sold as a commodity. Private brands, when properly executed, are truly brands, exclusive to a retailer or channel of distribution, with distinct brand attributes, supported by significant marketing."

Arguably the most important factor in Katz' description is his final point here, the need for "significant marketing". Private Brands are about much more than undercutting FMCG labels on price. They require sustained – and sometimes considerable – effort across a variety of factors. At the same time, the rewards for Retailers who get it right can be compelling.

We believe that there are four fundamental truths about Private Brand that any Retailer considering building their own needs to take into account.

1. There are five primary types of Private Brand: Value, Mainstream, Premium, Lifestyle, and Venture. These are split across two tiers – Price-Based, and Customer-First.
2. The Private Brand mix can have a marked impact on value perception. The more Private Brand products in a Customer's shopping basket, the better their value perception of the Retailer is likely to be.
3. A holistic Private Brand framework should adhere to the "Seven Ps" of the marketing mix: product, price, promotion, place, packaging, positioning, and people.
4. Private Brand cannot be rushed. Building a successful Private Brand business takes time, resources, and sustained focus.

Over the following pages, we'll discuss in more depth how Retailers can maximise the success of – and returns from – Private Brands.

The five main types of Private Brand

At one time, Private Brand products were represented in one format only: Generics. Generics – Private Label by Katz' definition – are sold purely as a value alternative to National Brand goods, allowing Customers to procure a wide range of products at a lower total cost.

Times have changed, of course, and greater sophistication around Customer understanding has enabled many Retailers to rethink and expand their Private Brand models. Today, we see five primary types of Private Brand, each designed to appeal to a combination of shopper needs and Retailer objectives.

Tier	Type of Private Brand	Customer Value Proposition (Benefit to the Customer)	Strategic Purpose (Benefit to the Retailer)	Leading Examples
Price-Based Tiers **Good / Better / Best**	**Value** Opening Price Point (OPP)	Functional quality at rock-bottom prices	Defend against share of wallet loss to Dollar stores and other value-led retailers	Hill Country Fare (HEB); Farm brands (Tesco, fresh categories); Frescampo (Exito)
	Mainstream National Brand Equivalent (NBE), First Tier, Copycat, Me-Too	Equal or better quality as the leading brand, but at considerably cheaper prices	Build critical mass, reinforce brand message	Great Value (Walmart); Up & Up (Target); Qualitá (GPA, Exito),
	Premium Flagship	Best possible products; no sacrifices	Elevate brand image, contribute profit	Tesco Finest; Boots No.7; 7-11 Premium
Customer-First Brands	**Lifestyle Brands**	Meet my unique needs across a wide range of categories	Retain core Customers, respond to growing Customer needs	Simple Truth (Kroger); 365 Organic (Whole Foods); Tesco Free From, Taeq (Exito, GPA); Änglamark (Coop Norway, Denmark, Sweden)
	Venture Brands Category Brands, Fancy Brands, Specialty Brands	Unique products at competitive prices	Credibility in competitive categories; differentiated products in specialized brands	Aldi; Lidl; Chockablock, Parioli (Tesco)

Private Brand examples

finest* – Tesco

Tesco's premium private brand Tesco finest* first launched in 1998 with a focus on ready meals, and has since expanded to cover many categories, becoming the UK's fastest growing premium food brand. With more than 1,000 products in the range, Tesco leads on quality and taste, focusing on the importance customers place on provenance, sustainability, ingredients, freshness and seasonality.

Hill Country Fare – H-E-B

Grocery Retailer H-E-B sells the Hill Country Fare range in stores across Texas and Northern Mexico. Hill Country Fare covers a broad assortment of products including dairy, bakery, meat, snacks and more. The accompanying Hill Country Essentials line offers a range of personal care products. The Hill Country line sits at the Value end of the Private Brand tier, offering Customers savings of as much as "40% compared to national brands" according to H-E-B.

No7 – Boots

No7 is a Private Brand that has stood the test of time; the Boots beauty range celebrated its 80th birthday in 2016. Established in 1935, No7 originally fulfilled the Mainstream role for Boots, which launched the range at "a time of economic depression, when beauty cosmetics were mainly reserved for the wealthy" . Today, with sustained marketing behind it, No7 is a major international brand that can be found in 13 countries. A genuine differentiator for the Retailer behind it, No7 serves as a Premium Brand.

