Do You Really Have a Private Brand Strategy?

by Steve Riordan and Hala Hassoun

“You’ve gotta stand for something or you’re gonna fall for anything.” – John Cougar Mellencamp

For years, retailers have developed private brand programs. They do it to gain leverage over national and branded merchandise vendors, to improve buying margins, and to differentiate themselves from the competition. But even those with established private brand programs often don’t take the time to develop a proper private brand strategy. Without a strategy to set direction and guide effective development, retailers underplay their hands at a time when leverage, margins and differentiation are critically important.

Eight Key Elements of a Private Brand Strategy

An effective private brand strategy (PBS) includes several key elements:

1. **Mission/Purpose** – The strategy must articulate the strategic intent of the overall program. In the early days of private label, the simple goal was to provide lower-priced alternatives at the same quality as national brands. As retailers have become more strategic with their private brand programs, the driving factors behind them have also become more sophisticated. One of the most common drivers we see at leading retailers is to create a differentiated set of brands and products, clearly identifiable to the target consumer. You may also initiate a program to create leverage with nationally branded vendors or to improve buying margins to boost operating income. Strong programs can also enable more control over the end-to-end product development process to ensure quality and consistency. More recently, we’ve seen retailers use private brand programs as a source of innovation. Whatever your strategic intent, it must be developed relative to the expected changing trends and dynamics of the marketplace you serve, your competition and your target consumers.
2. **Financial Contribution** – There is also a wide range of expected financial contributions, from serving as a direct contributor of incremental operating income to simply serving as an enabler for national brands or other strategic initiatives. Regardless, the PBS should include a 3-5 year forecast of revenue, margin, operating expenses and capital investment requirements. This forecast should hold private brand program leaders accountable for results.

3. **Target Customer** – The PBS should articulate the profiles of your target customer segments for private brands relative to the target customer for your national brands. How many customer segments are you trying to reach and is there a need for multiple brands? Are you targeting existing customers, trying to attract new ones, or a mix of both? Is the customer dissatisfied with existing products, opening the door for your private label to offer a solution? To develop an accurate point of view about the wants and needs of each target segment, use data from online reviews, product returns and other sources to find gaps in the existing product portfolio.

4. **Brand** – Build your PBS on the foundation of a brand portfolio in which each brand has its own strategic purpose and target customer segment. This brand portfolio should be built into a two dimensional brand architecture matrix, with price point (e.g. good, better, best) along one axis and merchandise profile (e.g. traditional, bridge, contemporary) along the other. Leading retailers seek to build recognizable brands of significant stature to stand out in the marketplace – the quest for billion dollar brands. Building brands of scale enables these retailers to make deep investments in innovation, branding and marketing. In most cases, the most significant brands cross over multiple merchandise categories and include an accountable executive to oversee brand curation and development.

**Pros of multi-category brands:** When your customer tries a product in one category and is happy with it, she is more willing to try the same brand in another category. The same brand across categories enforces brand recognition, makes cross-selling easier, and limits confusion among shoppers.

**Cons of multi-category brands:** Sometimes pricing strategy and competition in each category don’t align. For example, if a mid-priced private label brand is being considered for both apparel and home goods, and there are already a lot of mid-price competitors in the home section but an opportunity in entry-level pricing tier, it may be better to create a separate brand in home goods at entry price points, and keep the apparel brand in mid-tier.

5. **Merchandise Category** – The PBS should include a clear articulation of the scope of the merchandise categories included in the private brand program. Category inclusion is typically based on a combination of the attractiveness of the market (growth, profitability, etc.), the nature of competition, the accessibility of attractive vendor markets for merchandise and materials, and your in-house capabilities. The selection of merchandise categories should ultimately support the mission and purpose.

6. **Channel** – To determine a strategic channel mix for private brands, the PBS should include who the target customer is and how she shops. This will help determine if you need to offer private brand merchandise across all channels – stores, on-line, mobile, licensees, etc. If you need to offer private brand merchandise in more than one channel, you’ll need to decide if you will offer one uniform assortment or tailored assortments by channel. Will you offer on-line exclusives? The channel strategy should articulate the brand and category assortment by channel, while balancing the complexity associated with moving beyond one assortment offered in only one channel.

7. **Customer Acquisition** – The challenge with new private brands is building recognition and trust with consumers, so this must be part of your PBS. National brands spend millions of dollars on marketing. Without equivalent marketing spend, retailers can increase their exposure of private brands through in-store signage, web and mobile alerts or notifications, and clever merchandising. Messaging is important because customers need a compelling reason to switch to the private brand. What differentiators should be highlighted? Does the private label product offer better quality or better value? Are there any distinct
features and benefits that competitors don’t offer? Private label products should be presented as an elevated alternative, not a lower-priced substitute.

8. **Innovation** – The PBS should include a definition of the role of innovation in your private brand program. Private label offers an opportunity to collaborate with third parties to come up with new innovations. Close collaboration with manufacturers or vendors can result in new innovations, hiring third-party design and development firms can bring new perspectives and unique concepts, and incorporating the voice of the customer into the new product development process provides more successful products that truly meet target customer needs.

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**More to Come**

In Part 2 of this series, we will define an approach for developing a proper private brand strategy and will also share leading practices to improve the likelihood of a successful, impactful and executable strategy.

In Part 3 of this series, we will address the operating model and in-house capabilities needed to execute the private brand strategy. We will offer pragmatic advice on many common questions, including: How will private brands be managed? Will product design and development be handled in-house or outsourced to a third party? Will you need to create a sourcing office in the local geographies to be close to the manufacturers, or will you manage everything from headquarters? Will you partner with a smaller firm that can design new innovative products under your private label?

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**Topics:** Innovation, New Product Development, Private Brands, Private Label, Private Label Retail, Product Development, retail, Retailers, Strategy

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