The waiting is over
Why retailers have to get better at private label now
While some companies remained comfortably in the traditional model of retailer/distributor, leading retailers, particularly in Europe, saw a way to differentiate their offerings through private label\(^1\). In the process, they delighted customers, drove higher margins and offered the same quality at a lower price—or better quality at the same price—than branded products. Yet despite clear success stories, many other retailers continued to ignore or merely dabble in private label without placing major bets. For a while they could afford to wait. After all, there was plenty of room in most categories for multiple retail concepts. Competition wasn’t as fierce as it is now and consumer confidence was higher. Now the waiting is over. The economy remains sluggish after one of history’s worst recessions; and online competitors are crowding out bricks and mortar rivals by offering broader selections and lower prices than stores.

As one analyst put it\(^2\): “...there is not much room for people who aren’t good at retailing.”

Once an “also-ran” tactical play focused on generics that drove higher margin through lower cost, private label now serves as the lynchpin strategy for winning in retail through differentiation. There’s just one problem: few companies possess the full-range of capabilities needed to capture the inherent value of private label retailing.
Accenture recently completed research into private label retail brands and had the opportunity to compare these results to a survey conducted in 2005. In the original study, participants were asked to predict trends for the coming five years. In this year’s study we wanted to see if the participants were correct and to answer questions like, “What does it take to be fit to fight when it comes to private label?” and “How are companies progressing in terms of gaining the necessary capabilities?” More specifically, the research covered:

- **Private label growth**: This includes growth realized since the last study was first launched in 2005 and expected growth. We also probed for key challenges inherent in new brand product launch and penetration.

- **Product design and positioning trends**: Covers the strategies companies are adopting when it comes to positioning products, designing and packaging them.

- **Private label to enhance global retail brand strategy**: Details how companies are organized to foster private label initiatives.

- **Operational implications**: Critical tools and processes needed to win in private label efforts, current and future reporting structures, and other operational issues.
Private label growth

Private label brands are clearly growing—particularly in markets where they are currently under-penetrated including the US and Asia—and morphing from generic, low-cost offerings, to higher end, differentiated product lines that deliver better value to customers, and more robust margins for retailers. Consider Best Buy’s Rocketfish product line: Rocketfish is aimed at serving the needs of discriminating techies offering accessories for computers, gaming and audio video. The high-tone copy on their website clearly positions the brand on the higher end of the market: “Rocketfish is a state of mind: It’s about imagining a world of enhanced connections and instant fulfillment.”

Although two-thirds of the participants in our survey reported that commodities represent more than half of their store brand portfolio, the industry is clearly aiming to expand significantly, offering a more differentiated private label range. A quarter of the executives surveyed expect private label brand penetration to exceed 50 percent in the next five years, and two-thirds expect that they will comprise more than 20 percent of their net revenue.

Despite fairly robust growth targets, most companies are lagging when it comes to investing in the resources required to realize private label results. Only a few participants reported spending more than 10 percent of their overall marketing budgets on retail private label brands. (In 2005, two out of three participants projected they would be spending at least that by 2011.) A depressed global economy has, no doubt, also played a role in weakening private label investments. However, to bring private label out of the role of runner up, products need to receive the same star billing that national brands enjoy. That means increasing marketing budgets so that they are equal to the resources spent on national brands. After all, it is impossible to build a billion dollar brand on a million-dollar marketing budget.

Although there are leaders that have spent years honing their private label capabilities, many companies are still facing significant challenges. Eighty-two percent of all respondents said that both the ability to develop innovative designs and customer acceptance of private label brands were a challenge. As for innovative product design, part of the problem is cultural. When a company’s heritage and core competencies revolve around product retailing, taking on the skills, tools and mindset of a manufacturer can make for a rough, but essential, transition.
Product design and positioning trends

Traditionally, private label brands (particularly in North America) tended to adopt one of two strategies in terms of their product design and positioning: They either echo the look of their famous name counterparts, projecting a “me-too” message, or adopt intentionally understated features to convey, “We’re the value alternative!” For private label products to shine and serve as an extension of their overall brand value, design and packaging has to clearly communicate: “We’re right for you,” full stop.

Take Spanish department store El Corte Inglés as one example. It recently announced the launch of its latest private label range called “Veckia.” The new assortment includes more than 200 SKUs such as shampoos, conditioners, soaps, and creams that will complement other high-end offerings.

Consumers will have the opportunity to weigh in on all aspects of branding from packaging to ingredients. Resulting products will bear the words, “Inspired, tested and approved by the Carrefour panel test.”

The Accenture study showed that to drive innovation, retailers are expecting to rely less on manufacturers and merchandisers and more on insights driven at the store level where consumers “vote with their wallets.” To act on customer insights that are in abundance in most operations, retailers need to beef up their analytics capabilities, applying the same rigor used by national brands to bolster their own labels. Carrefour, the French hypermarket chain, is increasing its own store brands from 25 percent of overall product offerings to up to 40 percent in its home market. Notably, the company is designing the new portfolio based on insights garnered from shoppers.

“Feature, function or fashion” is the key strategy to differentiate private labels vis-à-vis national brands. In the next 5 years, retailers plan to also focus on “speed to market”.

