

LESSONS FROM EUROPE

What Indian retailers can learn about private label branding from Europe, the cradle of private label branding

■ By Loe Limpens

At the turn of the previous century, Albert Heijn, a young Dutch grocer was struck by an idea to add value to the assortment in his small grocery store in Oostzaan (Holland). He sold, amongst other goods, eggs, milk, flower and sugar for a reasonable price. Using the ingredients and the stove in his small shop, he started baking cookies and selling them with a higher margin and along with coffee, which he was already roasting himself. Heijn started selling these products under his own name and just like that Private Label Brands were born in Europe!

This foray into private label branding turned out to be one of the best decisions of his life and Albert Heijn ended up becoming the founding father of a major global retailer, where even today 50 % of all products are still sold carrying the store brand name.

EUROPE: THE CRADLE OF PRIVATE LABEL BRANDING

But Albert Heijn's story is not unique. We could pin out exactly the same tales throughout Europe; John James Sainsbury's or the Delhaize brothers. In later years, the increasingly strong focus of the retailers on their private label brands eventually led to a change in not just the structure of the retail industry, but also how business was done and is being done even today.

At the beginning of the previous century the manufactures were the key players in the retail landscape in Europe. As they produced the goods they controlled the quality, quantity and distribution apparatus. However, several small pop and mom's stores were defining the other side of the retail landscape. It was their personal touch and better relations with customers



► Power balance Manufactures vs Retailers



► The four phases of private label evolution

that helped them gain importance and prominence, and eventually, greater power in the pecking order.

The '70s saw European retailers rapidly consolidating and gaining experience in developing private label brands. Retailers, also driven to limit the power of manufactures, had taken over their key role. This change took place slowly but steadily. In addition to developing their private label products all major retailers started to develop private label strategies. The entire retail landscape in Europe went through an evolution that took place in four interconnected yet distinct phases.

EVOLUTION OF PRIVATE LABELS: PHASE ONE

The first phase saw very basic white generic labels. The packaging was largely unimaginative and the product assortment was also limited. Retailers were just testing the waters and appeared unwilling to take risks or invest in creating distinct brand identities. At this point, retailers seemed to be looking for quick results

not having too much experience developing products or making any use of their huge consumer information potential. However, the poor quality and visual appearance led to low consumer interest, forcing retailers to change gears and usher in the next stage of private label branding.

EVOLUTION OF PRIVATE LABELS: PHASE TWO

In the second phase, retailers understood the need to improve product quality. They also understood the importance of communicating this improved grade through better packaging. However, they lacked imagination and often the inclination to build a unique brand identity and ended up taking the easier route of copy-cat branding. The private label products therefore, looked like a spitting image of

established national brands. Consumers would often be tricked into buying the brand because of similar packaging. But this phase could not be sustained as consumers cannot be fooled with clever packaging or bribed with lower prices for long. Borrowing or stealing visual language doesn't build strong brands, and retailers learnt this lesson the hard way as their reputation suffered and their products were seen as cheap and deceptive.

EVOLUTION OF PRIVATE LABELS: PHASE THREE

By the third phase, retailers had learnt from their mistakes and were more willing to invest in creating their distinct private labels. European retailers wanted to build strong brands, mostly using the store banner as an umbrella brand. They also invested in developing visual appearance of these private brands to make them comparable to established national brands, communicating to the consumer that their private label products were also top quality products, not cheap knock-offs.

This was a prosperous stage, when private label branding truly came of age. However, as the assortment and variety of products grew, it posed new challenges. It became difficult to showcase differentiation of product quality in the Private Label Brand architecture.

EVOLUTION OF PRIVATE LABELS: PHASE FOUR

The fourth phase is what we see today. Retailers today are bolder and are not shying away from playing their private label brand card to the max. There is a well-structured brand architecture along the lines of a good-better-best quality order. The packaging reflects this differentiation and even the attitude towards brand communication and management has become more professional. The most successful European retailers manage their private label brands the way national brands are managed. This decision is not just driven by

