

# THE REBIRTH OF PRIVATE LABEL

Retailers increasingly use their own brands to stand out from the competition

by SANDY SMITH

**A**ny conversation around private label quickly brings up an image of 1970s-era white labels with black type and the term “generic.” But that idea is as outdated as bell bottoms and feathered hair. Gone, too, is the idea that consumers turn to private labels when dollars are tight.

The current economic boom has done nothing to blunt the rise of private labels or private brands. Instead, they are enjoying something of a resurgence — and proving to be a powerful brand differentiator.

“At this point in time, private brands have never been more critical to retailers’ strategies,” says Carol Spieckerman, a retail strategist and trainer. “Digital has driven the ubiquity of national brands, so price comparisons are a click away. Private brands are one of the only ways to differentiate, drive destination shopping and blur price comparisons.”

Spieckerman prefers the term “private brand” since retailer brands have moved well beyond simply changing out the label. Retailers now actively market these brands and see their private brand portfolios as corporate assets.

From his perch as president of My Private Brand, a website covering private labels, Christopher Durham has studied private brands for decades. He also built brands at Delhaize-owned Food Lion and led strategy and brand development for Lowe’s. He sees a shift away from private label as a pure value and more a reflection of “megatrends around Millennials, around Google and Amazon



and the way people shop.”

Tina Sharkey, co-founder and CEO of Brandless, is counting on it. Brandless offers its own brand of products that are organic and feature no genetically modified organisms. It's no surprise the shifting Millennial mindset is important to Brandless: 77 percent of Millennials say they don't want to buy the products their parents did, and 88 percent think private label is just as good, Sharkey says. “It's no wonder why, out of the top 100 brands in the consumer packaged goods segment, 90 percent are in decline.”

She believes consumers care more that a product aligns with their belief system — whether that means tree-free toilet paper or the chemicals they use to wipe down their counters. “These are the buyers who know what they want, but they can't afford to find it with the markups or premiums.”

Durham agrees that Millennials have shifted their purchase patterns, creating an opportunity for retailers who get it right. “The way they shop is a different thing and the brands they want are different, too. They no longer necessarily care about Tide. They'd rather buy Honest Company.”

## READY FOR DISRUPTION

A well-executed private brand strategy can drive growth — and for good reason. “With private label, retailers can control every aspect of the brand, and that's part of why they are so attracted to them,” says Mitch Duckler, managing partner of brand strategy consultancy FullSurge. “They can control not only the positioning, but the marketing and activation as well.”

Durham notes that consumers trust the retailer, and are more likely to then trust the retailer's brand.

“There is no doubt that transparency is an overarching theme across all of packaged goods,” Durham says. “If you go to any school and start talking to suburban mommies, they want to know what they're putting in their kids' mouths. It's coming out of the overarching trust in brands and in manufacturing that I don't believe exists



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anymore. People look at big companies and think it's bad.”

Private label, then, can get a leg up by offering more transparency. Durham points to Kroger's new floral line, Bloom Haus, which carries a Rainforest Alliance Certified seal, touting that the flowers were grown and harvested using environmentally and socially responsible practices. He also notes FreshDirect's insight into sustainability of its seafood products.

“The bigger question is, ‘Do national brands matter?’” Durham says. “That whole conversation has been dominated by this sort of underlying belief that only manufacturers could own brands. What we know is that consumers do not know and do not care who owns brands.”

Whether it is sustainability, quality or price, private brands offer retailers an opportunity to dull one of their biggest challenges: price comparisons. “The transparency that mobile and the internet have brought to retail has motivated most retailers to minimize comparability to their competitors,” says Keith Anderson, senior vice president of strategy for Profitero, which monitors 450 million products across 5,000 retail websites.

“Of course they are going to carry national brands and the same items that their competitors carry, but they want to increase the assortment that is not directly comparable. That drives retailer demand of private labels.”

He notes that premium brands offer opportunity for retailers as well. “Ten or 12 years ago, most people in the industry associated private label with opening price point or national, value-oriented generics.” Then came brands like Target's Archer Farms, which “wasn't just an opening price point,” Anderson says. “They were charging more for their snickerdoodles than the national brand.”

Over the years, retailers like Aldi and Trader Joe's have only pushed that idea forward. “They demonstrate that you can hit price points with really high quality,” Anderson says.

Steve Riordan, consumer practice leader for consulting firm Kalypso, says private label offers a way for retailers to differentiate “against the





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Amazon effect.” Grocers have tiered their private label into good, better, best. The latter, Riordan says, can become destination brands.

Private brands also offer the opportunity to build relationships with customers in unprecedented ways. “The best retailers are looking at their customers and saying, ‘How can we engage them?’ With the old

private label, that was never asked,” Durham says. “It was, ‘How do we make Cheerios and sell it for 30 percent less?’ Nobody loves you for doing it. They expect you to have it, but don’t love you for that. Now the question is, ‘How do we engage her so that she wants to come back?’”

### BEYOND GROCERY

While grocery may be the obvious first thought when considering store brands, it is far from alone. Sears has made its history creating brands that eventually became larger than the retailer itself. Most recent case in point: Craftsman, which will be available in Lowe’s stores later this year. That marks the first time in 90 years that the Sears-developed tool brand is available in another big-box retailer.

Home improvement is in itself a large category for store brands — though they may not be as obvious. Harbor Breeze has significant market share in the ceiling fan category — but the Lowe’s name doesn’t appear in the private label. The Home Depot also has its own brands; most major home improvement chains have exclusive brands, which they may not own but essentially control.