Scaling up: how Retail responded to meet surging demand

With a variety of Private Brand types comes the ability to meet a variety of Customer needs. No two shoppers are truly alike, and a balanced Private Brand mix provides the ability to meet differing behaviours, shopping missions, need states, and price sensitivities.

Creating the mix

Having analysed Private Brand performance across numerous global markets, our views on creating the right mix of tiers are as follows.

Mainstream Brands should serve as the focus of a Private Brand portfolio

For maximum overall Customer appeal, making Mainstream Brands the focus of your mix delivers two valuable benefits.

The first of these surrounds price; non-brand loyal shoppers will be presented with a leading brand alternative that offers good value for money, while more price-sensitive Customers will see leading brand value at a more accessible price point.

The second major benefit regards value perception. By matching National Brand quality at a lower price, Retailers will gain greater negotiating leverage against leading and other, "better" brands.

An over-reliance on Value can erode perceptions around quality

Going back to our above note on the difference between Private Label and Private Brand, one of the most common pitfalls for Grocery Retailers to focus too heavily on the Value end of the spectrum.

Value is an undoubtedly vital part of the Private Brand mix, giving highly price-sensitive shoppers a frame of reference with a Retailer. If Customers see a Retailer offering predominantly Value-tier products however, they are likely to consider that all Private Brand under that banner is aimed at price-sensitive shoppers and likely offers a bare minimum standard of quality.

If those products are directly associated with the banner – i.e. not designed with a brand distinct from the Retailer's own – this rationale will eventually carry through to the chain as a whole. The risk here is that Customers begin to perceive said banner as one that solely targets price-sensitive shoppers.

A Premium tier broadens a Retailer's ability to meet Customer needs

Premium Brand products give Retailers the ability to inject a high-quality "anchor" into their mix. While these goods are unlikely to be the default choice in every line for the average Customer, their presence presents shoppers with the option to trade up to a premium offering – either for special occasions, or more frequently in those categories that are particularly important to them.

Premium Brand lines can also help to insulate Retailers from the risk of shoppers switching to higher quality National Brand products.

Venture Brands can be a finely tuned instrument for managing margins

Unlike the above tiers of Private Brand, Venture Brands are not copycat or "me-too" replicas of National Brand products. Instead, they are Retailer-exclusive, and created from scratch in a way that should engage shoppers with a distinct point of view.

Venture Brands can be particularly useful way of bridging the gap between Private and National Brands. Sitting outside traditional price comparisons, they can give Retailers another valuable tool in their margin management kit. Done right, Venture Brands can even drive footfall or provide a foothold in other markets.

Credibility gaps can be addressed with an alternative approach to Private Brand

While applying a Retailer name to a Private Brand product can help to drive everything from loyalty to value perception, it can also create a credibility gap in some categories; Customers won't always believe that a Retailer has the requisite experience or ability to create products of sufficient quality.

A well-employed solution here is to distance the Retailer from the product, or to eliminate banner branding entirely. The latter approach, of course, requires no small amount of marketing investment, and may be best reserved for Premium Brands where quality is the paramount factor.

Distancing, on the other hand, is a well-employed tactic that puts ground between the product, banner, and Customer by using branding that suggests the Retailer is "presenting" the product to the shopper, rather than producing it directly. Wine is one such category in which this tactic has been used highly effectively.

Customer understanding should define the mix on a category-by-category basis

Understanding customer needs and how they can be met within each category is the ultimate route to success around Private Brand. Retailers need insight into the primary drivers of product preference within each category, and apply their Private Brand tiers accordingly.

In highly commoditised categories, for instance, where pricing is the primary driver and differentiation is limited, Mainstream and Value Brand products should form a large part of the mix. Contrastingly, entertainment, luxury, and gift categories should focus on a pronounced Premium Brand presence as part of the mix. Ultimately, knowledge of the Customer must lead the way.

A good balance goes beyond "just" Customer satisfaction

While the primary purpose of a sustainable mix might be to provide for a variety of Customer needs, there is a financial argument for balance outside of long-term loyalty.