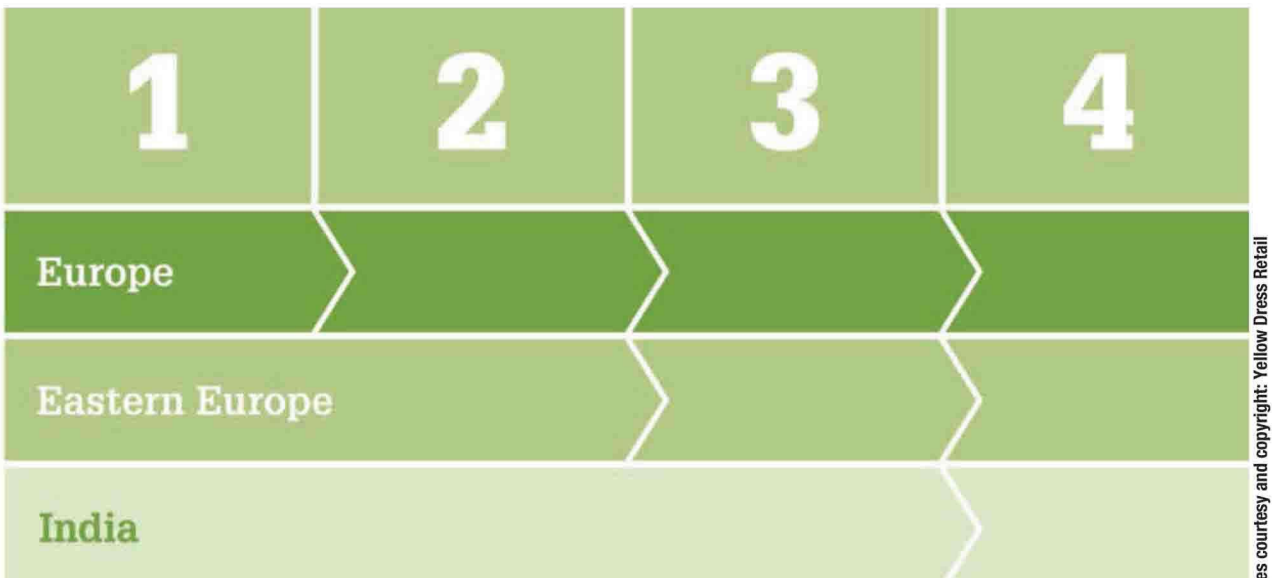
a passion for private brands, but also because of the excellent margins retailers make on private labels. Most retailers report that the margin being roughly twice the amount a retailer can make on a national brand. Retailers with private label brands also get an image boost and are seen as stronger and more relevant players in the retail landscape.

It took Private Label Brands in markets within Europe 30 to 40 years to evolve to the current market shares and level of sophistication. The major retail players in Europe claim a Private Label Brand share of up to 50 %. Predictions in the European market will rise to an overall 50% share by 2025. In Eastern Europe, this path of growth took a considerable shorter time as Western European retailers entered these countries using knowledge and experience from their home markets.

PRIVATE LABELS IN INDIA

Indian retail had its own distinct story given the challenges posed diversity of its customer base and evolution of business and industry in the post-colonial age. However, Indian retailers dabbling in private labels need not have to go through each of the evolutionary phases that their European counterparts followed. In fact, experience and insight from the mature markets will enable emerging markets like India, to leapfrog to a sophisticated private label brand strategy. And while a market like India has specific local challenges, Rabobank International, Food & Agribusiness Research and Advisory predict a 28% share for private labels by 2030 for these regions.

We have learned from the European history that developing markets have a kind of natural threshold at 6-8 % Private Label Brand share. Once the market gets



► How private Label brands evolved in India as against in Europe

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past this level, it is easier to grow the share. While, it is difficult to give an overall share for the Indian market due to the specific fragmented retail set-up, our independent research and market studies have led me to conclude that the current overall share is around 8%. Meaning that this is the moment for Indian retailers to step up and make their mark.

As Indian retailers will gain knowledge from all over the world they don't have to make all the mistakes that we made back home in Europe. In fact, at Yellow Dress Retail, we are confident that Indian retailers will leapfrog to evolution phase four by focusing on a few key areas such as package design, brand architecture and positive customer experience.

WHAT INDIAN RETAILERS SHOULD FOCUS ON

Packaging design: Your brand's packaging acts as a silent salesman as this is what the customer sees first. The design makes the retailer's identity tangible and the retail brand visible for consumers, not only on the shelf in a store but also in their homes where it visualises the brand values and continues to communicate the retailer's message. Packaging leads to not just a sensory experience but also helps

build brand recall in the minds of the customers. Innovative and imaginative package design will therefore go a long way in building a relationship with the customer.

Brand architecture: Imagine that your brand is a person. If packaging is the flesh, the brand architecture is like the skeletal structure. A strong umbrella brand needs a well-structured brand architecture that effectively communicates product differentiation and variations. If the brand architecture cannot establish the distinction, the product portfolio looks cluttered and this can not only confuse but also put off the customer. A good-better-best differentiation has to be communicated to the customer in more ways than just price and packaging variation. This will encourage them to try your product.

Positive customer experience: Your brand communicates with the customer at various touch points. It may be sitting on a shelf in an aisle dedicated to the product category. It could be placed at the checkout counter with attractive inducements to try it or you could just be inviting your customers to try it. The idea is to understand that there is space for everyone, so we don't have to have an adversarial approach to estab-

lished national brands.

We now know from our European experience that a successful private label strategy can only exist alongside a successful National Brand. Both need each other to develop and build the market. In the new world, both brands need each other to fulfil customer needs. What is important is that the customer feels the urge to give your product a shot.

This is where the human touch trumps all, even in a price-sensitive market. Friendly shopping assistants and staff can help guide the customer to your Private Label by highlighting your quality and trust factor, instead of just playing with the price point. A positive first experience involving a human touch will help build not just your private label brand, but also your image as a confident and secure retailer.

Given how India has always valued the personal touch, here lies the unique opportunity for India to build the retail landscape in a complete new way. Private Label Brands together with national brands not against each other but reinforce each other will in the long run bring the best of both worlds for retailers and brand manufacturers. 😊



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