Marketing Against Retailer Brands

BY BEN BALL

For almost three decades now, the producers and marketers of national brands have been watching an ever rising tide of private label products sweep onto the scene. Nearly aborted in the U.S. in its infancy by an ill conceived and ill fated “low price and lower quality” strategy during the recession years of the seventies, private label has matured into a broad range of retailer owned brands with positionings ranging from extreme value to super premium. So what is a national brand marketer to do?

Much has been written about the advantages Private Label products enjoy. Often characterized as “unfair advantages,” national brand marketers cite guaranteed access to preferred shelf space, no slotting fees, extra low cost of goods, look-alike packaging and a host of lesser evils as the reasons for private labels’ rise. But we beg to differ.

The principal reason national brands have lost up to 30% share of major categories is because retailer brands have grown under the ideological cloak of “private label.”

Stop calling it “Private Label”
Coined by marketing professionals to refer to multiple retailer brands as a class and fueled by retailers reluctant to have too much known about their own brands, the characterization of “Private Label” as a single number in syndicated databases is the most prominent national brand vulnerability.

Simply put, our premise is that these databases have gained such importance in the brand marketers’ world of keeping score that they are an accurate reflection of how markets, categories and competition are viewed. In short, syndicated databases reflect the industry’s blindspot – there are no retailer brands – there is only “Private Label.”

To be sure, the number of lines of data tracking every retailer brand would add to a market report is an issue, particularly at the national level. But what marketer is content to simply see a subtotal called “Regional Brands” at the market or national level? Why is it that, even at the account level, we do not see *Safeway Select*™ and *Ann Page*, but rather simply “Private Label”?

The ability of retailers to build brands should not be underestimated. While Sears may be past their glory days, the brands of Kenmore® and Craftsman® still have strong consumer equity. Wal-Mart has built Ol’Roy® into the best selling pet food brand. In Europe, store brands are often category leaders. Other retailers are learning from these examples and are improving their brand building efforts.

So the first thing national brand marketers must do to effectively address the growth of Private Label is to abolish the term. Identify the critical retailer brands with which you must compete and treat them just like any other meaningful competitor. Track them by name (if the retailer will allow the syndicated data supplier to do so) just as you do major regional competitors. Then go to market against the retailer brand offerings you most closely compete with.

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Fight like a Brand!
Wage a classic battle for the hearts and minds of the consumer.

The great equalizer in this equation is the same for everyone, it is the consumer. While *Safeway Select™* may enjoy certain advantages, the brand marketers at Safeway still have to convince consumers to buy their brand versus yours on every single purchase occasion. The same purchase dynamics that apply to other brands in the consumer's decision apply to the retailer brand, although the retailer brand may choose to play those dynamics quite differently than you do.

Now that we have identified retailer brands as a competitor, how do we go to market against them? Let's start by cataloging the actual advantages and disadvantages retailer brands have.

The first thing retailer brands have is relatively unfettered **access to shelf space** – but only in their *own stores*. So, in any given market, national brands have more potential access to the consumer than any one retailer brand does.

Advantage: *It depends. Assuming the national brand has either the consumer demand or the money to garner distibution in all outlets across the market, the advantage in terms of **consumer access** should go to the **national brand**.*

Another advantage that is assumed to go to retailer brands is **lower landed cost of goods**. While this is often true, it is generally not due to lower direct manufacturing costs. In fact, most retailer brands are sourced from either the national brand manufacturers themselves or from smaller specialty manufacturers who don't have the purchasing leverage of the big guys. Due to the fact that each product manufactured for an individual retailer represent a unique sku requiring a different label, the logistics of manufacturing and inventory control issues are far more complex for these brands. Where the retailer brands gain their advantage is in the indirect cost burden most national brands have to bear. Whether driven by higher overheads, more expensive manufacturing processses or greater R&D investment, the fact is that a retailer brand can of peas will land on the shelf with a lower cost of goods than what typically shows up on the national brand marketer's P&L for a product of comparable quality.

Advantage: *In terms of **landed cost of goods**, the advantage goes to the **retailer brand**.*

An advantage in lower landed cost of goods usually translates directly to **lower retail prices**. We say "usually" because part of that cost advantage can find its way into profit margin and it often does. The critical decisions the retailer brand must make are "which national brand do we price against?" and "how much lower than the national brand do we go?" That is not to say that the national brands do not have options however.

