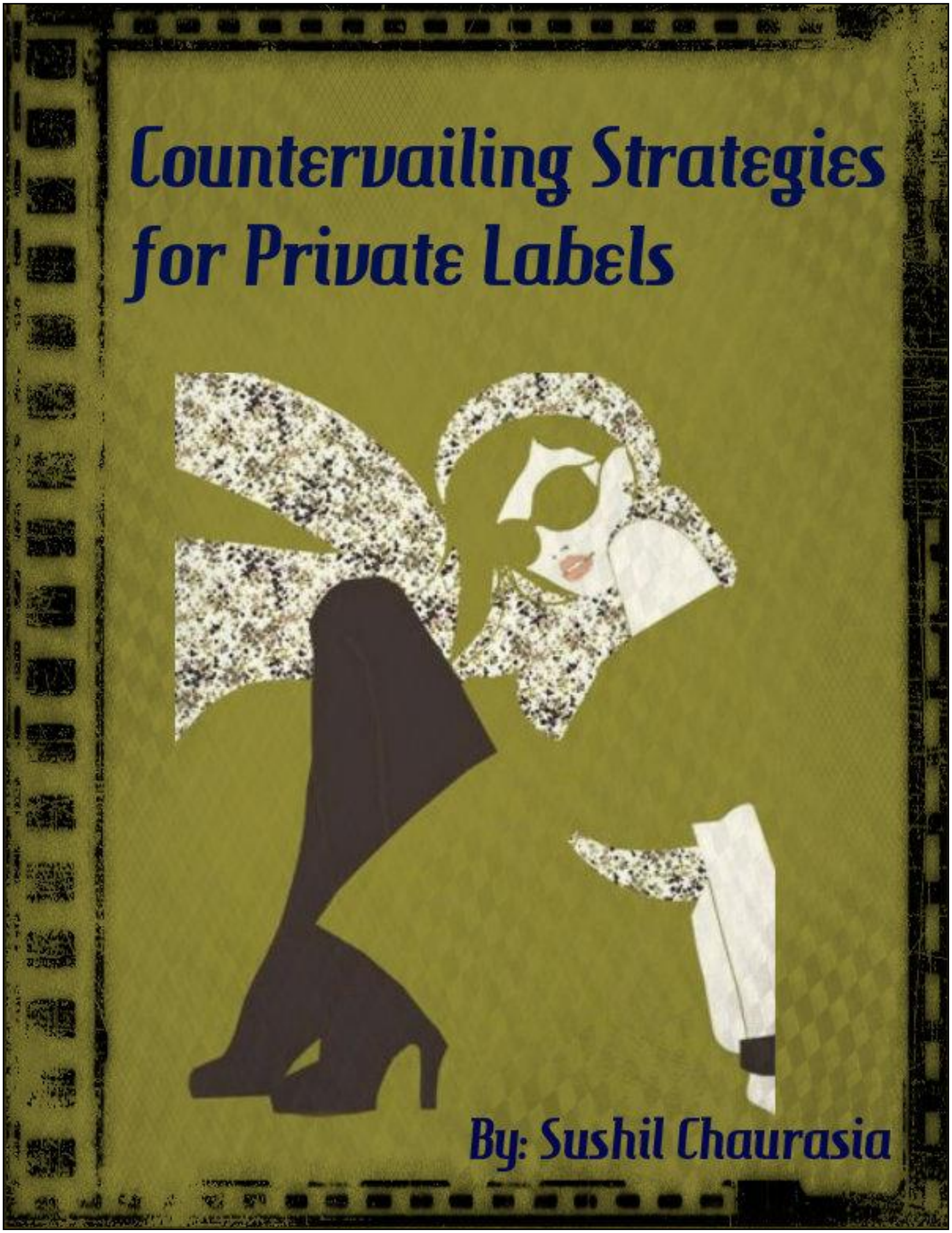
Countervailing Strategies
for Private Labels
By: Sushil Chaurasia

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(Views expressed in this article are the personal opinion of the author.)

Seize the opportunity before it seizes you.
A Brand Manufacturer's Dilemma and Countervailing Strategy for Private Labels

Looking at a comparison across markets, there is a slow, but steady continuation of private label progress, which is actually the result of more retailers deploying private label products in a growing number of categories. It is a phenomenon that had continued for more than two decades. With the global weighted average of 14.9%. Private label sales now account for 52% of sales in Great Britain supermarkets. In Europe where private label is most, developed, store capture an average 35% market share. In U.S., private label's market share is still under 20%. However emerging economies like India with 6.7% and China with 0.8% of total modern retail trade is at very nascent stage but growing. If we see private label sales contribution with respect to individual retailer then some retailer report from 40% to 95% of store sales of private label products.

