Joining forces

When suppliers consolidate, retailers often face a variety of new challenges in the short term.

By Michal Christine Escobar

The past few years have seen a number of acquistions within the private label supplier arena. In fact, in just the past two years, *Store Brands* reported on more than 20 private label supplier acquisitions and mergers — some of them being very significant in scale. And this trend shows no sign of abating.

"As the private label industry becomes more competitive, suppliers need to expand and consolidate in order to achieve better economies of scale," states London-based Euromonitor International in its January 2014 "The New Face of Private Label: Global Market Trends to 2018" report.

When private label suppliers merge, retailers are often faced with significant challenges in their private label programs. However, supplier consolidation could bring certain rewards to retailers as well.

The challenges

Organic growth has slowed dramatically for suppliers in recent years, says Jim Hertel, managing partner with the Long Grove, Ill.-based Willard Bishop retail consultancy. Therefore, suppliers are consolidating as a way to reduce costs. And even after consolidating, some suppliers are cutting costs in category management services and new product innovation.

"Retailers will feel the impact as those areas get trimmed," Hertel notes.

Jim Prewitt, vice president of retail industry strategy for JDA Software, Scottsdale, Ariz., agrees that supplier consolidation could really affect innovation.

"The reduction in suppliers can mean the loss of innovative players in the marketplace," he explains. "You can equate it to the loss of the regional chain retailer or 'Mom & Pop' store; you lose diversity in the marketplace."

This could mean that unique regional products could become difficult or even impossible to source, Prewitt adds.

When private label suppliers merge, retailers will also face challenges such as an increase in out-of-stocks as the suppliers convert to new systems, as well as all kinds of administrative "headaches and nightmares" because of new computer systems, says Jim Wisner, president and founder of Wisner Marketing Group, Libertyville, Ill. Supplier consolidation could also lead to the loss of sales representation and continuity, meaning private brand-related projects could be uprooted and changed.

"Everything you've done to make the old process work very well gets thrown out the window, and you have to start all over again," he adds.

Supplier consolidation could affect retailer/supplier relationships, too, Prewitt says.

"Smaller retailers may not have the same level of personal relationship they experienced with equally small suppliers," he continues.

It could also bring with it service level deficiencies during the integration process and new item development delays, says a spokesperson for Eden Prairie, Minn.-based Supervalu.

"In general, [after two suppliers merge], any new initiatives or programs or products or projects that were underway go on hold," Wisner agrees. "Companies tend to run in place for a period of time, so it gets very difficult [for retailers] if they're trying to do something other than just transactional business."

Additionally, national brand suppliers — including those that pack private label and those that do not — are consolidating, Hertel adds. Consolidation among national brand suppliers could affect retailers' private brand programs as well.

"Retailers whose private label programs are based primarily on delivering national-brand-equivalent products at a savings will find the innovation slowdown impacts their private label new product pipeline because there won't be as many new national brand items to imitate," Hertel states.

Retailers might have to contend with higher costs from suppliers if consolidation creates less competition within a category or if suppliers becoming more dictatorial, the Supervalu spokesperson adds.

If a retailer can't generate enough sales, in many cases, the newly combined supplier company could feel the retailer's business is not substantial enough to continue doing business with them, says Theresa Rauch, marketing director for Berner Food & Beverage Inc., Dakota, Ill. Alternatively, if the supplier were to have a catastrophic event and were to be unable to fill the retailer's purchase orders, the retailer could be at a huge disadvantage in trying to source from an alternative supplier.

"This is specifically challenging for store brand programs where production runs are smaller," she notes.

The benefits

But supplier consolidation isn't all bad; there are often some very real benefits to retailers once the transition is fully completed.

For instance, there likely will be an opportunity for retailers to save money on logistics and the supply chain, Wisner says. When suppliers consolidate, retailers often can order more products at a time and get more products shipped from one location. Plus, they can often reduce the administrative burden because there are fewer companies with which they have to deal and maintain negotiations.

Dealing with fewer sales contacts is definitely considered a positive by retailers, the spokesperson from Supervalu says.

Fewer sales contacts allows retailers and suppliers to develop stronger relationships, working together to achieve a mutually successful partnership, Rauch agrees. Part of that relationship often involves working together to develop and expand successful store brand products in a variety of categories, many of which are unique and innovative.

And that innovation could happen much more quickly, Prewitt says. Larger suppliers are typically more sophisticated, with systems and processes that promote faster innovation and collaborative planning.

"Quality control may improve as well as more resources become available," he adds.

Access to more resources is definitely a positive, Wisner agrees. Plus, larger suppliers are better able to invest in and support their retailer customers in efforts ranging from merchandising to digital marketing.

"You'll generally see more value-added services available [to retailers] simply because the larger company has more cash flow to support retailers," Wisner adds. "That can really raise the bar."

Additionally, larger manufacturers are able to use their resources to help retailers with brand development, packaging and understanding data, "which are all critical components to a successful private label program," notes Mike Musso, managing director, Conway MacKenzie Inc., Birmingham, Mich.

As with most other businesses, when companies consolidate and have access to added cash flow, they are often stronger financially, which is also a benefit to retailers, Hertel adds.

More to come

Looking into the future, it seems very likely that the trend toward private label supplier consolidation will continue.

"Consolidation will be pretty active for the next three to four years," Hertel predicts. "At least as long as the benefits from cost reductions continue. At some point, suppliers will have to grow topline sales. Some might grow organically through new item introductions, while others might simply acquire growth companies and/or brands."

Prewitt also thinks the trend will continue. U.S. retailers will be feeling pressure from low-cost store brand-driven retailers overseas that have "changed the landscape" in Europe and are now entering the U.S. market. Therefore, U.S. retailers will begin pressuring suppliers for lower prices, a broader mix of products and improved production capacity. Smaller suppliers, therefore, will need to merge to achieve the scale necessary to comply with retailer demands.

Another reason consolidation will continue has to do with company ownership, Wisner says. Many mid-size companies are still family-owned businesses that were pioneers in the store brand industry. However, they will eventually get to the point where the owner will decide to retire. If the children aren't interested in running the business, the businesses will be sold, more likely than not to a capital investment group. SB