Store Brands: What Works and What Doesn’t

by Sascha Jamall and Sonia Parekh

Over the past decade, store brands have grown significantly across all retail sectors in the US. More recently, however, the growth seems to be slowing. For example, between 2012 and 2013 private label share of consumer packaged goods (CPG) unit sales remained unchanged at 17.2%* and private brand share in the arts & crafts sector has remained in the 35-45% range. While shoppers today are much more open to store brands, and may even be loyal to a store because of the private brands, competition and customer expectations have increased.

Why are some store brands successful while others fail? These four real examples identify key learnings about what works and what doesn’t.

What Works: Starting with the Customer

Understanding the customer’s needs and motivations is critical to the success of any brand. For example, a national specialty goods retailer heard from customers that the stores were hard to shop because the aisles were crowded with products that were not differentiated from one another. The retailer decided to launch a private label portfolio across several key categories, with two specific opportunities:

1. Use a private brand to replace some of the smaller, less significant brands that were getting lost on the shelf and creating more clutter for the customer to sift through
2. Design simple and consistent packaging for private brands to speak to the customers in a refreshed way – with a focus on features and performance

This strategy proved especially successful in the kids category, allowing time-starved mothers to quickly find interesting, simple and safe projects to keep their kids busy. Both category sales and customer loyalty grew tremendously as a result of the initiative.

What Doesn’t Work: Building a Brand based on Internally Driven Interests

Retailers often decide to pursue private brands solely because they want to develop higher margin products, or gain leverage with the national brands. This was the case with an e-commerce retailer who developed a private brand based on the pursuit of margin and leverage, as well as competitive differentiation. However, by focusing primarily on internally driven measures, they missed the opportunity to ask the customer what she valued and expected from a private brand. Early customer insight would have helped the retailer better position the brand to meet the real customer needs. When they did ask for customer input, it was too late; key decisions were already made and downstream implications made it too hard to change positioning. Facing an uphill battle for wallet share, results were lackluster and the private brand was de-emphasized.

What Works: Making the Store Brand a Strategic Part of the Portfolio

Store brands should be strong strategic assets that drive loyalty and profitable growth of the overall retail brand. A broadline national retailer recently drove success by building and nurturing their store brand through a well planned and executed marketing and promotional strategy, backed by the right level of investment. They built up separate marketing spend by holding back some margin and working with their store brand suppliers to contribute earmarked funds. They used the funds to execute coordinated, cohesive campaigns that enabled the brand to stand out amongst the sea of all the other brands. As a result, the store brand created a halo effect for the overall retail brand.

What Doesn’t Work: Treating the Store Brand like Just Another Vendor

For some retailers, store brands are developed by a product development team that works with little input from merchants. A national department store carrying over 50% private label merchandise built a large and highly capable product development team to support all of the store brands. This team worked in a silo, and while merchants participated in some of the key meetings during the process, their relationship was not collaborative. As a result, merchants treated the private brands in the same manner as outside vendors, forcing them to compete with national brands for space in the assortment plan. Inconsistent adoption rates and last minute changes requested by merchants drove product costs up and created frustration in the product development organization. As a result, the store brands never flourished as a strategic asset.

Developing a successful store brand requires a significant investment of time and resources coupled with innovative thinking, marketing prowess and a cross functional commitment. For many retailers, it also requires building new muscle and capabilities across the enterprise. In our next article we will explore the specific areas of the ecosystem that are impacted as part of the store brand journey.

More Reading

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

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

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