

Private Labels for public good?



Pic: Bijoy Ghosh

THE emergence of organised retailing in India has made Private Labels a reality. It is now well within the reckoning of the consumer, retailers and brand owners. However, from the goings on and the evident initiatives started by some retailers, it seems that there is a need to understand the role and timing of Private Label products in the life of the retailer a little better.

There is a hurdle at the start. What qualifies as private? Private Label is not merely a product with the store/retailer's name on it. It takes more to

qualify as a Private Label. The consumer must see the Private Label product as distinct from being just a 'product in a pack'. There must be a clear perception that 'it is produced by this store'. Listed below are the ingredients of a Private Label:

1. It must be a unit package: It is difficult to assign a Private Label character to, say rice sold loose from a 100 kg bag. Even though it may enhance consumer loyalty for whatever reason, it does not qualify as a Private Label product.

2. Relabelling: The unit pack must

bear only the brand name of the particular store or any other party the store may choose for its Private Label programme.

Going by the trends in the more developed markets of Europe and Asia, a Private Label strategy is seen to be a profitable one, albeit inevitable. It has been seen to enhance category profitability, increase negotiation power of the retailer and create consumer loyalty. While the Private Label strategy in developed markets has matured into a key differentiator, in India, it is

just the beginning or rather the realisation has just happened.

Decision making in a Private Label strategy is neither easy nor generic. It requires high customisation in each country, region and category. The diversity of decision making in Private Label operations may vary from 'Why' to 'Why not', In the Indian context too we need to ask both these questions.

Why and Why Not?

Though this prognosis may be biased towards grocery, it may serve the thought processes for other types of retail formats equally well.

There is only one point of view from which the two questions 'why' and 'why not' can find appropriate answers - from that of the value matrix of the consumer. Very clearly, no Private Label strategy can succeed by only serving some private agenda of the retailer or manufacturers. That does not qualify to deliver value to the consumer. Hence, the starting

point to finding a solution are the 'need gaps in the consumer's value expectation' from the retailer. Let us call these the 'value gaps'.

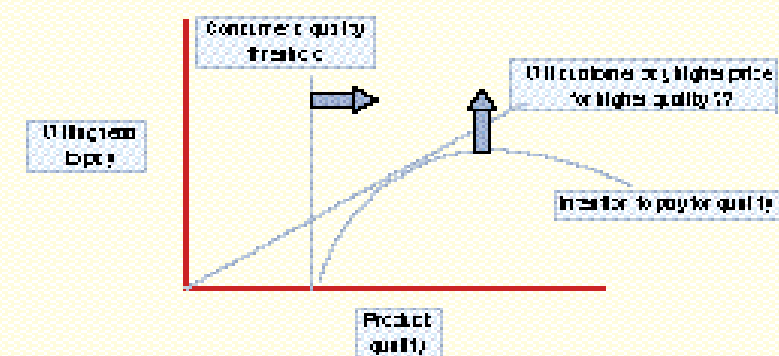
Identifying value gaps

Identifying the value gaps of the consumer is neither straightforward nor is it a static picture. The complex nature of value definition demands that the retailer knows certain determinants of value to be able to put forth a meaningful Private Label strategy. Here are some of the key determinants of the value gap.

- The retailer must have relevant, clean and well-categorised data, that is generated from "scan data" (where products are sold with a code, which is captured at the point of sale). The usefulness of the data is also dependent upon the shopping format. The one that will truly reflect customer choice is likely to be behavioural data, which is sales data from a 100 per cent self-service format. Any

A Private Label strategy is considered one that can enhance category profitability, increase the negotiation power of the retailer and create consumer loyalty.

What is the consumer's value expectation? Product quality and consumer's willingness to buy



Price-Quality strategies

Private label - Product attribute and Category choice	Implications
1. Lower price-higher quality	The most beneficial category to enter if the lower price can come from disintermediation and part of the savings can be used to enhance quality and raise the retailer's margin.
2. Lower price-lower quality	Caution: The retailer must know his segment. Is he inventing a new segment? He needs to be sure of the PQ-WP equation.
3. Higher price-higher quality	Caution: Niche. Does the retailer have customers who will pay a premium for premium?
4. Higher price-lower quality	Reject

Retailers can enhance category penetration with cheaper products that deliver value.

kind of non self-service format will impart the retailer's bias to sales and finally to the analysis made from such data.

● Price quality and willingness to pay (PQ&WP equation): This is key to understanding the value gaps. The Indian retailer clearly realises the role of price in the Indian market, where nearly 50 per cent of earnings is spent on grocery and the remaining is spread over numerous other needs. This pattern explains the need to understand the plateauing graph of 'willingness to pay' with respect to quality.