Product Differentiation — Design Strategy

<table>
<thead>
<tr>
<th>Response Category</th>
<th>% Response Today</th>
<th>% Response In Next 5 Years</th>
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</thead>
<tbody>
<tr>
<td>Feature, function, or fashion differentiation</td>
<td>69%</td>
<td>85%</td>
</tr>
<tr>
<td>Undifferentiated</td>
<td>31%</td>
<td>8%</td>
</tr>
<tr>
<td>Speed to market differentiation</td>
<td>15%</td>
<td>46%</td>
</tr>
</tbody>
</table>
Global private label strategy

More and more retailers are going global with their own brands. In fact, nearly half (45 percent) expected to offer products across country lines within the next five years. Strategically it makes sense in terms of both cost and brand equity: By going global, companies can aggregate demand and lower unit cost of raw materials. Support functions related to supply chain and marketing can be centralized. And in an ever-shrinking and online-shopping world, established brands in one market can accelerate the introduction and uptake of products in another.

But are retailers leveraging the power of globalization? Yes and no, according to the study. Although the use of common suppliers for global brands is fairly common (nearly half of all participants reported doing so), only 27 percent are leveraging common raw materials or components for private label products. That means significant opportunities exist for retailers to lower the cost of goods sold via raw material and component leverage. Tesco is one example of a retailer that’s looking to lower prices and increase margins through a new sourcing strategy. Through its Group Food Sourcing Division, it will leverage a narrower field of suppliers, including growers for produce. Tesco is also looking at standardizing packaging materials like cardboard and buying in bulk from China.
While global brands are expected to grow, retailers are planning to do it with more unique products developed for individual markets, within the broader context of a consistent brand umbrella.
Operational implications

Retailers playing private label catch up need to quickly acquire or sharpen product design and development acumen. When self-scoring their own abilities, research participants noted that they are lagging internal expectations in these areas. At the root of the problem: a lack of integration when it comes to private label tools. Too many still rely on point-specific, standalone desktop tools for managing brands. Stores that are serious about private label need to make the required commitments in terms of processes and tools. It’s something the executives surveyed recognized. They cited the need to leverage more advanced tools—and to integrate them to enhance their capabilities over the next five years. Those tools included:

- Product Lifecycle Management Tools (83 percent of participants)
- Sourcing Applications (75 percent)
- Import Management Tools (75 percent)
- Collaboration Tools (75 percent)
- Costing Tools (75 percent)

To fund these investments, 64 percent reported that they plan on spending up to $20 million on private label tools over the course of the next five years.

There will likely also be a knock-on effect in talent management. Employee profiles that fit the criteria for traditional retailing don’t necessarily fit the bill for product development. One emerging scenario: retailers will recruit talent from the manufacturing industry and the suppliers that sell to them.

Today, nearly half of the survey participants report that they use third-parties for some or all of their product development activities. More than two-thirds suggest that they use outside sources for some or all of their product design activities. As companies gain competency in product development, the need for outside help will diminish. In fact, the research showed a clear trend for retailers to take these capabilities back into their organizations. Survey findings showed that one-half of the respondents intend to pull back product design in the next five years, and one-third intend to pull back product development in the next five years. This could signal a dawning realization for the industry that product design and development are now core activities and should be treated as such.
Product Lifecycle Management

Product lifecycle management (PLM) is critical for retailers as they move toward managing their private label operations with a level of efficiency and insight equal to that of branded manufacturers. Think of it as a business process and technology capability for capturing and maintaining product information across the entire lifecycle, from concept to shelf.

**PLM can help**

- Improve time to market by reducing cycle time 10 to 50 percent leveraging repeatable platforms, rather than starting each design from scratch, and by providing visibility to the overall critical path
- Reduce COGS by 2 to 5 percent by standardizing and aggregating raw material and component buying
- Reduce the cost of developing new products by 5 to 20 percent through:
  - specifying a more efficient process,
  - culling poor-performing products earlier in the cycle and
  - making go/no-go decisions based on better, more comprehensive information
- Reduce cost of quality by 20 to 40 percent by capturing customer feedback and incorporating into product design
- Drive 10 to 30 percent productivity gains in supplier collaboration for new product development

Retailers intend to make significantly greater use of Product Lifecycle Management, Collaboration, Product Costing, and Sourcing applications, while placing lower emphasis on Purchase Order and SKU tracking tools.
The time is now

As the battle for increasingly fickle customers heats up, private label will continue to strengthen. Winning companies will be those that act now to design and position their brands based on analytics and customer insights and grow them to meet the needs of a global audience. It will require investing in the tools and processes that govern areas like product lifecycle management and integrating those tools into the heart of the organization. Retailers that want mega brands will need to back them with mega-sized marketing efforts; moving private label out of the space once reserved for low-value commodities. The reward for building effective private label brands: more innovative, differentiated products, weightier margins and happier, more loyal shoppers.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 236,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

Footnotes

1 The definition of a Private Label brand for the purposes of this survey and white paper is any brand that is developed for sale exclusively by a single end-consumer retailer. This definition includes traditional private label brands, such as Sears’ Craftsman tools, as one example.

2 From the article, “Borders collapse signals a new chapter in retail,” July 22, 2011 http://www.ft.com/intl/cms/s/0/20fdefdc-b479-11e0-a21d-00144feabdec.html#axzz1TrnIEWF

3 From the website, http://www.rocketfishproducts.com/ourstory.html


6 From the article, “Tesco to increase private label offer;” on http://www.fruitnet.com/content.aspx?id=11238&rid=, July 6, 2011

About the survey

Accenture conducted a holistic research study that included written surveys that were sent to the retail brand management and/or global sourcing executives of major retailers (general merchandise, soft lines, hard lines, consumer electronics and grocery) in North America, South America, Europe, Asia Pacific and Africa.