Value Brand products tend to be competitively priced, which makes for low margins. Thus, a highly Value-centric offering will ultimately generate less profit than a mixed one. The introduction of Mainstream Brand produce into the mix – even at just 20% less than leading competitors – can greatly enhance those margins. Naturally, Premium Brands can push that trend further still.

Critical mass is the key element here. Realising the value of Mainstream Brands requires high sales volumes, and Retailers may benefit from early and aggressive investment to rapidly grow a Mainstream line upon launch.

Reaping the rewards

A Customer-led and well-thought-out Private Brand mix offers benefits for Retailers and Customers alike.

For Customers, Private Brands can:

- Offer good value for money, delivering National Brand quality at around 20% to 30% less. These savings are driven primarily by reduced marketing and administration costs, which can be passed directly to the Customer.
- Meet a range of changing needs, boosting choice and filling potential gaps in the market. If suppliers aren't able to fulfil Customer demands around price, quality, or any other driver, Private Brands offer Retailers a chance to step up to that demand – earning their loyalty in the process.
- Make shopping missions faster and easier, providing unified branding across a range of goods that adhere to the same value proposition. Clear Good-Better-Best labelling and communication is key here, helping to ensure that Customers can quickly and simply find the right offer for them.

For Retailers, Private Brands can:

- Enable greater control, particularly in regard to satisfying Customer needs. As the owner of the Brand, Retailers can determine the right selection of products for their shoppers, manage their own price:quality ratios, and enjoy 100% control of marketing and promotions.
- Provide a genuine point of differentiation, with exclusive and competitive ranges helping to drive loyalty and market share. This, in turn, reduces the Retailer's reliance on pricing and promotions as a mechanic for attracting shoppers.
- Improve profitability, cutting out the middleman and associated costs. As mentioned above, even when undercutting National Brands, Retailers can still enjoy stronger margins as a result.
- Improve negotiating power with suppliers, helping to cement better terms and lower prices. Private Brands can also encourage National Brands to invest more in digital and physical presence with a Retailer in order to continue delivering sales.

The Seven Ps: managing your Private Brand

Communication is one of the most important factors in Private Brand. From pricing to packaging, every aspect of the Brand must communicate its value proposition clearly, particularly when a Brand is new to the market. Customers need to be able to quickly and clearly grasp the offering, and where it might fit within their shopping mission.

The "Seven Ps" model is not specific to Private Brand. Rather, it is a widely used strategy designed to inform the overall marketing mix. Nonetheless, the seven Ps – product, price, promotion, place, packaging, positioning, and people – provide a useful framework upon which a successful Private Brand can be built. Here are our recommendations on how Retailers can excel in each of those seven areas.

1. Product

Value - As your "good" equivalent, the quality of value products should be sufficient to match a "fit for purpose" expectation. The overall nature of the line should match the leading competitor's entry-level products and provide at least one point of differentiation over those goods. Value lines should encompass everyday food and non-food products only: apples, as opposed to mangoes, for instance.

Mainstream - Occupying the "better" role within your mix, Mainstream Brand should also serve as the core of your range. Following the market benchmark, quality here should match or exceed the leading brand , but at a significant price discount. The Mainstream product should also offer clear – positive – quality differentiation over the Value offering.

Premium - As the "best" offering, this line needs to match up to the leading competitor or a niche star performer. Ingredients, appearance, taste, and more must all be of the highest quality, visibly differentiated, and draw from pre-conceived notions of quality. At category level, Premium Brands should focus on lines that should inspire and excite; investment will be much better spent on Premium-tier meats, confectionery, and bakery as opposed to household, for instance.

Lifestyle - Lifestyle Brands are best differentiated based on factors that Customers deem to be important to their way of life; wellbeing, organic, vegan, sustainable, and so on. Naturally, this limits the applicability of Lifestyle products solely to categories in which such a distinction can be made. Visible authenticity is key here, prompting shoppers to buy based on emotion rather than rational factors.

Venture - Competing in a specific competitive niche, Venture brands need to be precisely positioned at one end of the value spectrum. Quality and range should be a broad reflection of those rival offerings, albeit with clear and visible differentiators.

