

3.19 Executive White Paper

Integrating Private Label Products into Your Long-Term Business Strategy

Promoting private label products as a value alternative to more expensive brands — as a true extension of your store's brand promise

This White Paper, prepared by Vestcom International, Inc., offers insight into the evolution of private label products and highlights effective mediums for promoting store brands at the shelf-edge to deliver on the brand promise and create loyalty in a highly competitive marketplace.

Executive White Paper

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1.1 Where it all started

Private label has its origins in the 1930's with A&P and its company-owned coffee fields. Always the "value" brand, private label reached its nadir in the 1970's with the "generic" or "plain wrap" movement. These products went for the lowest common denominator in both price and quality, with more than a few items being all but inedible. Historically, private brands have gained market share with each economic downturn, and maintained about one percent growth as the economy gained strength. This has been true for every recession since the 1970's, and the current climate may benefit private brands more than ever.

1.2 The state of private label today

In the past 30 years store brands have evolved in quality and value, and have become a force to be reckoned with. This is especially true for the national brands that compete with store brands; no longer is the national brand alone enough to close the sale when positioned against a premium store brand.

Consumers across all income levels are turning to private label products as part of a money-saving strategy.

The latest research from Information Resources, Inc. (IRI) reveals that financially-strapped consumers across all income levels, including those earning \$100,000 or more, are turning to private label products as part of a money-saving strategy. These consumers have helped food retailers increase their sales of store-branded products, whose sales increased 10% in the past year to more than \$81 billion, according to the data firm Nielsen.

While the economy has certainly played a significant role in the new spotlight, store brands have been rising even without the added boost from shoppers looking for ways to stretch the budget. In the past few years, growth has been fostered through significant development programs at major retailers, starting with Loblaw's in Canada, finding a solid foothold in Safeway, and reaching a pinnacle with stores like Tesco's Fresh and Easy Markets and Trader Joe's, where the majority of products carried are store brands. Costco's ubiquitous Kirkland brand has paved the way for store brands to cross categories from steaks to shoes, leaving satisfied shoppers clamoring for more.

2.1 Improvements

One of the many improvements that have hit store brands is the retailer development of multi-tiered programs, with the traditional “value” line focused on price, a national brand equivalent positioned against the category leader, and increasingly a premium tier that often has no competitive equivalent on the shelf.

In the past, shopper resistance to private labeling mostly surrounded concerns about quality and it was often true that the store products were inferior to brand names. Over the past several years, however, distributors have focused on improvements to make their private labels as good as or (as in the case of Costco’s Kirkland brand) better than big name competitors.

So successful have store brands been in recent times that even the largest consumer package goods (CPG) companies have begun to cite them as part of the reason for missed revenue and profit goals. Safeway’s CEO recently used his store brands as a threat to the brand manufacturers to lower prices, or he would start heavily promoting his own products.

2.2 The impact of shopper influence

Shoppers are doing their part by driving this acceptance. According to a recent *Supermarket News* survey by Gfk/Roper, 61.5% of shoppers buy store brands “frequently.” Nearly 30% claimed their baskets were more than 40% private label products, and 82% agreed that private label is at least equivalent to national brands in quality. Even Wal-Mart—long a stronghold of the national brands—is reformulating its store brands to meet shopper expectations for quality and value. These numbers take us far out of paper towels and dairy products, the traditional realm of store brands. It’s no wonder that manufacturers are taking notice—and losing sleep—over this sea of change.

2.3 Benefits of the new approach

The returns to the retailer from a robust store brands program are many:

- Increased shopper loyalty by offering products not available elsewhere
- A positive reflection on the overall retail brand and its relevance to the shopper
- Improved profitability from the traditionally higher margins available
- Increased leverage to lower prices from branded manufacturers as brands lose share
- Less reliance on CPG funding

3.1 Funding marketing initiatives

While store brands certainly have a rosy outlook, there remain significant challenges to growing share and retaining shopper loyalty through them. Virtually every major retailer has at least one private brand product line. And yet with private label agreements, the retailer takes on the responsibility for advertising and promoting private labels, often with limited marketing funds to support these products.

The first rule in product marketing is to drive awareness and trial. Neither can be accomplished without significant investment to promote the brand and its benefits. But with limited budgets—especially compared to the traditional CPG multi-million dollar new product launch—retailers may find it difficult to make the commitment needed to a store environment that furthers the brand proposition and provides merchandising strategies that support the strategic direction.

To create an effective marketing strategy, it is important to first define the target shopper for your private label line. In doing so, it will become clear what type of in-store marketing will create the visibility and appeal that attracts that shopper, and what the budget should include.

3.2 Choosing a path of execution

One way to attract shoppers is through extensive discounts, but that has its drawbacks: an initial low price inhibits the ability to charge more once the product is launched, and going too low can have a negative effect on the quality perception.

Traditional media is an option, but with the ongoing reduction in efficiency for most vehicles, minimal budgets disappear quickly with little to no return on the investment made. Even a significant investment in media by a retailer is easily dwarfed by the impact afforded to major manufacturers, subsequently diluting or drowning out the message.

