

# The Private Brand Revolution

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It's no secret: the buzz surrounding the trajectory of private, or own, brands has reached a fever pitch. With the growth rate outpacing national brands year over year, the private brand revolution is not only changing how consumers shop, but how retailers stock their shelves. Numbers vary by source, but private brand sales are hovering around 20 percent across categories with one in five consumer products purchased a private brand. In Europe numbers are even higher, with 10 countries achieving at least a 30 percent market share, and two countries, the UK and Switzerland, climbing to over 50 percent. All signs point to these numbers holding strong—if not increasing—in 2010 and beyond.

Today, consumer confidence in private brands is at an all-time high. They no longer compete just on price but on quality as well—and in many cases are winning against the national brands. Retailers have achieved a balance of perceived value with products that meet or exceed consumer expectations. Now, consumers don't view private brand product purchases as "trade downs" but rather as lateral, informed moves that just plain make sense on their wallets and taste buds. In some categories, private brands are even seen as the premium offering, and retailers price accordingly. Meanwhile, food and beverage (F&B) manufacturers are seeing the market shares of their national brands decline, and once impenetrable markets are crowded with private label competitors.

As retailers continue expanding their private brand strategies, F&B manufacturers

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need to move quickly and decisively to maintain and grow their brand value, revenues and market share. They also need to make tough choices on where and how to compete. Those that adapt to and manage changes to the business environment with smart strategies will excel. Here are five strategies manufacturers should consider adding to their playbooks to drive demand for their brands.

## #1 Bid Good-Bye to “Me-Too” and Disrupt Yourself

The ship has sailed on the sea of sameness. Me-too products simply indicate a lack of innovation or vision for differentiating in the marketplace. [Last month's article](#) [1] discussed how breakthrough innovation holds the biggest prize for the next F&B industry leaders. Recessions historically have given birth to cycles of disruptive innovation. There are many strategies that can be deployed to protect brand integrity while exploiting all levels of an unpredictable market, such as creating a “fighter brand” to successfully compete with a new market entrant. Manufacturers must reevaluate their competitive position and look for opportunities to engage in disruptive innovation.

## #2 Say Hello to Collaboration

With the continued success of private brands, it's imperative for manufacturers to implement a collaborative innovation strategy with retailers to compete, and potentially survive. F&B manufacturers must ensure innovation is an integrated process that closely links product development with consumer and shopper strategies. By partnering with retailers, manufacturers have the opportunity to obtain insight into shopper needs and behavior. Armed with this information, F&B companies can meet the needs of the consumer while driving equity with retailers by helping them grow revenues and customer loyalty.

An emerging area of collaboration is to partner with retailers that are bundling products for consumers, such as meals, to make shopping more convenient. This is an opportunity for manufacturers to gain more retail space and increase the success ratio of items. For example, a manufacturer participating in Kalypso's [collaborative innovation survey](#) [2], created a joint end-aisle display with the retailer's private brand. The promotion consisted of store ground beef, national brand tortillas, national brand salsa, and store seasoning. This resulted in win for the retailer, private brand, and manufacturer.

The first step to setting a partnering strategy for collaboration is to conduct an assessment of brand power in different categories. F&B manufacturers must recognize where they are leveraging their brand strength and where they are competing on price in order to negotiate and partner effectively with retailers. This complicated relationship will be explored in more depth in next month's column.

## #3 Get Healthy

Retailers are offering more healthy food choices for today's health-conscious consumer, and private brands are getting onboard the wellness train in a big way. According to Nielsen, private brands now comprise almost 40 percent of products

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with no preservative claims, 25 percent of organic product sales, and 20 percent of natural and reduced-fat claims. Genetically modified organism (GMO) free claims are the fastest growing among private brands, with sales increasing 67 percent in 2009 to \$60.2 million.

For manufacturers, new health-oriented offerings don't need to replace existing products, but rather augment them to boost their value in the eyes of the consumer. This may mean taking stock of where claims can be made without reformulations or analyzing where nutrients can be added to create a healthier product. Traditionally, private brands are slower to adapt newer health claims, so research into emerging trends—such as reduced sodium or high fructose corn syrup free—offers the opportunity to stake a competitive advantage. Another source of differentiation is to highlight local product sourcing, whether grown, processed or warehoused locally. For manufacturers, this strategy can help control costs while delivering what consumers want—product freshness, value, and a boost to their local economy.

### **#4 Create a Value Brand**

While private brand growth is seemingly in every category, it isn't. Market share in categories such as frozen meals, baby food, baking mixes, refrigerated puddings, and candy range from close to zero to 6.5 percent. Creating a national value brand in these categories will make it highly competitive for private brands to infiltrate them. To provide an additional degree of insulation, F&B manufacturers should take a cue from consumer packaged goods companies and offer different product families at different price points. For example, Procter & Gamble sells Tide detergent, Downy fabric softener, and Gain family of detergent and fabric softener products.

### **#5 Maintain Premium Positions**

The continued success of private brand products has shifted the focus of innovation to developing value products. However, manufacturers that have built a portfolio of high-quality products, and premium brands should not abandon these positions. There is still a high-end market out there, though it may be smaller and populated by pickier consumers.

This is an area where it pays to employ value science and apply innovation to pricing strategy. F&B manufacturers need to give consumers a reason to spend more on their brand. There may even be an opportunity to raise prices on certain products in the portfolio to create demand in the mid-range and prevent a wholesale flight to the low end. Discounting just to move product can undermine competitive position and cost margin points for years to come. Plain and simple, manufacturers squeezed on price can't afford to innovate. Before pulling any pricing lever, understand buyer behavior and psychology—and the potential long-term impact of any short-term gain.

The growing popularity of private brands among consumers points to further expansion of market shares in the years to come. Competition will only steepen

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with retailers, and F&B manufacturers must make strategic moves quickly to drive demand and maintain loyalty for their brands before it's too late.

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### Links:

[1] <http://www.foodmanufacturing.com/scripts/ShowPR%7ERID%7E13850.asp>

[2] <http://www.kalypso.com/landing/best-practices-in-collaborative-innovation/>

[3] <http://www.kalypso.com/>