

Co-Brand or Store Brand – That is the Question

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As frugality has become relevant and widespread, consumers are reconsidering the true value of every product. If a brand's value proposition is unclear or vague and consumers don't understand the superiority or benefits, it will quickly become a lame duck in today's marketplace. When the consumer cannot tell the difference between one product and the next, the product with the lowest price wins.

With little exception, private label/store brands are showing growth across most categories. The trend is not limited to consumer product goods, with some of the fastest growing segments including apparel, books and financial services. While consumers continue to support high end products that they believe have a clearly defined value proposition, they are also increasingly willing to try, and stay, with private label products that they previously would not even consider.

Magazine articles and news stories featuring blind trial/taste tests have helped to reinforce the quality of these products, with consumers stating that they rarely see a difference and are no longer willing to pay extra for the brand name that was previously a household staple. For example, Consumer Reports ranked Winn-Dixie's chocolate ice cream ahead of Breyers, and Kroger's potato chips ahead of Ruffles and Pringles.

While marketers always struggle to differentiate their brands, many believe that a significant portion of the lost volume to private label will not come back at the end of the recession. Data across several decades and countries shows that while private label products do grow faster in a recession and tend to slow during economic expansion, the overall increase is greater than the decline – in other words, some of the gain becomes permanent. In comparison to twenty years ago, the packaging and overall quality of private label products have significantly improved. They are now viable everyday items and continue to be ongoing options for consumers who are being more selective about where to spend their dollars.

More manufacturers left with unused capacity are choosing to supplement their production with private label or co-branding. Both options provide the sought after supply chain efficiencies, but the benefits and risks of either choice must be carefully considered.

Private Label

Producing a retail branded product is a long-term option which must be clearly evaluated because there is ongoing pressure to maintain or improve the quality or packaging while minimizing costs. Like manufacturer-branded products, if the attributes and uniqueness of the products aren't clearly understood by the retailer, then the buying decision will always migrate to the low cost provider. A successful result typically requires both a branded and private label approach; otherwise, you become a co-packer.

BENEFITS

- Production efficiencies
- Lower costs of goods
- Asset maximizing
- Raw goods purchasing efficiencies
- Retailer preference/vested interest

RISKS

- Differentiating quality standards
- Cost/Profit transparency
- Reduced negotiation flexibility

BENEFITS CONTINUED

- Minimum brand/manufacturing impact
- Minimum trade promotion
- Minimum media costs

Co-Branding

Co-Branding encompasses a wide range of strategies from long-term retail alliances such as Barnes and Noble/Starbucks to branded ingredients such as DuPont Teflon and Intel microprocessors. Here, we use the term co-branding to define the creation of a single product using both the manufacturer (producer) brand and the retail brand names.

As a short-term strategy with clear objectives, such as gaining exposure and building credibility with retailers and consumers in a new geography or a new store segment, co-branding can be an effective tool. Each brand typically takes on the salient attributes of the other brand and gains access to the others' existing consumer base. Unlike the long-term examples above, in our experience manufacturer/retail co-brand alliances tend to be a fairly short-term option that, if successful, results in an evolution to private label. Marketers should enter into such agreements with a transition plan in place.

BENEFITS

- Production efficiencies
- Raw materials savings
- Increased brand awareness and credibility with retailers & consumers
- Trade fund efficiencies
- Warehouse/logistics efficiencies
- Increased brand visibility in new geographic regions or new departments of the store

RISKS

- Differentiating brand vs. co-brand
- Unclear defined value proposition
- Increased packaging costs
- Increased inventory
- Increased media costs
- Increased POP
- Mix management complexity
- Co-Brands eventually turn into private label

As manufacturers evaluate the benefits and risks of private label and co-branding, there are key questions to consider prior to moving forward:

- How does either of these opportunities apply to my overall strategy? The short-term, knee jerk, reaction is to easily pick up Co-Branding or Private Label because of available production capacity; however, both will eventually impact the overall mix, costs, gross margin, and profitability if not strategically implemented.
- What are my brands famous for and where am I taking them? If the answer is vague or unclear, then there is a core problem which will not go away until it is eventually addressed with the consumer. The consumer must absolutely know a product's benefits and how it is unique or different compared to other products (ex. taste, flavor, performance).
- Is there a clear value proposition? The value proposition must be relevant for not only the consumer but also for the category buyer and within the broader competitive landscape of choices outside the typical category.

Private Label is here to stay and globally represents a trillion dollar business. In trend-leading Germany and Canada, many categories have collapsed with fewer branded options surviving. A clear and accurate strategy which can be implemented and executed will drive the decision to Co-Brand or Private Label . . . or can at least be used to reconsider an existing brand's Go-To-Market strategy, attributes, and overall value.