The victims of this transformation are the small and medium brands that get delisted in favor of private label. As the growth of private label surpassed at twice the rate of famous house hold brands in last ten years, private label retailer now see it as a strategic weapon against brand manufacturer to increase store profitability and margin. But in order to see a private label competing with top manufacturer's brand and to get larger contributing share of private label products in total target revenue expected, retailers require a portfolio of private label products. Moreover these portfolios of product backed by carefully synchronized marketing strategy should rather resemble it as a brand portfolio of retailer's private label. Carrefour in its store had marked on his shelf's containing private label as "Carrefour is also a brand". The statement shows the retailer confidence and vision to go a step further from just a retailer to brand owner of portfolios of his own assortments. Today even retailer's private label brand portfolio strategy involves going for store brands with sub brands, stand-alone brands, consortium brands, copycat brand and premium brands. A specific branding strategy depends on what is the frame of reference of the retailer and how they want to be perceived in the market.

Manufacturing of private label products initially started with outsourcing it to small scale businesses as the demand was low due to product at introduction stage with low customer awareness. When retailers plans for increasing his private label share in his retail outlet w.r.t. manufacturer's brand, Retailers need to understand that his vendor i.e. manufacturer needed to be innovative, highly flexible and responsive towards understanding and delivering value products with consistent quality and meet growing demand at the same time. So, big manufacturers entered the business of manufacturing private label products. Generally these big manufacturers were brand manufacturers, as they got the capability to meet the currents expectation of retailer as they got a better pulse of consumers.

Now getting a fresh insight and looking the same perspective from brand manufacturer's perspective, determinants and strategic choices are even more complex than that of a retailer. In a typical scenario a brand manufacturer may be serving to a retailer as a customer of his own brand on shelf of retailer, Retailer as a competitor where the same shelf is shared and competed with private label of retailer, manufacturer as vendor of retailer i.e. manufacturing private label for retailer, manufacturer selling his brand though distribution channel other than retail stores and manufacturer producing private label for more than one retailer.

In the first case for retailer, as customer of manufacturers own brand. Brand manufactures expects more shelf space in retailers store to meet his business objective related to own brand share in the market. A manufacturer also expects more in store promotion for better penetration of his products and so he allocates budget for that. A situation where retailer is also trying to extend his private label presence in his retail store, a conflict of interest with the share of shelf space will be there. In order to maximize his private label share a retailer will allot more space to his private label products rather that of the manufacturer's brand. Also there might be a possibility that as the private label compete mainly on cost with respect to brand; retailer may not honestly be dedicated in spending in store promotional budget allotted by the brand manufacturer to the retailer. A premium price of brand which involves the spending on promotion too becomes a lost opportunity for the brand manufacturer as he is losing prospective customer that he had expected to get based on a brand image developed due to his in store promotional budget. So, the probability that the customer perceives it as just an expensive brand and can make a trade-off with private label is high.

The conflict of interest becomes more complex when the same brand manufacturer is also the manufacturer of retailer's private label, as the third case of brand manufacturer engagement with the retailer. The profitability that a retailer manages with his private label, now as the same brand manufacturer also shares a portion of the same. As manufacturing private label gives an opportunity to the manufacturer to utilize its spare capacity, negotiation and taking a stand in case of conflict of interest related to shelf space and in store promotion becomes even more difficult. A fresh perspective through many dimensions is required while negotiating.

In the fourth case when the same big brand manufacturer is also engaged in selling his brand through his own distribution channel (other than the retailer) issues related to designing and integrating integrated multi-channel related to price demarcation, lowering total cost of channel, managing sales, channel roles within sales cycle, information system for effective integration model, ensuring each channel objective to be met related to market share and target market emerges.

In the last case when brand manufacturer is also selling private label to other retailer, especially when the other retailer is the main competitor of the main retailer manufacturer is serving. Various issues of inter organizational conflict may arise. Apart from the behavioral consequences, direct repercussion may be related to reducing shelf space for manufacturers brand or reducing and shifting private label manufacturing to other brand manufacturer which may be now direct competitor to him. This way a big brand manufacturer is giving an opportunity to other brand manufacturer to develop relationship with the retailer during private label manufacturing and the take away a significant shelf space too in the future along with private label manufacturing.

Various fundamental questions arise from the above mentioned cases. It includes why a brand manufacturer opts for manufacturing private label in spite of owning the brand in competition. In what circumstances should a brand manufacturer concentrate on manufacturing his own brand or both private label and his brand? Or as an alternative he should purely dedicate himself in manufacturing private label and stop manufacturing his own brands?

Most brand manufacturers are in myopia of perceiving their brand competing with other brands. They consider private label as cheap and inferior product and hence do not see private label in their frame of reference of competition. However, retailer private label are competing with brands across various segments from low price, value for money and even premium segment. In Asia, private label of retailers like lifestyle and shopper stop are competing with brand manufacturers of premium and value for money segment. US based retailer WalMart's jeans private label brand "Faded Glory" beat big brand manufacturer like VF Corporation's "Wrangler" Jeans and Levi Strauss and Co. "Levis" Jeans in volume sales. The brand manufacturers have to first come out of the myopia and have a fresh view of competition. Even big brand manufacturer like Levi Strauss and Co. introduced value for money jeans brand like "Denizen" and "Signature" in response market shift.

