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Private Brands

THE NEW FRONTIER

Private brands have become big business, with major retailers increasing their ability to bring their own products to the shelf by leveraging brand equity and marketing while improving quality and global sourcing capabilities. Designing and developing differentiated, innovative products is the new frontier. However, to advance a culture of design within retail organizations requires a paradigm shift—one that fosters change.

Private Label to Private Brand

In the old days, *private label* meant low quality. Primarily commodity offerings, private-label products were not supported by marketing dollars. Attention to design was not a priority either. With a basic label and package design, a product at an entry price point was put on the shelf. These were not branded solutions and lacked the continuity and consistency of a well-branded product line.

In the '70s, retailers such as Caldor offered low-quality, low-price, private-label products, such as Cal-Pro running shoes. While the materials and fit of these shoes were utilitarian—the aesthetic design a poor copy of a pair of Adidases—the shoes were not meant to be a performance product. However, they did allow the store to offer consumers a low-cost alternative to a national brand and facilitated the retailer's entry into the marketplace. At that period, consumers in general had a negative perception about private-label products.

Brand perception affects consumer confidence and the products people choose to purchase. Today's retailers have begun to adopt many of the practices of the big brands, making huge strides in changing consumers' ideas about private brands through the power of marketing, brand development, product design, quality control and

sourcing. For example, in recent years, television and print advertising has seen an increased presence of private brands from such retailers as Target. IKEA even features its designers in its catalog, increasing the company's brand image by showcasing its ability to design unique and stylish products and interiors solutions.

At leading retail stores, consumers do not see private brands; they see competitive brands that are equal to and often better than national brands. Unique designs, newness and consistency in quality have allowed retailers to improve the equity of their private brands among their customers, increase price points in specific product categories and increase the sales dollars generated by private brands.

Best-practice retailers see the advantage of strategically increasing the presence of private brands in their stores. Retailers like Office Depot can offer a balanced assortment of national-brand and private-brand products through their retail, Internet and catalog distribution channels. The growth potential of private brands (translating to increased sales dollars and profit margins) is a very attractive proposition that has allowed retailers to transition many product categories once dominated by national brands to private brands. The balance of brands within a retailer is del-

2008 CES Innovation honoree, Ativa "Burrito" Cable Management Tool designed by MNA Creative / Office Depot

icate, though, as consumer preferences within certain product categories still remain with national brands. Furthermore, the growing competitive landscape of commodity products in the marketplace can limit a retailer's ability to drive sales. it's hard to compete with sameness and price wars.

The New Frontier

Differentiation through new product design is the new frontier, but retailers face many challenges associated with manufacturing private-brand products. Speed to market and new product development are challenged by retailers' limited infrastructure and resources and the cost of manufacturing. However, changing entrenched mindsets is as big of a hurdle in creating a culture of design. Building confidence in your own brands takes commitment from all areas of the company and must be underpinned by an openness to change.

Leading packaged-goods companies have the infrastructure, resources and environment in place to develop new products. Their teams drive new ideas in search of developing the next big idea. However, retailers typically lack the resources and processes involved in front- and back-end development. While several retailers have installed product design teams, they still make use of a sourcing model that is not ideal for new product development. One approach is to integrate product development processes into the existing sourcing model and involve merchants in product design from the start, treating the situation much like you would with a client. An alternative approach is to create an innovation model separate from the core work, or the "meat and potatoes," as I refer to it.

With competition for shelf space from national brands, a new product design concept is ultimately challenged by cost, which has several variables, such as unit volume, margin, packaging, testing, shipping, materials and manufacturing investment. A retailer's ability to negotiate a competitive cost for a new innovative product is difficult when there is a low unit-volume forecast. A new design is typically approached with caution, resulting in a small initial order from the merchant. However, amortizing the manufacturing investment over a small unit volume will make the new product uncompetitive. Retailers must have the confidence in their own product innovation and forecast proper quantities while providing marketing support for their product launches.

Labels on images: Translucent Skin; Anti skid base; Vented Bottom; Interchangeable Color Plates; Integrated Cable Management

Ativa "TeePee" Surge Protector Concept designed by MNA Creative / Office Depot

While retailers have their store, Web and catalog distribution channels to sell through, packaged-goods companies have the advantage of selling through many retail accounts, each with multiple channels of distribution. A large unit volume provides the ability to amortize manufacturing investment, leverage quantities and reduce product costs. Knowing where your brand can play takes analysis and an understanding of your brand equity among your customers. Focusing design development into product areas where consumer purchasing decisions are not brand driven allows a retailer to develop an exclusive innovation.

Merchants are typically responsible for selecting the assortment of products sold inside retail stores; they own the P&L. They control the mix of brands in their categories and the pricing strategies to ensure margin goals and forecasted sales are met. Merchants have the ability to select products from national brands or private brands, with the former offering incentives, such as consignment deals, smaller order quantities, and program dollars that support advertising, point of sale and promotions. Private-brand inventory, on the other hand, once purchased and received is owned by the retailer. Having a strong private-brand strategy and architecture can help build merchant confidence, but positive sales results are even more effective.

Success Tips

One of the first steps for growing a culture of design is to identify short- and long-term opportunities with a priority on both financial impact and brand building. Developing a revenue stream early on will help build confidence, and leveraging media and PR opportunities will build credibility inside and outside your organization.

When you begin to integrate resources, be sure to define responsibilities and a clear sense of purpose for your organization. Doing so will allow you to introduce development processes—which may seem foreign to traditional retail and sourcing groups—with specific timelines. This will help demonstrate that there is a method to your madness and showcase your creative and technical expertise.

Demonstrating success through positive sales results is indisputable, helping to drive acceptance and change inside your organization. Maintaining a commercialization scorecard with measured sales dollars, profit margin and unit volume on a quarterly basis is a great way to gage your success.

Finally and most importantly, getting senior management to embrace and support change throughout the organization is key. Without an ongoing commitment to design and development from your leaders, you will have an extremely difficult time keeping the momentum moving forward and navigating through the many obstacles and pitfalls.

Several major retailers, such as IKEA and Target, have developed successful product-design and development models over the years and created strong design cultures. Home Depot, Staples and Office Depot are the next generation, and each will have their unique challenges and successes. Addressing the consumer experience through a more holistic development approach and supportive marketing programs will be critical. But ultimately, nurturing a culture of design requires an environment open to change and a savvy design organization driving that change. ∎