

The Value of Private Label

A store brand doesn't just offer value to your customers—it offers value to you, helping you compete with low-cost internet sites.

By

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Supermarkets saw private label sales of \$73.1 billion in 2020, according to Statista—and consumer perception is favorable, with 87% of U.S. consumers feeling that private label is “just as good if not even better” than national brands (1). The Hartman Group’s *Brand Ambition: Food and Beverage Private Brands & Beyond* report found similar, noting that private brands “now present shoppers with a strong, competitive option that is not only cost-effective but also taps into modern notions of healthy, high-quality food and beverages...Shoppers recognize that private brand products often match or surpass name brands on quality and taste and even consistently think of them as healthier and sourced in more sustainable ways” (2).

Statista and The Hartman Group make a compelling argument for the use of private label, and many retailers have listened. “Nearly all of the most successful natural food retailers, as well as mainstream grocery and dry goods sellers, have a private label,” contends Paul Licata, President, Licata Enterprises. “In combination with offering national brands, a private label offers an alternative, with the retailer essentially telling their customer ‘I believe in these products so much, I put my name on it.’ This personalizes the transaction, brings the customer back to your store only, and creates confidence in the consumer that what you sell is valuable.”

This is also a way that retailers can establish relevancy with their customers, says Soumya Nair, Global Consumer Research and Insights Director at Kerry. “Private label can be used as a way for retailers to show that they know their customers, and understand their unique wants and needs. Not all private label consumers are the same, either—some look for tried-and-true value basics, while others desire experimentation. Offering this diversity in options ensures that consumers can make choices based on what is important to them.”

The Private Label Manufacturer’s Association (PLMA) Press Team told **Wholefoods** that private label provides an immediate point of differentiation, by providing “products that can only be purchased in the retailer’s stores, along with products that reach their consumers in every area and category of the shopping experience.”

Before starting, though, it’s worth it to consider PLMA’s six questions:

1. Who is the shopper?
2. What does the brand stand for?
3. How should the brand connect with the consumer?
4. What is the marketing approach?
5. What is the price-value equation?
6. Are you staffed to launch and sustain your own brand development?

Our experts address these questions—and more—below.

5 Top Considerations

1. Customer. “Who are the target customers and what are their purchase drivers?” asks Nair. “Brand positioning should appeal to the needs of the target customers. Who do you want to target, the value shoppers or the experimenters?”

Keep in mind, as Nair notes, the target customer may be different across channels: “eCommerce has grown leaps and bounds over the past three years, and customers experience the brand differently across these channels. Stores largely drive experiential associations, while eCommerce is critical for offering transactional benefits and establishing loyalty.”

2. Management. “Who is going to manage your brand from an ordering, placement, and especially a marketing perspective?” Jack Brown, VP Sales & Marketing, Lily of the Desert, asks. “This shouldn’t just be an add-on to their current duties.”

This will also affect how the product is treated in-store, and it’s important to consider how you get your employees to promote your own line, Licata notes. “This is your baby. Teach your employees to read labels, and to know why some items cost more, or are more complete formulas than others. Act as if you are the manufacturer—don’t have the customer call the manufacturer with questions, you call and relay the information. And keep enough in-stock. If you only have three bottles of a private label on the shelf, it doesn’t imbue confidence like a fully stocked shelf of say 12 bottles does.” Having a dedicated manager for your brand can help make it easier for employees and customers to determine who to go to when they have questions.

3. Marketing. Independent retailers with a heavy focus on local community can use private label to their advantage.

“Private label can allow stores to utilize specific marketing themes, more in line with their local market, versus what is available for brand items,” Brown recommends.

If it helps, don’t think of it as marketing—think of it as story-telling. “Find a story and tell it,” advises Gael Orr, Director of Marketing, Once Again Nut Butter. “If the recipe is the same as other products on the shelf, then look for the story. Is it made with the environment in mind, is it eco-friendly? Can it be fair trade certified? Is there a manufacturer relationship with the farms that you can share? Can you go and tour the farms where your ingredients are grown and capture photos? That kind of thing.”

