Private labels and branded goods
As manageable as teenage children

Bill Ronald
Former MD, Mars Confectionery, and
Chief Executive, Uniq
Bill Ronald

- 23 Years with Mars Inc.
- 3 years with Uniq plc.
- Now NED with Halfords and Chairman of Bezier
The Questions

• What is the role of Private label?
• Are Private label and Branded goods independent or interdependent?
• How responsible are the retailers?
Historical perspective

- Local retailers
- Local retailers
- National retailers
- Global retailers

- Local brands
- Regional brands
- National brands
- Global brands

- ....and along came private label
Key drivers of private label Growth

• The economic environment – demand for value.
• Reducing social stigma thanks to quality
• Increasing Retail concentration – economies of scale
• Retailers drive for margin and power v brands
• Retailers focus on differentiation
The Retailers’s perspective

• Brands used to rule the world
  – Retailers were honoured to be supported
  – Price rises imposed by brands
  – The consumer not always first

• Private Label…our secret weapon
Development by market

- **Generation 1**: Limited retailer power
- **Generation 2**: Developing category approach
- **Generation 3**: Importance of differentiation
- **Generation 4**: Retailer becomes a brand

**Private label development**

- **PL market share**
  - Russia
  - Poland
  - Czech Rep.
  - Hungary
  - Switzerland
  - Germany
  - Spain
  - Belgium
  - France
  - Sweden
  - Norway
  - UK

Source: IGD Research
Private label development phases

**Generation 1:**
Retailer Need – Driving Power
1. Commodity categories
2. Low quality
3. Low price
4. 40%+ discount to brand
5. Products not advertised
6. Secondary manufacturers
7. Dictated cost price

**Generation 2:**
Retailer Need – Category Profitability
1. Higher volume categories
2. Improved quality
3. Value prices
4. 20 - 30% discount to brand
5. Use of retailer name
6. Tertiary brands
7. Category profitability

Source: IGD Research
Private label development phases

**Generation 3:**
Retailer Need - Differentiation
1. All categories
2. Quality parity with major brands
3. Better value than brand leader
4. 5-20% discount
5. Fascia sub brands
6. Specialist manufacturers
7. Category partnership

**Generation 4:**
Retailer Need – To become a brand
1. Category segmentation
2. Straddle brand leader quality/price
3. Price and quality segmentation
4. 40% discount - 25% premium
5. Cross category branding
6. International manufacturers
7. Sophisticated marketing plan

Source: IGD Research
Impact can vary significantly

✓ High impact categories
  – Mature and / or commodity categories
  – Categories with excess industry capacity
  – Categories where brand premiums have been high
  – Categories which reinforce a retailer’s USP / customer loyalty

✗ Low impact categories
  – Categories which require high R&D spend and innovation
  – Categories where brand trust is important
  – Emotional / gift purchases
## Weaker brands will lose out: UK case study

UK market share structure 1975 – 2005e

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1997</th>
<th>2005e</th>
<th>% Change 1975-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private label</strong></td>
<td>16.4%</td>
<td>30.0%</td>
<td>40.0%</td>
<td>+23.6%</td>
</tr>
<tr>
<td><strong>Brand leader</strong></td>
<td>34.2%</td>
<td>31.8%</td>
<td>30.0%</td>
<td>-4.2%</td>
</tr>
<tr>
<td><strong>No.2 brand</strong></td>
<td>19.4%</td>
<td>15.6%</td>
<td>14.8%</td>
<td>-4.6%</td>
</tr>
<tr>
<td><strong>No.3 brand</strong></td>
<td>15.3%</td>
<td>13.7%</td>
<td>10.0%</td>
<td>-5.3%</td>
</tr>
<tr>
<td><strong>No.4 brand</strong></td>
<td>14.7%</td>
<td>8.9%</td>
<td>5.2%</td>
<td>-9.5%</td>
</tr>
</tbody>
</table>

Source: Taylor Nelson Sofres / IGD estimates
The Consumer Perspective

- The Consumer is the Boss
- PL offers choice, value, and increasingly, high quality.
- Private label is here to stay
The Brand Perspective

• The retailer is too strong?
• We don’t control the agenda
• We need to change even faster
• The retailer copies our innovations
• It’s not fair!
The private label supplier’s view

• Manufacturing to the highest standards
• Raw materials tightly controlled and even pre-determined by the retailer
• Very low overheads despite high demands
• Low margins, monitored by the retailer
• Survival is a good outcome!
The market manages the balance

Private label

Retailer

Brand
The ‘to do’ list

• Establish, and adhere to, the rules of engagement….or else!
• Be prepared to compromise all round.
• Remember, The Consumer is watching!
CONCLUSIONS

• Private Label is a key component of the Retailer’s strategy…it meets the needs of the consumer….it is here to stay.

• There is a mutual interdependence between Brands and Private Label

• The Retailers will be as responsible as we make them!