2. Price

Value - Products at the Value tier should represent the base level of pricing within the category, offering "fit for purpose" quality at an "unbeatable" everyday low price. Value products need to match or undercut the leading brand's price point – including discounters and traditional markets. Larger packs sizes should offer lower prices per unit.

Mainstream - Priced at a minimum 20% less than the benchmark (and, ideally, 30% or more), one of Mainstream pricing's main goals is to help drive up margin. Many Retailers operate "penny profit" rules in relation to Mainstream pricing, demanding that the everyday margin for their Private Brand products is greater than that of the National Brand equivalent. There must be a clear difference between Mainstream and Value pricing.

Premium - Premium pricing is a little simpler; in best practice scenarios, it should match or undercut the best-selling Premium Brand equivalent while offering a comparable level of quality. As with the price:quality difference between Mainstream and Value, there should also be a clear demarcation between Premium and Mainstream.

Lifestyle - As with the product itself, Lifestyle-tier pricing provides fertile ground for differentiation. Broadly, pricing should be established based on the Customer need state and the category, but opportunities exist to promote the banner as a product or category champion here. Dietary-focused products (i.e. gluten free) are a key example; by setting pricing in line with standard products, Retailers can position themselves as the banner of choice for Customers with that dietary need.

Venture - Since Venture Brands operate at one end of the price:quality spectrum, the optimal approach here is to benchmark against the leader at the corresponding end of the scale.

3. Promotion

Value - As the "fit for purpose" Private Brand, promotion should be defined solely by its absence. Everyday low pricing applies here, with no flexibility on the base price.

Mainstream - Promotions and shielding are key here. The former should be utilised frequently, particularly around launch; promotional pricing helps to encourage shoppers to try new lines. Over the longer term, promotional mechanics should echo the benchmark – albeit at different times. When market leading brands go on promotion, Mainstream products should be shielded to maintain perceptions around value for money. Promotional pricing here should never take a Mainstream product below the Value equivalent.

Premium - Less is more with Premium. Early experimentation can help drive trial purchases, but Promotions should be steered away from in the longer-term. Peak "trade up" periods – holidays, occasions, and events – may prove useful as a traffic driver, however. Premium line products should never go cheaper than Mainstream ones.

Lifestyle and Venture -A similar model to Premium prevails in these categories. Use promotions to drive early interest, not as an ongoing sales mechanism.

4. Place

A Retailer's "place" strategy is tied less to the Private Brand tiers, and more to the age of the line in question.

Newly launched - Position the entire range together in a single, highly visible area. Use point of sale headers, shelf-edge talkers, and other signage to engage and educate shoppers. The minimum shelf presence here should be two facings wide (Value), scaling up for both Mainstream (at least 50% of benchmark) and Premium (25% - 50% more than a typical arrangement).

Growing (3 – 12 months after launch) - At this stage, the line should have moved away from its hero location and on to its associated product group. Shelf presence should continue to be overstated in order to support brand awareness, and promotional activity should be used to drive sales where relevant.

Established (12 months and on) - Activity here matches the previous stage, with the exception that product capacity can now be scaled back to match the accompanying display group.

General rules - Good-Better-Best arrangement at display should run from left to right, and lowest to highest (i.e. the highest price Premium item can be found on the top right of a display). Mainstream Brand products should always be positioned to the immediate left of the National Brand equivalent, or directly above or below should the competitor product require an entire shelf.

Wherever possible, Private Brands should be given equal facings to National Brands and placed adjacent to them. End cap space should also be used proactively.

5. Packaging

Value - Value products should be introduced in the smallest pack size suitable for that line. Larger sizes should be introduced only when there is clear evidence that they can sell as well as those smaller equivalents. The packaging itself should be simple, functional, basically designed, and with a basic window view or photograph of the product inside.

Mainstream - Mainstream goods should be immediately available in the same range of sizes as the leading benchmark. Shape, material, colours, and designs should all be similar to the benchmark, communicating the same (or better) benefits. Any packaging innovations (i.e. resealable or reusable materials) should be mirrored. Be aware of potential copyright infringements.

Premium -"Small but relevant" should be the guiding principle here; offering Premium products in bigger packs or better value sizes can erode quality perceptions. Materials should be high end, packaging well designed, and labelling simple but elegant. Colours should reflect traditional premium branding; black, silver, and gold are frequently used.