Nair seconds that, noting that sustainability, these days, is part of marketing in and of itself. “What is your sourcing network? Are they compliant with your sustainability goals? Do they offer consumer-level product transparency?”

4. Quality vs. Price. “Pricing has always been the chief differentiator versus brand names,” says Brown, “but more stores are looking at marketing their products as a quality value product, as opposed to just being cheaper. Costco has convinced their customer that their private label products are superior to even the brand names, so their customers do not feel that they are losing quality by choosing price.”

To that end, choose a partner carefully. “Perhaps the most important thing is the reputation and quality of products provided from the private label manufacturer,” says Armando Ramirez, NOW Private Label Sales Supervisor. “Retailers want to provide products that have high quality, and are safe and effective. This is especially vital when their store name is on the label. Make sure to research any potential supplier’s track record for quality products. Also make sure they have a selection of products that will fit your needs, and offer products your customers want.”

Private label is ideally suited to the paradox of maintaining expected quality at a low cost. “Private label can be very effective,” Licata agrees, “while retaining or even increasing your profit margin. In our case, our prices average 15-25% below national brands—and that is before the many volume discounts we offer. So, one can easily compete with the low-cost internet sites, or the Costcos and Sam’s Clubs of the world. A retailer can sell at a 47% discount, and still make a 40% gross margin.” Plus, private label allows for a unique product: “Another way to differentiate is to purchase a custom manufactured product to your specifications. At Licata Enterprise, about 20% of our sales are in custom formulations.”

That wiggle room in the pricing offers several other opportunities, according to Orr. “The nice thing for the retailer in having private label products made, is they can offer the product on the shelf at a lower cost, or better yet, line-price the product and use the extra margin for marketing investment. Everyone loves to feel like they are getting a good deal, so offer those shelf tag discounts and sale opportunities, rather than just always showing the EDLP.”

And on a price end, while offering products that are cheaper than brand-name is an easy way to catch customer attention, Brown notes that you shouldn’t take it too far: “Private can be used at a huge discounted value for ads and to draw customers into stores, but this is risky—you really don’t want to devalue your brand as solely a loss leader.”

Alternatively, enough quality can warrant a higher price. The Hartman Group's *Food Sourcing in America* report revealed that "Shoppers are open to the idea of paying above current price level for private brands if they can be convinced that the quality of the product merits this increase. Our *Brand Ambition* report finds that 26% of respondents said they would be willing to pay more for a store brand product than for a name brand if the store brand were of higher quality. Once proven, premium products especially can command a higher price point than their value-tier category peers." The Hartman Group notes that this won't work in categories wherein the brands are all comparable—meaningful differentiation is necessary.

5. Size. "Ask yourself: Are you big enough that a private label line would bring value to your store in the marketplace? What categories are you wanting to participate in, and how does your product bring added value to that category?" Brown asks. More importantly: "Can you meet minimums of the manufacturers, in order to keep pricing in line?"

Ramirez adds: "We suggest that retailers start off with a selection that is just the right size for their store, but caution against starting too small, since just one or two SKUs will get lost on the shelf. The retailer should review their top sellers in national brands and begin with their own version of those products. Consumer requests as they begin to seek their store brand specifically can help you decide on expansions."

7+ Growth Opportunities

Looking at areas that show the most promise for private label growth, our experts list:

1. Sports nutrition.
2. Protein powders.
3. Condition-specific supplements.
4. Specific beauty products.
5. Cold-brew coffees and teas. Brown notes: "Food is generally saturated, but you might look at hot, new categories as opportunities."
6. Immune health. "As we know, immune support products have been in higher demand due to COVID-19," says Ramirez. "We think this trend will continue where people will continue to prioritize their health well after the pandemic"

ends, and as a result natural wellness products will continue to expand and see growth.”