Anderson does not foresee a day when private labels grow bigger than the brands themselves. “You can name Craftsman, Kenmore, President’s Choice, but I don’t expect it will happen very often. There is going to be enough competition from emerging brands and direct-to-consumer brands. It may be that they’re the ones that eclipse the retailers, as opposed to the retailers incubating these brands.”

### ENTER AMAZON

There are categories where private brands have yet to fully take off — but don’t count on it remaining that way for long. Amazon has tackled private branding in apparel, building upon the success it has seen in other areas.

“Despite the growth in private brands overall, apparel private brands have been in a bit of a dormant stage,” Spieckerman says. “Amazon is helping to change that, exponentially expanding its private brand offerings to a degree that no retailer ever has, and doing so across every major category including apparel and home. Softlines are where they’re making some of their bigger moves.”

Amazon’s strategy is interesting because it is not always clear which brands are its own. “The rationale from Amazon’s point of view is they don’t yet believe they have credibility as a clothing brand,” Anderson says. “They don’t want to directly associate these owned labels with themselves. Amazon wants to compete in this category and many others, and they don’t see it as being to their advantage to disclose, ‘We own this brand.’”

Some Amazon-owned brands are having a positive impact. According to One Click Retail’s analysis of Amazon’s private label sales, the Amazon Basics line accounts for about \$400 million in sales and grew at 10 percent in 2017. The acquisition of Whole Foods Market — and its popular private brands like 365 Everyday Value — may prove to be the big private brand story of 2018. One Click says that 365 was growing at 9 percent per week in the last quarter of 2017 — accounting for \$10 million in sales since its launch in the fall.

As Amazon moves more fully into private label and private brands, will it move the rest of retail along with it? “It will be hard for some competitors and suppliers to fully anticipate the implications of private label at Amazon if they don’t study how Amazon handles private label differently,” Anderson says.

“Amazon has better insight and visibility into demand patterns. They know how big each category is, which item is selling best. They know what people like and don’t like. From a demand chain point of view, they know what people would buy. And they know their algorithm.”

Purchasing Whole Foods — and its popular private labels — also provided Amazon instant credibility with private label foods, Anderson says. “Just having the Whole Foods brand associated with Amazon was almost necessary, given how reluctant many people have been to say, ‘I’ll buy my groceries from Amazon.’”

The “halo effect” that Amazon gained from the Whole Foods acquisition is there for any retailer to shine on private labels and vice versa. Anderson points to Costco and its reputation for value — one of the symbols of its Kirkland brand. “Costco almost became famous because people came to trust the Kirkland brand so much,” he says.

# Making a Name of No-Names

Make no mistake: The ecommerce site Brandless is a brand in itself. Co-founder and CEO Tina Sharkey says the company simply “reimagines what it is to be a brand.”

For the uninitiated, Brandless offers hundreds of its own products, all for \$3 each. One option is available in each category, sometimes offered in a select few flavors. That solves the problem of choice for today’s harried consumer, Sharkey says.

Every item carries the Brandless name and is deemed to be the very best. The products are often organic and do not contain genetically modified organisms. “There is one organic ketchup on our site,” Sharkey says. “We’ve formulated it. We tried 200 and we believe this is the best.”

It also reflects the changing consumer, who doesn’t want to spend their time shopping. As more consumers move to urban areas — and house sizes drop — shoppers don’t want what Sharkey terms the “Costco closet.”

“People are wanting just enough,” she says. “The challenge is, you’re dealing with a marketplace that is in paralysis over the paradox of choice.”

Nor do they necessarily want to click on dozens of individual items as they compile their weekly grocery list. A curated bundle not only introduces the consumer to new items, but also “mitigates click fatigue,” Sharkey says.

Ultimately, shoppers are putting their trust in Brandless buyers — a trust forged through a tight relationship between brand and consumer. “We’re really building a community,” Sharkey says. “It’s about an overall assortment that helps you live the kind of life and value that are important at a price that was heretofore not accessible to the masses.”

Walmart isn’t sitting idly by, either. In addition to its own store brands, the acquisition of Jet.com offers more opportunity, Spieckerman believes. In fact, Jet took its first steps last fall, announcing the launch of the Uniquely J brand. “For once, you’ll be able to get the coffee that tastes like it came from the good coffee shop,” the company said, “cleaning products that clean well and look good on a shelf, plus more — all without that heartstopping pricetag.”

The whole shift has been enough to get Amazon’s attention, Anderson says. “Historically, they have underinvested in private labels until the last 24



months. Now, they’ve invested aggressively in a whole range of consumer-packaged goods and grocery products as well as apparel. In the context of ecommerce, private label bears many similarities to what it means in bricks-and-mortar, but it’s also potentially an even stronger advantage.”

## POTENTIAL PITFALLS

Private brand isn’t for the faint of heart — nor is it simply a way to focus on building the bottom line. “Don’t erode the equity that you’ve built for yourself by offering sub-par quality,” Anderson says. “On the other side, if you don’t have that brand equity or cache and you invest disproportionately in exclusive arrangements or fully captive brands, it can actually be built. It’s something you have to be mindful of protecting, if you’ve already got it. Or you can use owned labels, well executed, to get there.”

Spieckerman has seen the industry move from private label — just putting a different label on the same product — to private brands with significant investment being made on the part of retailers. Many retailers then began to favor the term “owned brand,” which attested to how retailers viewed their brands as assets to be monetized. “Now, thanks to Amazon, we’re arguably moving to yet another evolution of private brands: secret brands. That is, brands that detach from that pride of ownership in order to build massive scale, particularly in the digital space.”

Whether the brand is private or secret, there is no doubt that more and more retailers are relying on them to drive profits. **STORES**

**Sandy Smith grew up working in her family’s grocery store, where the only handheld was a pricemaker with labels.**

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