Manufacturers can use marginal capacity to introduce lower priced "fighter" or "value brands." They can even sacrifice margin and (try to) roll back retail prices on their premium brands. Temporary price promotion is certainly an option, particularly extended TPR or "roller" programs, but one we will leave to a later discussion.

If the retailer has a tiered brand strategy in your category, segregate them by their price/value positioning, recognizing that a premium private label may still not carry the same price per unit as your brand. Manage price gaps carefully against the retailer's most directly comparable brand.

Legally, the retailer controls all pricing in the store. Manufacturers cannot dictate retail pricing or margins. But manufacturers can dictate the price at which they offer their goods in the market and then let competitive forces between retailers and formats come to bear. By narrowing the cost gap between the national brand and the store brand, manufacturers can also largely eliminate one of the key reasons retailers enter categories with their own brand: improved gross margins. Lack of a gross margin advantage has made it impractical for retailers to introduce store brands in many categories.

Advantage: *Ultimately, the retailer has control of the price comparison your consumer sees at that critical moment when they stand in front of the shelf in that store. In terms of **retail pricing,** the advantage goes to the **retailer brand.***

Superior **marketing support** is generally assumed to be the purview of the national brands. Part of the higher prices they charge are reinvested in advertising and promotion dollars. And most major national brands do invest more than the comparable retailer brand, particularly in advertising. However, many second tier or regional brands cannot or do not reinvest, severely handicapping themselves in the battle against retailer brands' advantages.

Almost all brands are investing a much higher percentage of their marketing budgets in temporary price promotion (trade spending) than ever before. The effectiveness of this spending is questionable (particularly when not accompanied by Feature and Display support) and retailers often thwart the strategy with what we call "shadow promotions"– reducing the retailer brand

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price to maintain the price gap – sometimes using a portion of the national brand trade dollars to fund it. Worst of all, dollars spent to temporarily reduce price gaps versus competitive retailer brands are no longer available for brand building activities.

WHO HAS THE ADVANTAGE?

	National Brands	Retailer Brands
Consumer access		
Lower landed cost of goods		
Lower retail prices		
Marketing support		
Differentiation		
Innovation		

More retailers are investing in brand building programs now as they realize that they can build strong consumer brand franchises with products that offer benefits beyond just lowest price. Although retailers operate on much thinner margins than manufacturers do, they can source monies for brand building through slotting allowances, national brand trade allowances not passed through, feature advertising profits and a host of lesser manufacturer funded pools.

The upside for retailer brands in brand building activities that take place in-store is that everything costs them practically nothing. Any activity that is broadcast to the entire market has a disadvantage in that it can only be amortized over sales that take place in their own stores. National brands can amortize the same spending over sales in all outlets in the market, theoretically a higher number.

Advantage: *This one is not nearly as clear as it used to be, but assuming the national brand is still investing in the consumer as they should, the advantage in* ***marketing support*** *goes to the* ***national brand****.*

Differentiation is at the heart of brand building, a traditional advantage for national brands in that their spending is typically focused on building a strong consumer presence for one brand in one category. For example, *Dove®* spending is concentrated entirely on building a positive image for soap, while *Safeway Select®* may umbrella over hundreds of items in multiple categories in the store. It is much harder to combat a meaningful differentiating message in any given category for the retailer brand.

There are two growing pitfalls for national brands that can cost them their traditional advantage in differentiation. The close-in threat is retailer brands (and other second tier brands for that matter) that rapidly mimic national brand product innovations. Obviously, the less physical differentiation there is in the brands, the harder it is to maintain some kind of image-based differentiation with consumers.

The second threat is retailers who manage to "brand" a lifestyle. Good examples are *Whole Foods®* and *Trader Joe's®*. Both of these retailers have co-opted an attitudinal positioning that can be spread across a wide range of products. By doing so they have gained the ability to leverage one differentiating message across a whole range of products. As an example, *Whole Foods®* communicates the "all natural" message of the *Organic 365®* brand throughout the store.

Advantage: *For now,* ***differentiation*** *stays with the* ***national brands*** *as well. But for how long is largely dependent on how well the national brands execute against our final advantage – innovation.*

Innovation is still the key to achieving meaningful, sustainable differentiation. It is still the purview of national brands (at least in the U.S.) but a series of interdependent factors put this all important advantage at risk. Innovation costs money, and that money has to come from somewhere. Traditionally that source has been the superior margins available to national brands. Now a number of things threaten that investment, including EDLC strategies, increased trade spending and the demands of Wall Street.