7. Plant-based everything. The PLMA Press Team added their thoughts: “Natural/Organics will continue to rise with consumers’ continued focus on health and wellness and the expansion of plant-based items into more categories like desserts, sauces, condiments, meals, *et cetera*. Sustainable products and packaging will help meet the consumers’ demand for more environmentally friendly options.”

Licata looked less at existing areas, and more at white space: He pointed to innovation. “More and more, private labels are near the forefront of new formulations. If your store, or chain, is large enough, you may be able to afford two or three custom formulations. Using these as the backbone of your private label or store can be a real benefit. Maybe it is a special multiple formulation that you sell at a killer retail price that becomes the keystone of what you sell consumers. Maybe it is a group of three items that form a special cleansing group, or three items specifically for women. Make it a focal point, and as customers see how well this group of products work, they will buy other products in your same label.”

In fact, innovation may be a top consideration and reason to start a private label. “Private label has its own state of brand identity,” Nair points out, “not relying on other players to be successful by mimicking innovation. What gaps would or could a private label address? Addressing these gaps might further differentiate the private label from other options, as well as from available national brands. Categories such as meat or dairy alternatives, nutritional/functional beverages—categories that are still new to the market—are showing both national and private label brand introductions and expansions.”

Manufacturer Qs

First, a key basic differentiation between contract manufacturers and private label manufacturers, as Licata explains: “We consider private label to be stock products to which you can have your label affixed, and you are able to buy product by the case. If you are having to buy 1,000 bottles then it probably isn’t a stock item.”

If a company does do private label, Licata offers this list of considerations:

- Ask who some of their customers are, and then ask them if they are satisfied.

- Do they stand behind their product?
- Do they innovate?
- Do they have product liability insurance?
- What is their FDA registration number? All FDA firms are inspected for GMP compliance.
- Do they offer volume discounts? What about prompt payment discounts?
- Who prints the label? Are all the supplier's labels cookie cutter, or can you be creative with your label?

Getting into the nitty-gritty, Lily of the Desert's Brown provided the following list:

- What are the minimums?
- What are the price breaks?
- What am I accountable for beyond finished goods? Packaging, ingredients, etc. that is exclusive to my line or product.
- What are the lead times—both for ingredients and for packaging?
- What kind of contract do I have to sign? Length of time/dollar quantity I must buy?
- What about the formulas? Do I own them? Do I want to own them? What do I have to fulfill if I want to own them?
- What are "no-no's" in the non-brand ingredient deck? Look over their proposed formula carefully.

To this, Once Again's Orr added:

- What is the manufacturer's SQF status? Are they SQF certified?
- How many recalls has the manufacturer had, and why did they have food safety recalls?

On that point, Orr notes: "I personally have toured many facilities all over the country and it amazes me how so many food manufacturing plants are filthy, and lack good testing protocols including consistent and frequent environmental cleaning and swabbing. In addition, they lack good corrective action protocols. Take a tour of the facility, and take a quality control person with you when you do. Review their testing documentation and make sure you understand the kill steps involved in the manufacturing of your products."

There's another reason getting to know your chosen manufacturer is a good idea. Orr shares: "I can't stress enough the importance of a good relationship with the manufacture and working together on new flavor development, pricing, and ideation. I would love it if more of our customers would learn more about our manufacturing processes and commodities. The more our retailers know about what we are doing, the more they understand the challenges or constraints we face and the more creative we can be as a team."

And a final tip from Licata: Be important to your manufacturer. "If you purchase from many private label suppliers—a few items here and a few there—and change based on who has the best price that month, you don't become important. Think what you do for your good customers: If they have a problem, you bend over backwards to help them. Same with us. If my best customers ask for a favor on price, or products are short, or need special quick delivery, etc., who do you think I'm willing to help? Be important. Communicate." **WF**

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