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The Four Pillars of a Successful Retailer Private Label Program

By Jon Hauptman

The Benefit

Driving growth and competitive advantage with private label is a top 2010 strategic priority for many supermarket chains. This issue of *Competitive Edge* provides a high-level roadmap for achieving this goal by outlining the four pillars of a successful private label program – based on information, insight, and data from best practice retailers across the country.

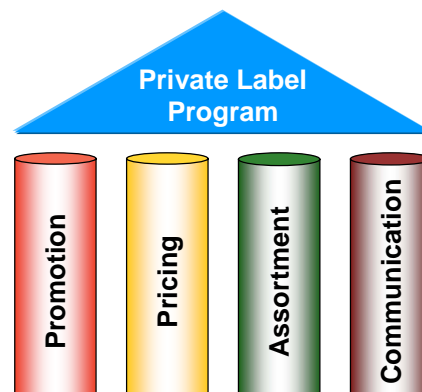
The Four Pillars

In today's challenging economic environment, private label has never been more important for shoppers and retailers alike.

- ▶ Shoppers are increasingly looking for opportunities to stretch their weekly shopping budgets, and trading to private label options—in categories in which they're comfortable doing so—provides one such opportunity.
- ▶ Retailers are looking for ways to effectively attract shoppers and spending by offering low prices and strong values that are equal to—or better than—that available at both traditional and non-traditional (supercenters, limited-assortment stores, etc.) competitors, and have found that private label is a great way to do so.

However, merely offering private label products is not enough. Driving growth, differentiation and competitive advantage with private label requires retailers to develop and market a rock solid program. This issue of *Competitive Edge* outlines the four key components/pillars of such a program.

The Four Pillars of a Successful Retailer Private Label Program



Promotion: Price Shielding

Price shielding is a promotional tactic in which retailers promote private label products at the same time as they promote comparable national brand products within the same category. Willard Bishop research conducted at seven supermarket chains over the past few years indicates that simultaneously promoting private label and their national brand counterparts drives better performance overall and for each of the brands versus promoting them alone.

Retailers grew sales dollars the most when both private label and comparable national brand products were promoted at the same time.

Retail Net Dollar Sales per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	120	178	208
Private Label	100	128	101	145
Total	100	123	150	185

Unit movement for private label and national brand products doubled when both were promoted.

Retail Unit Movement per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	106	195	240
Private Label	100	133	97	163
Total	100	118	151	205

And, most importantly, gross profits increased the most when private label and comparable national brands were promoted together.

Retail Adjusted Gross Profit per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	113	248	289
Private Label	100	102	110	128
Total	100	106	164	191

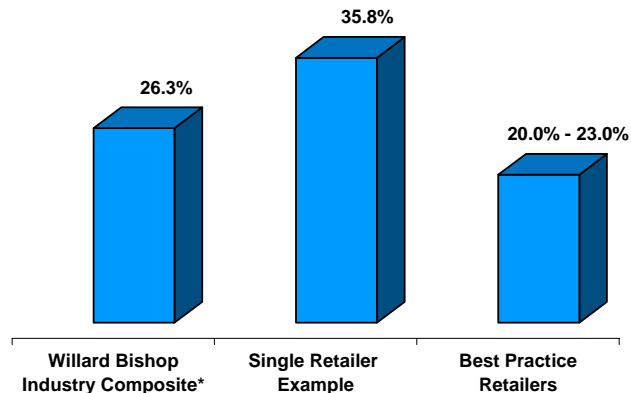
Price shielding is not intended to be used all the time. It should only be attempted when the penny profit for the promoted private label item is equal to—or higher than—that for the comparable national brand. However, it does serve as a great tactic that retailers can leverage to drive profitable category growth.

Pricing: Managing Price Gaps

Private label typically offers a savings, i.e., a lower price-per-unit-of-measure, versus leading/comparable national brands. This savings encourages shoppers to trade to private label in categories in which they're looking to save a little money. However, there is great debate as to how much of a savings private label must offer to attract shopper purchases.

In our experience, the average private label versus national brand price gap is often wider than necessary to encourage shoppers to purchase private label options.

Average Private Label vs. National Brand Price Gap



**30 chains/markets across the United States*

We have analyzed private label versus national brand price gaps at over 30 chains across the country and have found that these gaps average 26.3%. And, at some retailers these average gaps exceed 30%-35%+. We've also found that some supermarkets do a great job of driving sales, profits and differentiation with private label while offering gaps averaging in the low 20s. Consequently, there appear to be opportunities for supermarkets to carefully and selectively narrow excessively wide gaps, maintain unit sales, and in turn, grow their gross profits.

We are not implying that all private label versus national brand price gaps should be set between 20%-23%. Some private label items require a wide gap (30% - 40%+) to maintain sales. However, "average" gaps that exceed 30% typically indicate that there is some "money left on the table", i.e., that there may be opportunities to narrow gaps in some categories.

