

Some Brands are Private

Private label continues to see gains in market share on almost all developed markets. A formula that took its first trembling steps in the UK in the 70's has now become a rather complex activity where the retailer in fact has to face many of the issues that the brand supplier faces on a daily basis.

Upon a closer look, private label has long ceased to be a single concept. Today, private label is more of an umbrella term to cover every product controlled and marketed by the retailer as opposed to the brand manufacturer.

So it might be worthwhile to spend a few words trying to define what is included. On the surface it might all seem very simple. Private label is a pack of Cornflakes where instead of Kelloggs (may all other brand suppliers of corn flakes forgive me), there is let us say Tesco written on the package. This is one case – but this is far from the majority.

Generic or No-name Brands

At the bottom of the ladder we have Generic or No-name brands. These retailer brands serve one or both of the following purposes:

1. They act as the cheap/“best-buy” alternative to national brands, and sometimes also store brands.
2. They also provide a competitive edge towards hard-discounters. (“You can find cheap products in our store as well”)

These generic brands are almost never “published” store brands. That is to say – the retailer does not necessarily inform the consumer that the products are produced under the control of the chain.

Store Brands

One step up we will find the Store Brands – where the label explicitly tells the consumer that this is a brand from a certain retail chain. These products are priced higher than the generic ones – but often still sell at a discount (10–20 per cent) compared to the big national brands. Having said that, some retailers, notably in England, have been very successful in moving their store brands up the value ladder.

Value Brand

Last but not least, there is also something we can call a Value Brand. This is a marketed brand, created by the retailer, which may or may not signal the fact that it is controlled by the chain. In some ways we can see this as the fuzzy borderline between private label and national brands. The value brand in fact competes head to head against national brands, trying to create its own value positioning. The interest for the retailer in having these value brands is in fact that by creating separate labels, each label can be given a separate positioning, depending on category, pricing, width of offer etc.

Who manufacturers private label?

The short answer to this question is everybody. With

increased marketing spending, some of the local brands chose a different route than being bought by a major fast moving consumer goods (FMCG) company. They turned into private label manufacturers. Some of them still manufacture their own brand – most of them do not. Some retailers have also taken the full step, manufacturing their own private label products. French Intermarché is maybe the chain who has pushed this concept the furthest, with a majority of their fresh food offer coming from own factories – and many others as well. Retailers as manufacturers are, however, still a minority. The biggest surprise (at least for outsiders to the industry), is that sometimes it is the FMCG company who manufactures the private label as well. Why, one might wonder? Somebody once said that “In love and war, everything is permitted”. He could have added retail negotiations. The increased power (and awareness) of retailers have put them in a much stronger bargaining position than before. They might quite simply put manufacturing of private label as a condition for allowing a national brand's products in their stores.

How far can Private Label go?

Many brand suppliers have looked (and looks) with concern upon the steady increase of private label in-store. And with the UK – being the “oldest” and thus in many ways the most

developed private label market – showing signs of stagnation, and even decreasing private label share, one might be tempted to think that the upper limit is around 40 per cent of the total market. However, one truth that might sit rather uncomfortably with national brand suppliers is that the development of private label (outside Generic Brands), very much depends on the brand suppliers themselves. This is proven by the fact that on some markets, the private label content might reach more than half of the share for certain product ranges. Typical categories with high private label content are Fresh Food and Frozen Food. On the low end of the scale, we will find product families like Confectionery and Health & Beauty. Not to say that retailers are not eyeing every category as a possible improvement of store share. But once everything that can be taken on price has been taken, the retailer comes down on the same turf as the brand supplier. How can I create brand loyalty, increasing my market share, improving my position? And then we can ask ourselves, is the retailer a brand, the brand a retailer – or a little bit of both?

by: Birger Nilsson

Market share of private labels per country expressed as a percentage of turnover

	Volume	Value
UK	45.5	43.5
Belgium	34.7	26.0
Germany	33.2	27.4
France	22.1	19.1
Netherlands	20.6	18.4
Spain	20.5	14.8
Italy	17.1	15.5

Source: PLMA
2000/ACNielsen