

In these tough times, consumers are demanding greater value—which often translates into lower retail margins. Retailers are taking matters into their own hands, building private labels that compete with well-known brands. From Amazon to Best Buy to Saks Fifth Avenue, retailers are leveraging their unique customer relationships for private label success.

Pursuing Private Label Strategies in Retail

PERSPECTIVES

Private label is not for everyone, however. In our view, companies that can benefit the most must sell product categories that can support a private label strategy. They must also have strong customer relationships. And they must thoroughly understand their customers, be able to capture and react to customer feedback, and dedicate sufficient resources to build awareness. With this foundation in place, companies need to follow three key practices:

Leverage customer insight to drive innovation and differentiation. One advantage retailers have over product manufacturers is close and frequent interactions with customers who express their likes and dislikes. Retailers can use these interactions as fodder for developing new products. At the same time, they can use “Voice of the Customer” research to learn about needs consumers may not even be aware of. This latent knowledge is critical for developing breakthrough products and for strengthening customer loyalty in targeted segments.

Conduct sourcing to boost innovation and gross margins. There are a number of ways to source private label products. Each requires a different degree of internal capability in design, development, and sourcing, and each has its pros and cons.

- Turn-key. Obtaining finished products from a firm with an existing product or brand is appropriate for retailers that want to enter the market quickly with limited investment and prospects for innovation.
- Partnership-driven. Joint development and manufacturing via a third-party partner is a popular strategy for companies that may have some, but not all, of the right assets internally. The downside is less control over innovation and intellectual property.

- Do-it-yourself. Assembling and managing assets internally may be the best option for companies with unique innovation needs and intellectual property concerns. It may also appeal to companies that intend to expand their private label platforms aggressively. The most common approach is to conduct development in-house and outsource manufacturing to suppliers that are very closely managed. Given the high cost, this option is the toughest to justify, unless market potential is significant.

Structure a development process that is fast and that meets ever-changing consumer needs. As a private label strategy evolves, retailers can use customer insight to drive improvements in existing products, regardless of whether product development is internal or outsourced. To stay in tune with changing customer needs, it is critical for the development organization to capitalize quickly on this insight from customers. Applying Lean product development principles, using supplier management tools, and sharing product information across the value chain are all ways to ensure quality and to maximize cost effectiveness.

The decision to develop a private label strategy is not an easy one to make. But it can boost the bottom line for companies that fit the profile and master the practices. And, as customer reluctance to spend continues, it may prove indispensable.

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