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

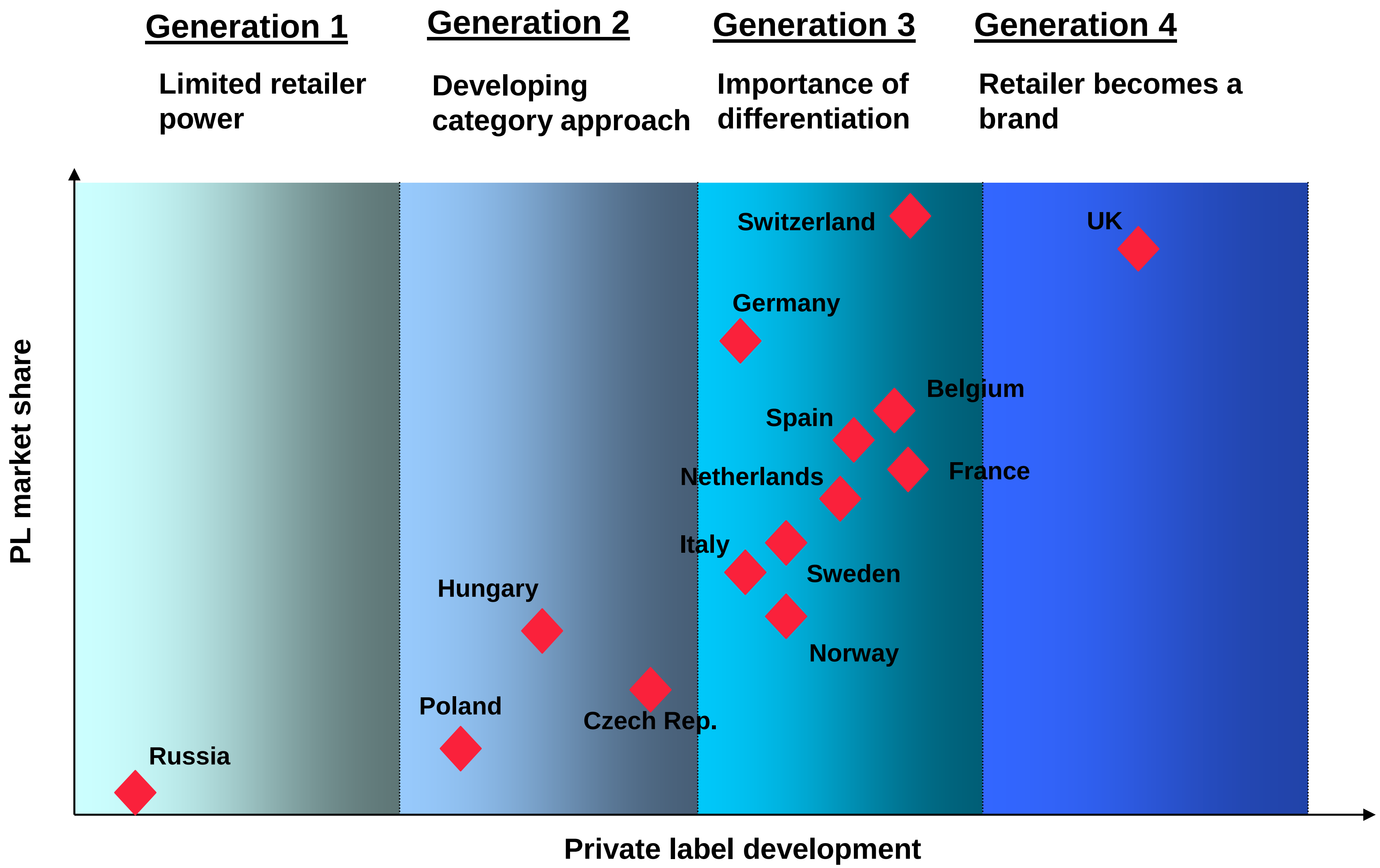
Key drivers of private label Growth

- 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



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

	1975	1997	2005e	% Change 1975-2005
Private label	16.4%	30.0%	40.0%	**+23.6%**
Brand leader	34.2%	31.8%	30.0%	**-4.2%**
No.2 brand	19.4%	15.6%	14.8%	**-4.6%**
No.3 brand	15.3%	13.7%	10.0%	**-5.3%**
No.4 brand	14.7%	8.9%	5.2%	**-9.5%**

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

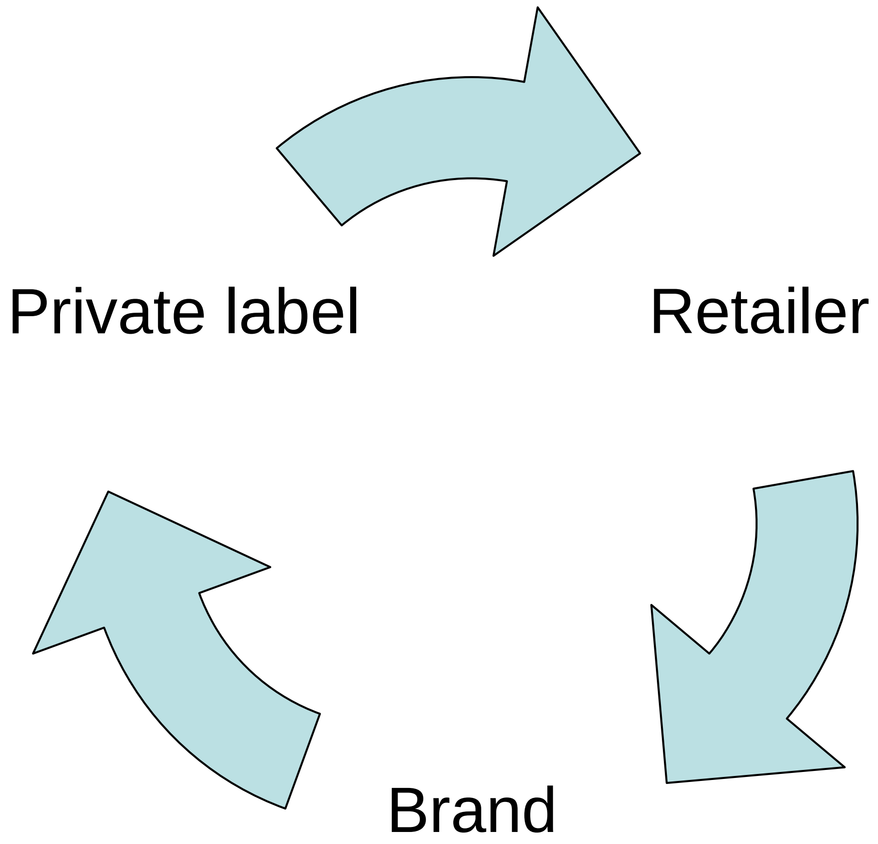
The Brand Perspective

- 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



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!