Store Brands: What Works and What Doesn’t – Part 2

by Sascha Jamall and Sonia Parekh

In part 1 of this series we reviewed some of the key elements for success in building a private brand strategy. We focused on the importance of starting with an understanding of the customer and asking her about what would motivate her to buy private brand product. We also reviewed some of the pitfalls retailers face when the strategy is purely internally driven and not customer centric.

In this article, we will focus more on some of the internal implications that the best retailers think about and plan for. Developing and sustaining successful store brands requires a broad commitment and participation across the organization – it requires an ecosystem. Without it, there can be a myriad of unplanned issues that arise during and after implementation that can take away from the benefits. Here are four things that work when developing an effective store brands ecosystem.

Here are four things that work when developing an effective store brands ecosystem.

What Works: Partner with Merchandising

For a retailer that primarily sells national brands or brands with limited customer recognition, private brands can build customer loyalty, create competitive differentiation and drive incremental margin growth. A well-crafted strategy starts with the total involvement of the merchandising function. Whether the work of executing the strategy falls on existing buyers or a new private brand function, the buyers must be equal and active partners in defining the strategy, approach and metrics. Partner with merchandising to determine a step-by-step roadmap for each product category with specific sales penetration and margin targets. Establish alignment around the role the private brand will play in the assortment and if national brands will be offered an opportunity to retain their business. Retailers that partner with merchandising up front to address these critical issues will develop a well-crafted strategy that is much easier to execute.

What Works: Invest in New Capabilities and Skills

Many retailers sell national brands as well as their own. In order to create a differentiated assortment and source it profitably, invest in new functions and skills. A traditional buyer is most likely used to working with domestic vendors that provide the design, product planning and sourcing services. To do private brands well, retailers need design/product development, sourcing and quality assurance talent. Although some of the basic functions can be supported by vendor partners, a strong internal team can efficiently oversee and manage a private brand strategy. A related decision will require a “buy or build” assessment on using 3rd party buying agents or opening overseas offices. In some industries (eg: grocery), a similar decision on building manufacturing facilities or using contract manufacturers may be necessary.

What Works: Remember - When it Comes to Risk, a Private Brand Retailer is a Vendor

When selling private label products, the retailer has a new role - that of vendor or manufacturer. In the event of a regulatory or quality issue, the retailer is the vendor – but without the same recourse as a national brand, resulting in lengthy, complicated and expensive negotiations. In the event of a product recall, the retailer is exposed to reputational risk with their customer. The best retailers invest in a quality assurance capability that includes supplier audits, quality inspections and product testing components. An additional investment is often required in the legal function where intellectual property and product recall risks can be monitored and mitigated when issues arise. Retailers that become private brand “vendors” must also implement traceability throughout the supply chain. This means understanding who made the product and where all the raw materials came from.

What Works: Inventory Management and Planning Support

Unlike most national brands that have liquidation allowances (i.e.: mark downs, returns, guaranteed sales), the retailer must internally fund a private brand liquidation. Ideally, a certain percentage of the incremental margin is set aside to help manage the normal lifecycle of the product from birth to death. If liquidated product will be sold to off-price retailers or another external channel, retailers should carefully consider branding and product packaging.

Many private brand strategies in the apparel and home industries include an element of working “factory direct” versus through a domestic vendor. In most cases, the longer shipping lead times can create a problem for stranded inventory (i.e.: inventory that is not optimized for sell-through at a particular store, too much distribution center inventory, etc). Retailers that improve forecast accuracy and inventory flow avoid many of these issues.

Developing store brands can help drive sales and strengthen the overall retail brand. However, successful store brands require the support of an ecosystem. Make sure your company understands what works and what doesn’t to ensure the success of your private brand investments.
More Reading

Store Brands: What Works and What Doesn’t - Part 1 of series

Growing Store Brands through Innovation - eBook detailing research from Kalypso and Indiana University

Originally published on October 21st, 2014

What's your view? Add your question or comment
About the Authors

Sascha Jamall
sascha.kaf@yahoo.com
Sascha has a 30 year career in retail with leading companies like Eddie Bauer, Williams-Sonoma, Michaels Arts & Crafts and most recently at One Kings Lane. He has deep experience in private brand strategy including brand portfolio management, product development and manufacturing.

Sonia Parekh
sonia.parekh@kalypso.com
Sonia brings over 15 years of industry experience. She has deep retail industry knowledge having worked as a consultant and in operating roles with many large, national retailers.