Less money to spend on innovation means the innovation we can afford is less significant. Less significant innovations reduce differentiation and are easier to copy quickly. Knowing that the competitive advantage gained is not sustainable discourages national brands from investing heavy marketing dollars behind the innovation with consumers. It also encourages manufacturers who produce both national brands and private label to yield to pressure to add those benefits to their retailer brands more quickly.

Advantage: As with differentiation, we see ***innovation*** going to the ***national brands***, but at risk.

Choose your battlefield

Every good book on military strategy talks about the importance of choosing your own ground for battle or, if you can't choose it, at least knowing it like the back of your hand.

In the battle for share of consumer dollars, the battleground is rapidly shifting into the store. Fragmented media; death of the "mass market"; power shifts to larger retailers; whatever the reasons this is happening, managing where the battle is fought is the single most important strategy element for national brand marketers – and the answers are not easy.

To make things a little simpler, think of the battlefield as having two parts, inside the store and outside. The battle inside is about shelf presence and price value. The battle outside is about brand awareness and image with consumers.

As the battle inside the store heats up, available resources are siphoned off from the battle outside. And when the battle moves inside lesser brands, including retailer brands, gain a lot of leverage. Therefore, national brands should keep the battle outside the store to the maximum extent possible.

Of course, national brands can't afford to give up the key in-store battleground completely. Abandoning the field guarantees a speedy death. The best strategy is one of "share equilibrium" which is just a fancy way of saying that the conditions in the store (including price differential of course) are balanced enough that a consumer who is predisposed to your brand when they come to the shelf won't change his or her mind based on what they see when they get there.

The "share equilibrium concept" is easy enough to understand, but how to achieve that state for your brand is hard to figure out. The environment is certainly different by retailer, and often by category as well. Marketing mix models can be helpful, but the critical things to know, such as the impact of in-store merchandising type and promoted price gaps, can often be understood with a less costly and complex merchandising effectiveness and efficiency (MEA) analysis.

The complexities of share equilibrium notwithstanding, suffice it to say that the more brand equity you can build up before the consumer reaches the shelf the better.

Protect your flanks

Because innovation is so expensive and market forces are pushing brands to the "great gray center," maintaining any degree of differentiation is paramount for the national brand. The truth is that as brands lose differentiation, national brands lose.

Protect the brand in every way you can. Product patents. Process patents. Trademark brand names, packaging and other modes of "trade dress." Copyright all trade materials and key selling phrases. Pay particular attention to protecting your package design. It is your last, and most important, line of communication with consumers at the shelf.

Make sure your "innovation" is truly differentiating and meaningful with consumers. The battle for shelf space and the need to achieve quarterly numbers by filling the pipeline with line extensions have done serious damage to marketer's perception of innovation. We suspect more money has been spent on researching the consumer reaction to "lemon-lime" versus "lemon" than has ever been made from launching them side-by-side.

Ruthlessly drive unnecessary costs out of your business process. Study and apply "the virtuous cycle" of cost reduction reinvested in process improvement to generate even more efficiency. Spend some of the resulting margin in R&D, some in more process improvement, but spend most of it in brand equity building activities with the consumer. Ultimately, that is the only path to profitable survival for the national brand. V

INFO AND INSIGHTS

The Keys to Battling Private Label are:

1. Stop calling it "Private Label"
These are brands that happen to be owned by retailers. Nothing less. "National brand" manufacturers have done themselves a great disservice by thinking of retailer brands as a collective third class entry.

2. Fight like a Brand!
Stop worrying about disadvantages real and imagined. Deliver unique benefits through superior innovation and brand them through superior differentiation and communication.

3. Choose your battleground
Keep the battle outside of the store as much as you possibly can. Build as much brand equity as possible before consumers reach the shelf. Then try to keep the playing field in-store level enough to let that equity work for you.

4. Protect your flanks
Insulate your brand in every way possible. Gain patents, trademarks and copyrights. Protect intellectual capital. Most important, drive your processes to true "low cost producer" status – then invest that margin in brand building communication and additional R&D...not just short-term profits.