Lifestyle - For Lifestyle products, packaging must be tied to the qualities that the product itself is trying to present to the Customer. Slimline packaging can enforce notions of portion control, for instance, while recycled, minimum waste packs will drive home a sustainable line's purpose. Label design should be consistent across categories, with a trend towards smaller pack sizes.

Venture - A similar rationale applies to packaging as it does to pricing: match the National Brand leader at all turns.

6. Positioning

Will your line be a Banner Brand, Sub Brand, Venture, or Lifestyle Brand?

Private Label branding vs. Venture branding

Private label products are offered under a specific banner, and are commonly associated with value for money. Venture Brands are an evolution of that concept, disconnected from store branding to counter preconceptions about pricing and value, enabling the product to compete directly with premium named brands.

Credibility is the major factor here, creating opportunities and limitations alike. For most Retailers, and in the majority of categories, Banner Brands operate just as effectively as National Brands. In categories strongly associated with that Retailer's core mission, those Banner products may even overtake a National Brand as the primary draw.

Negative impacts can also occur, however. In secondary and tertiary categories, Banner Brands may actually weaken a Retailer's focus in the eyes of shoppers, lowering the perceived quality below competing brands and limiting the strength of the value for money proposition.

Lifestyle and Venture Brands allow Retailers to avoid that obstacle, divorcing the range from the Retailer, and allowing it to carve out its own proposition.

7. People

Employees can act as ambassadors for your Private Brand, extolling its virtues better than ever your marketing can.

Bring employees into the fold - From giving employees the chance to trial new Private Brand products before Customers to including offers on those lines in employee mailings, Retailers should seek to involve their employees with a new range. Post-launch, employee-only discounts can help to keep them engaged and advocating for a line.

Make Private Brand a standalone function - Successful Private Brands often run like standalones, businesses within the business that operate more like FMCG companies than Retail organisations. These departments should be staffed accordingly, led by someone with appropriate consumer-brand experience and with teams boasting Brand-related skills and experience. Data analytics and consumer insight specialists will also be well suited to such a team.

From a management perspective, Private Brands should report in to the head of merchandising, rather than marketing. As a result, people with capability to facilitate internal relationships with merchandising and store operations departments – as well as external relationships with brands and agencies – will be key hires.

Create collaborative opportunities - Those external relationships will prove vital here. Retailers should seek to create opportunities for Private Brand teams to work in collaboration with CPG partners on reinvention in a category or aisle. Not only will the internal teams learn from that experience, they will also be able to more easily identify opportunities to win.

Measure against external standards- Merchandising teams need to know that their Private Brand colleagues can furnish them with the same level of insight that an external partner would. That means judging them by the same criteria – from data-driven Customer-centric recommendations, through to their willingness to invest in understanding shoppers within a specific category. Private Brands should never be given preferential treatment simply for being "part of the family"; doing so will only undermine the value delivered to the Retailer, and the value that CPG brands derive from their relationship with stores.

Conclusion

Executed effectively, Private Brands can be used to help Retailers achieve a wide array of marketing and loyalty objectives. From providing a price-driven buffer against discount banners to delivering specific solutions for lifestyle-led shoppers, Private Brands can be a versatile and valuable tool. As with any other tool however, the success of a Private Brand depends largely upon how it is used.

Creating an effective Private Brand mix in today's Retail environment is no simple task. Customers have increasingly strong perceptions about value, and Retailers need to have a genuine understanding of the – increasingly fine – line between price and quality as a result. Pulling the lever a little too far in either direction will undermine not just the value proposition of the Private Brand, but the banner itself. To succeed, Retailers need a strong appreciation of the factors that motivate consumer preference.

Fortunately, the data to fuel that insight has never been in more abundant supply. Armed with a wealth of loyalty and purchasing data, Retailers have a direct line into their Customers – giving them the ability to ascertain not only macro trends about behaviours, but deeply granular insights into individual shoppers too.

By combining these insights with the Private Brand framework outlined in this paper, we believe that Retailers can set themselves up for success in a world set to become increasingly dominated by value perception. For those who can harness their full potential, Private Brands will not only mitigate the effects of that shift, but offer the opportunity to win new custom, greater loyalty, and a stronger, more versatile banner, too.