

Private Label Brands Dominate When Exclusivity and Extendability Converge

At the annual Private Label Manufacturing Association (PLMA) trade show this past November, analysts at McKinsey & Co. reiterated the findings and startling projections from their June 2007 report. They predict that if the successful private label strategies of several large retailers are adopted by other major U.S. chains, a huge shift in the marketplace could occur. This shift could cause \$55 billion in annual sales to move from national brands to private label, taking private label's dollar market share to 24%—from its current 16%—within a decade.

Private label sales volumes and units are definitely on the rise, and PLMA tracks private label sales trends in supermarkets, drug stores, and total outlets to monitor the growth. The Executive Summary of the 2007 PLMA Yearbook cites findings by the Nielsen Company that over the four-year period from 2003 to 2006, private label dollar volume in the supermarket channel is up \$2.3 billion, or a 5.4% growth. In drug store chains, private label had total sales of \$4.6 billion and a nearly one-quarter increase over the same four years. Drug store private label dollar share increased its growth rate with a record 11.9% in 2006, with unit sales up 2.2% over the previous year.

> Creating Exclusivity

What may be driving some of this gain, and part of McKinsey's contention, is a market strategy that concentrates on growing core exclusive private label brands. Consolidating strong store brands that can extend well into different categories has many advantages in driving sales. In successful situations like this, shoppers can begin to look at a store as a destination to find their trusted brand, or brands.

David Moyle, cofounder of the Identity Crisis design firm in Anaheim, CA, explains that frugal shoppers today are planning out their shopping more carefully than ever before, and store brands are no longer content to play second fiddle to national brands in package design on the shelf. Tom Newmaster, partner at William Fox Munroe in Shillington, PA, admits that store brands are now competing on an equal footing with national brands. "When it comes to store brands, the gloves are off," says Newmaster.

Philippe Becker, creative director Philippe Becker Design Inc. in San Francisco, explains that the "Me-Too" days are almost over. "The biggest challenge for retailers is on the innovation side," says Becker. "They're only as good as their suppliers." Becker points out that one successful brand in this light is Target's Archer Farms line of food and beverage products. "Target has pushed their suppliers with structure to have a more unique experience with the product," says Becker.

Moyle believes one reason for the shift is that printing has become inexpensive, so photographic quality images on private label packages are more commonplace, presenting a higher quality appeal for the product inside. "The trend in private label is branding," he maintains. Moyle explains that, in a way, private label packaging has to do more than major consumer goods packaging. With a few exceptions, private label products are not advertised, so the package must convey consistent quality.

> Creating extendability

The motivation for shoppers to buy private label products is the same as it always has been—to get more for their money. With a private label brand that can extend well, that brand appears in more areas of the store, gaining a familiarity or reputation simply by its ubiquity, and the brand can become recognizable and trusted. "If I can get more facings in my store, then my brand seems bigger," says Tom Newmaster. "The package design then has to work harder, because if the package fails in any way, the brand fails."

Becker points out that research shows that brands benefit from having a lot of touch points in as many media as possible. Having one store brand scattered around a store is like having many touch points. This can create a desirable halo effect, where a rise in the popularity of a brand in one or more categories can raise the awareness or popularity of the entire brand portfolio. "The luxury that retailers have is that they control the environment," explains Becker.

If a retailer has dozens of products under one brand, though, the quality perception carried by the packaging must be consistent. Becker says that his firm approaches the design process for a store brand the same as any other brand, asking: "Where can the brand go? How can its reputation be expanded?"

As private label brand owners are learning global strategies from CPG companies, a convergent trend may also be happening. New CPG brands are being established with exclusivity and extendability firmly in mind. Becker cites the Kashi brand as an "elastic" and very extendable brand, built on core values of "7 whole grains on a mission"—not on one core product. One could argue that the package and brand design of Kashi is similar to the designs of many modern private label brands. And so the pendulum swings the other way. "Sometimes I think we can have more design freedom on store brands," Newmaster contends. ■