So then, is the consumer getting the product for a given quality, at the right price that delivers value sought by her? The retailer needs to clearly understand the minimum threshold level of quality the consumer is at. Below this level, the consumer will reject the product. This threshold level may move up with demographic evolution and extraneous factors, and then the plateau level of the 'willingness to pay' will move up too.

Whilst evaluating the PQ&WP equation it may serve to remember that manufacturers only 'add cost'; it

is the consumer who 'sees value' in the additional cost.

● Strategy for pricing in grocery retail is easy to define - value delivery is amplified at constant quality by lower price. The retailer would enhance category penetration by a cheaper product. The consumer seeks 'more, cheaper, better'. This may sound like the Olympic slogan, but the retailer is expected to deliver such value and the retailer can.

There has been an erosion in value in most categories where there are only a few branded players. In the Indian context it can be seen that most of the grocery sub-categories that are not predominantly commodities have two players taking 70 per cent of the share of sale. Noodles, jams and spreads, health and beauty products, biscuits, confectionery, detergents, sanitary goods, drinks and juices, oral care products and others are all clear cases of dominance by two companies. This dominance has been evident for the past many decades and has worked to the detriment of new entrants in branded value-added grocery.

The reasons are not difficult to find, and have led to widening of the PQ&WP equation resulting from meagre competition.

● These dominant companies have built entry barriers through strong

distributors. They have a retail reach that extends up to one million outlets, which is difficult and expensive for new entrants to replicate.

● Media has become fragmented and more expensive. Older brand names have better recall and the strong got stronger.

● High import duty barriers and non-tariff restrictions kept quality imported goods out of reach of the Indian consumer. With the recent removal of quantitative restrictions, the consumer has some benchmarks, and has begun to realise the quality-value gap, though at 65 per cent duty, the price value gap still remains.

These three factors provided the dominant companies a certain level of insulation and a false sense of comfort. Their focus was more on shareholder earnings than on consumer loyalty. This has made the entry of Private Labels easier.

A fertile climate for Private Labels

The climate is ideal for the entry of Private Labels from the organised retailers who basically can see three very compelling reasons for launching 'Store Brands' or 'Private Labels'.

1. The consumer is not getting 'tangible value': The retailer must be sure here. Value must be such that it can be 'felt' and 'experienced'. Value



MRP (of FMCG products net of taxes) = 100

Contribution after variable cost	=	35
Stockist margin	=	5
C&F	=	3
Retailer margin	=	10
Channel cost savings (Available to retailer Private Label)	=	53

Cost savings used in PL

1. MRP reduction	=	15
2. Higher cost of better quality	=	12
3. Higher retailer margin (existing 10+15)	=	25
4. Cost of interest on stock	=	1
		53

is one of the most easily misused words by companies without serious thought to its delivery. The quality for the price is not matched. Either the price is too high for good quality (too high defined as the 'plateau point of willingness to pay') or quality is inadequate for the lower price range.

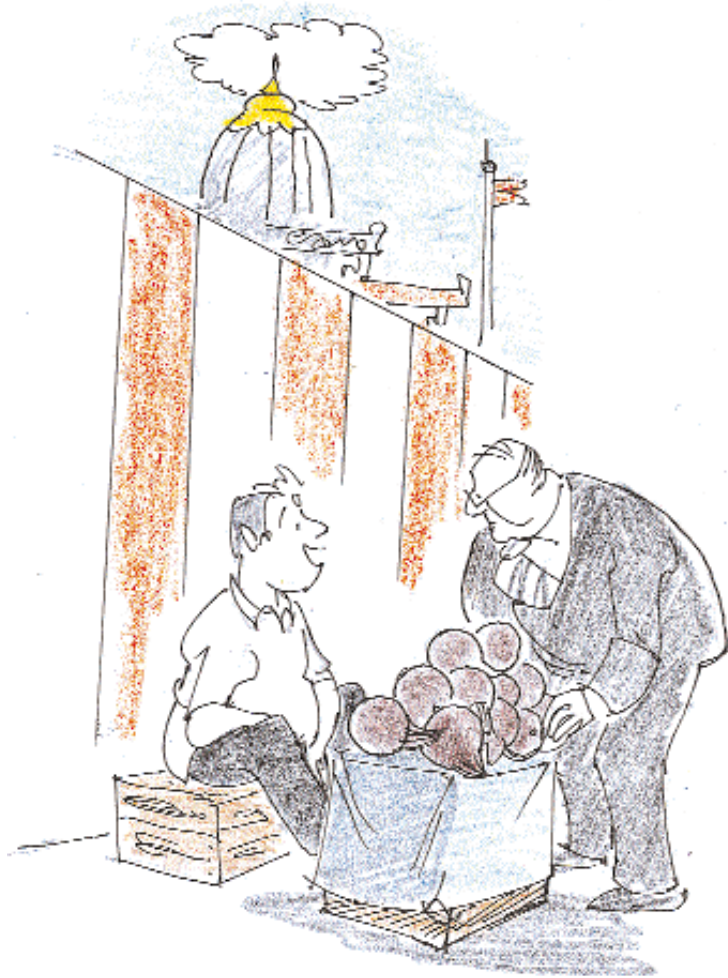
2. Returns: The retailer does not make sufficient returns from the sale of the branded goods.