The very basic reason for a brand manufacturer opting for making private label for retailer is utilizing his spare capacity. Any contribution over variable cost is incremental profit for the manufacturer. It's definitely beneficial for the manufacturer to do so. But in repeatedly a brand manufacturer is not able to utilize his spare capacity by focusing on his core brand and starts repeating the manufacturing of private label for the whole year then full cost should be considered. Once the manufacturer start taking full cost and opportunity cost with respect to their own brand, profitability varies considerably, in long run the focus on manufacturer's own brand gets diluted reducing the further profitability of firm. An opportunity for a brand manufacturer to raise the valuation of the company through brand building is also gone in long run.

However if a brand manufacturer stops making private label then even the some issues persists. With the rise of private label acceptance, its volume is growing. Walmart private label is 50% bigger than any single company brand portfolio. Tesco is 50% as a brand is 50% bigger than coco-cola, Where Tesco worldwide sale if $1/5^{th}$ of Walmart. Such huge consistent volume order if a brand manufacturer is not willing to take to utilize is spare capacity then it's obvious that there are many else who would take. So generally a brand manufacturer got three options.

1) Concentrating just on private label.
2) Balancing both, private label and own brand and
3) Concentrate on just own brand.

Third option of going for just manufacturing own brand is the obvious best option. Brand manufacturers just need to innovate brilliantly to surpass private label, align the marketing resource efficiently to give synergy in strengthening brand, use IPR regulation for private label building on "copycat" or "me too" way. But as we are discussion specific case where retail concentration is high or growing and the manufacturer has already spare capacity of production. So discussing about the first and the second option in detail is more rational.

The first option for a manufacturer concentrating on just private label was mainly a preferred option for SME. This is an easy order for the small manufacturer to utilize their spare capacity, reduce his efforts for constant follow up for fresh orders, easy to coordinate with single buyer etc. Retailers are also in benefit as they have better control over these small manufacturers. Small manufacturers cannot go for constant innovation and market intelligence due to financial constrains so they are mainly engaged in "copycat" and "me to" way. As the private label volume has gone huge in these year and they also need constant innovation and market intelligence in understanding customers needs some big payers also have dedicated private label manufacturing. Welspun India Limited, an Indian player is global souring vendor of Walmart for its Towel and Made-ups.

A small or big manufacturer going for just private label manufacturing must have some competitive advantage to be a preferred vendor in long run. Big companies like Welspun go for integrated unit for a better value offering to their clients. Small companies go for a unique business model like increasing their expertise by sub sourcing and effectively managing the value chain, sourcing strategy, better SCM etc.

As for the second option of balancing both, private label and own brand becomes bit complicated. A brand manufacturer engages in manufacturing private label for the retailer in expectation of developing good relations with the retailer in addition to motive of utilizing his spare capacity. A brand manufacturer expects this relationship will help him in getting extra shelf space in retailer's store. Also as we have discussed above that a manufacturer should not have myopia and think for a bigger frame of reference of competition with private label included in it, manufacturing private label gives and capability to the manufacturer to manage retail and cost price gap between own brand and private label. He can manage the quality of his store brand. If in a particular segment brand manufacturer do not have presence but brand manufacturer's competitor got presence in that segment, then brand manufacturer can also use it as an indirect competitive tool against his competitor by strengthening private label with superior quality.

But looking at the negative aspect of balancing both, Manufacturer goes for private label to utilize spare capacity but while negotiating this huge order manufacturer may had to revel his costing to the retailer which is definitely a manufacturers competitive advantage to keep safe from the retailer. Once the costing is reveled manufacturer will have difficulty in selling his own brand in retailer's shelf as retailer is now more informed about brand manufacturers costing. A brand manufacturer shares the same technology while manufacturing private label and hence he is strengthening retailer's brand of his own. Customer in long run will perceive manufacturers brand equivalent to retailers brand and so this lost customer faith in brand manufacturers product and lost brand image will lead to low demand of brand manufacturer's product portfolio. Low customer demand will directly impact unutilized capacity. A tragic point from where brand manufacturer has started with the rational of manufacturing private label.

As a way to balance private label and manufacturer own brand, brand manufacturer had to calculate total and variable cost of his firm and variable cost of competitors firm. If the total cost of brand manufacturers firm is less than the variable cost of competitors firm then Brand manufacturer should go for manufacturing private label. If the variable cost of manufacturer firm is greater than the variable cost of competitors firm then brand manufacturer should not go for private label manufacturing. If the variable cost of competitors firm is less than total cost of brand manufacturer but greater than variable cost of brand manufacturer then the utilize the spare capacity by private label. But brand manufacturer should ensure that the spare capacity should be temporary in nature. If it is permanent then brand manufacturer needs to redefine its brand strategy. From brand perspective they may focus on new business model, SKU and brand rationalization and market research to supplement brand positioning.

In strengthening private label or manufacturer brand, both should be look from customer perspective. Three major dimensions of which are

1. Image/Emotional bond with product: if "+" then consider purchase , if "_" then lost prospect
2. Price Gap: if "+" then purchase , if "_" then lost sale
3. Quality : if "+" then re-purchase , if "_" then lost good will

Choose the right path to make it positive or the market will do its part.

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