**Assortment: Introducing/
Expanding “Value Product”
Offerings**

Historically, supermarkets positioned their national brand equivalent (NBE) private label products as the best value in most categories. Today, NBE private label plays a much different role, i.e., it’s typically positioned as a high-quality alternative to national brands at a good savings; but not necessarily the lowest-priced items in their categories. Instead, supermarkets across the country are adopting and expanding their assortment of second-tier private label or “value products” –items that provide the best value (lowest price-per-unit-of-measure) in the category. These second-tier private label offerings commonly include items under a single, value-oriented private brand and provide a savings over the comparable NBE private label.

Selected Example of Second-Tier Private Brands

Retailer/Distributor	Second-Tier Brand	NBE Brand
AWG-Kansas City	Always Save	Best Choice
Federated Foods	Better Valu	Parade
Hy-Vee	Midwest Country Fare	Hy-Vee
Kroger	Kroger Value	Kroger
SUPERVALU	Shoppers Value	Flavorite
Topco	ValuTime	Food Club
Winn-Dixie	Thrifty Maid	Winn-Dixie

A second-tier private label offering is a critically important part of a retailer private label program. It improves retailer price image and helps drive sales growth by:

- ▶ Providing values in every category that are comparable to those at traditional and non-traditional competitors, eliminating the need for a shopper to drive the extra distance to cross-shop one of these outlets.
- ▶ Encouraging patrons to shop the center-store aisles more extensively on every shopping trip because they can trade down and save money in virtually any major category. While few households are looking to trade down in every category, most look to make trade-offs in some categories.

**Communication: Educating
Your Shoppers**

No private label program can be successful unless the retailer convinces shoppers that their private label offering provides a favorable set of product options designed to help them save money. Retailers must educate shoppers about the “value” associated with private label, including why these products are great alternatives to comparable national brands. Best practice retailers leverage a wide variety of communication tactics to get their messages out.

- ▶ *General savings messages/themes* – Private label needs to be highlighted in all savings messages and themes; included as one of the ways a shopper can save at that store, i.e., a critical part of the retailer’s “savings program”. It’s every bit as important to price image as advertised sale items, temporary price reductions, double coupons or other pricing tactics.

Communication: Educating Your Shoppers (Cont.)

- ▶ *Compare and save signs* – Item-specific “compare and save versus national brand” shelf signs that highlight the private label price, the comparable national brand price **and** the penny/dollar savings associated with purchasing the private label option are extremely effective at demonstrating the value associated with private label, yet are not commonly used. “Compare and save” signs should be sprinkled in every aisle, but do not need to be used for every private label item. These signs reinforce the message that the store is filled with great opportunities to trade to private label and save money when the shopper is looking to do so. As shoppers push their carts up-and-down the center-store aisles and view the item-specific “Compare and Save” signs, they can see the meaningful savings associated with private label which improves overall price/value image. However, these compare and save signs must “do the math” for shoppers to be effective, i.e., calculate and highlight the savings.
- ▶ *Basket comparisons* – Some retailers highlight the value associated with their private label offerings with basket comparisons at the front of the store, i.e., they fill one shopping cart with a variety of national brands and a second cart with a variety of matching private label items. On a sign over the baskets, the store will list the price to purchase the basket of national brand products, the price to purchase the basket of private label products, and the corresponding savings associated with the private label basket. This represents another great way to educate shoppers about the real savings associated with private label.
- ▶ *Best Seller and Best Value tags* – Another interesting and effective tactic to educate shoppers about the value of private label is using “Best Seller” and “Best Value” shelf tags/signs.
 - ▶ Retailers will typically use “Best Seller” tags only on their own NBE private label items – when those items are the top-sellers in their categories. This message encourages shoppers to try the private label option by implying that “everyone buys it”, thereby removing much of the risk associated with purchasing a new private label item for the first time.
 - ▶ “Best Value” tags are typically used to highlight a retailer’s second-tier/value private label options, i.e., indicating that day-in and day-out, these items provide the lowest price/best value in the category.

The Complete Solution

Taking full advantage of the private label opportunity will require a strong focus in each of the four pillars. These pillars are supported by tried-and-true tactics that best practice retailers across the country have been using to successfully drive competitive advantage and profitable growth. We would encourage all retailers to embrace these pillars and earn the benefits.

Next Steps

If you have any questions regarding this month's *Competitive Edge*, or would like to discuss ways to enhance your own private label programs, please contact Jon Hauptman at 847-756-3714 or jon.hauptman@willardbishop.com.

Willard Bishop's Product Offers:

Total Store SuperStudy™ - The Total Store SuperStudy™ is the most comprehensive information on total store performance in the supermarket industry today. The study is completed every two years and provides visibility into the performance of every category and sub-category across three leading supermarket chains, delivered through a robust online web application.



Private Brand Performance Gauge™ - The Private Brand Performance Gauge™ helps you understand the profitability of private brands, by category, so you can drive category performance and better understand the potential impact of private brands on your business. Delivered through a white paper and a set of analytic scorecards.

To learn more, contact Jackie Gray – 847-756-3718 – jackie.gray@willardbishop.com

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