● The retailer margin (commission as it is called) is usually between 6 and 10 per cent, even for organised retailers such as FoodWorld, Nilgiri's or Subhiksha. The retailers have a margin expectation of 18 to 19 per cent for break-even with high standard of front-end service.

● There is a proliferation of brands in width and depth. Brand extension ensures a range, all of which does not sell well off the shelf, further reducing returns.

3. Supply fill rates: The retailer gets only 60-65 per cent of all purchase orders released. The line and case fills are better today than they were two years ago. Even so, 65 per cent in India needs to be compared to the 98 per cent fill rate for any other retailer in the US, Europe or East

To be successful, store brands must be able to offer the consumer tangible value.



"Nothing special about the product. But when it comes to location, very few retailers can match my outlet."

Asia. The consumer in the store expects the retailer to be efficient enough to keep products on the shelf. This implies that the retailer must stock up. With credit periods ranging from 7 to 10 days, it reduces returns on account of interest cost on 'paid stock' and lower stock turnover. Hence a combination of factors leads to a *fait accompli* for the retailer, who finds it not only lucrative, but also imperative to introduce a Private Label to keep the consumer's fragile loyalty.

The price-quality strategy

There are four price-quality strategies the retailer may use with respect to Private Labels. (The table on Page 66 outlines what they are)

The FoodWorld experience: FoodWorld has had, from its inception in 1996, nearly all its commodities in its own brand name. This was not part of a Private Label strategy in the true sense. Neither then, nor now is there anyone who has made a business of packing a non-value added commodity. At that time the commodities in FoodWorld's own name was more a part of 'packaging for convenience' rather than a branding effort. It is only in the past 18 months that the packets have been given a 'family of brands' feel about it

FoodWorld's Private Label strategy distinguishes between:

- Generic Private Labels such as rice, pulses, sugar and so on.
- Value-added Private Labels such as jams and spreads, honey, tea, coffee, dishwashing bar and so on.

The generic brand today contributes to about 20 per cent of the company's sales, and value-added Private Labels about 0.75 per cent.

The value-added Private Labels span 10 categories as of now and will cover 30 categories by 2003. Private Labels in each category has resulted in the following:

- Share of Private Label ranges from 12 to 35 per cent.
- Higher bill penetration in certain categories such as jams, honey and socks i.e., more consumers use these categories, and/or more frequently. After the Private Label introduction the category has expanded. There are also higher rupee and percentage margins for the retailer

How is this possible?

The question often asked is how the product improves in quality and at the same time becomes cheaper too? Who pays for the extra cost? The answer is simple, but not often

obvious. Consolidation and higher volumes give the retailer the economies of scale to be able to out-source production volumes. This dis-intermediation frees cost which go towards higher quality, lower prices and more retailer margins.

The table on Page 67 is a simulated case of how a Private Label makes the product cheaper for the consumer and more profitable for the retailer.

The point to note is that even though the retailer may lose 5 per cent in buying scale in the beginning, the consumer gets a product that is of 12 per cent better quality, at a price that is 15 per cent lower and the retailer gets 15 per cent more margins (total 25 per cent) and with a higher stocking level which costs one per cent, ensuring 100 per cent availability.

In conclusion, the following issues emerge with respect to Private Labels:

- The Private Label strategy is effective, profitable and a reality.
- The retailer must understand the PQ&WP equation.
- The retailer must have a sufficient-

ly large base of loyal customers in the store before introducing a Private Label.

- The retailer must carefully choose amongst the various classifications of categories.
- The focus must be on consumer need and not any private agenda of the retailer
- There must be stringent systems for the Private Label production. Quality control is a must since there is no one else to blame!
- Private Label must work to fill-in gaps in the category and the consumer's value gap and not target the brand leader.
- Smart manufacturers may take a Private Label initiative of the retailer seriously and avoid value gaps in the categories as an impediment to a growing Private Label. ■

(The author is Vice-President, Merchandising, FoodWorld Supermarkets Ltd.)

The most successful Private Labels focus on the needs of the consumer.



Pic: Bjoy Ghosh