3.3 Moving promotional messaging in-store

Shelf-edge communications that use shopper insights to provide compelling and relevant information is a viable way to reinforce the link between the retailer and its private label offerings. Attention-getting graphics and messages can serve as reminders of special benefits. Creating a “story” for the brand to elevate it from simple product attributes and per-quantity price advantage helps to elevate the value perception as well.

It has become increasingly important to provide tools that help to impart what the private brand stands for and clearly demonstrate its points of difference.

In-store communications are a highly effective medium for store brands, and with good reason:

- Messaging is focused on the current shopper, who is already in the store and engaged in the process
- In-store point-of-sale material is much less expensive than other broadcast media
- Creative and content can mesh seamlessly with the retailer’s overall brand to build a complete solution story for the shopper

Still, challenges remain. Execution compliance is always an obstacle. While using third-parties to print and hang signs and other point-of-sale material is an option, lead times tend to be long, and costs remain high. And there’s still no guarantee that the sign will stay up once it’s been placed.

Additionally, it has become increasingly important to provide tools that help to impart what the private brand stands for and clearly demonstrate its points of difference. The retailer must ensure that its products live up to consumer expectations so as not to undermine the brand promise.

4.1 Providing information at the critical point of decision

Shelf-edge solutions have been around for some time, but the newest ideas have brought marketing at the shelf edge to a whole new level. Use of any of these, as a stand-alone medium or combined as an integrated group, allows the retailer to maximize the shelf edge, the one place we can be sure the shopper sees among the many messages competing for her attention.

Variable, digital color capabilities now allow promotional information to be tied to the shelf—literally—by the price label. These tags educate, engage, and entice the shopper at the time and place when she is open to the message, and where she is already looking. Produced and packaged in planogram order, by store, the labels add no labor to the price change process, while converting the shelf edge into a highly effective medium that influences shopper behavior and grows sales.

Because they are part of the price label, compliance exceeds virtually any other in-store point-of-sale, with an average of over 90%. And as the product comes off promotion, a new price label ensures that the old message is removed as scheduled. Additionally, digital shelf labels are customized to the retailer and the brand, tying other media together at the shelf edge to “close the loop” for marketing. Finally, because of the shelf price label base, lead times are measured in days instead of weeks.

4.2 Ensuring brand promotion while saving labor

Deploying shelf strips—digital, color shelf-molding inserts—can serve multiple purposes. As a reset aid, these strips shorten set and reset time, saving labor dollars as new items are added to the category.

However, once in place, they reduce the incidence of long-term out-of-stocks by holding the designated shelf space open for the missing SKUs, and making sure the tag is not lost. Most importantly, they can be used as a branding tool by visually separating shelves or sections to make them more apparent to the shopper. With digital color, images, and minimal lead time, shelf strips bring about a new world of opportunity to promote store brands while reducing labor costs.

4.3 Going digital at eye level

While digital in-store has captured attention, the problem of where to place the screens continues to perplex retailers. There's no compelling reason for a shopper to look up at the ceiling to watch what amounts to a big screen television, and no matter where the screen is placed within the store, it's not likely to be close to any of the products being promoted.

The shelf edge is the optimum place to be, as that is where the shopper is looking for information while in the decision process.

Check stand screens, as well, are really after the fact, and not much use for driving sales in the current trip. The best that can be hoped for is to place a brand message for the next trip.

The shelf edge is truly the optimum place to be, as that is where the shopper is looking for information while in the decision process. Digital shelf-edge solutions offer touch screen capability at the shelf edge, to educate and motivate the shopper. In addition to custom video and audio content, digital shelf-edge solutions can incorporate loyalty card readers to collect shopper data as well as customize the message. Information can be sent by the shopper directly to her email or a cell phone through input on the screen, and a printer can even be included to offer printed recipes or coupons at the time of decision.

Store brands provide a perfect opportunity for retailers to differentiate themselves from their competitors, and to create loyalty in a highly competitive marketplace. Statistics show that today's shoppers consider store brand quality equal to—or better than—that of national brands. It makes perfect sense, then, that efforts taken to build a strong private label program in a tight economy will only reap benefits later.

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The window of opportunity for store brands is wide open, but it won't be for long. Now is the time to capture your shoppers' loyalty and the corresponding share of wallet that a robust private label marketing plan can offer.

When promoting your store brands, there is no better place to connect with the shopper than at the shelf edge, when and where she is looking for information and open to influence. Creating an in-store marketing plan for your store brands that is strategically responsive to customer needs allows retailers to enjoy the ultimate win-win: a cost-effective and beneficial experience for your customers and greater sales volume and brand loyalty for you.

Vestcom International is the leading provider of customized shelf-edge communications and specialized marketing services for the retail industry, driving more sales by connecting marketing and merchandising at the shelf for the nation's top retailers and their suppliers. To find out how Vestcom can help your retail operation answer the demand for in-store solutions that reduce costs and increase sales, please contact us today for a no-obligation analysis and quote.