

Private Labels: Branding And Marketing Opportunities

October brought light to the end of the tunnel for U.S. retailers, with sales zipping up a surprising 7.1 per cent, the biggest increase in almost 10 years of record-keeping. Reports showed discount retailers lead the way, reflecting consumer interest in cost savings. As a result, private label line sales are improving in both the U.S. and Canadian home improvement markets.

Private label products – also called own-label or store brands – are rapidly stealing market share from national brands. This is partly due to the pricing of private label products. They are usually priced well below national brands.

Own-labels offer the opportunity for increased mark-up over national brands as well as significant marketing opportunities.

“(Private labels are) an important component of our branding,” says Rob Collins, managing director of Ace Hardware Canada Ltd. The Ace brand uses its own name for its private label lines. “We believe it is important to have the name of the store and the brand in sync.

“Consumers feel more comfortable if they recognize the name on the package. When they walk into an Ace store and they see the Ace Duct Tape or Ace Paint, they

know we will stand behind that product. They see the employees wearing the shirts and the Ace signs and that builds confidence.”

Ace’s private label strategy is to have the quality of the product to be equal to or better than the national brand, but sold at a discount. The price will encourage consumers

products that leave the store also acts as advertising. “When the consumer takes the product home and puts their Ace garbage can at the end of the street, it’s like a billboard re-enforcing the brand. You know everybody driving by on the street will see it.”

RONA is also using private labels for marketing purposes. “We will be introducing RONA private brand products in the RONA Lansing, RONA Home and Garden in Ontario, RONA Cashway, Revy, and Revelstoke stores even if they (don’t use the RONA name),” says Henri Drouin, chairman of the board at RONA Inc. “The RONA private brand products in those stores are the way to introduce RONA gradually – all the way to the west coast.”

RONA currently offers 1,500 active private brand products. The company is refining its line by removing products that don’t work as

private labels but plans to expand the line in the future. RONA will be giving the responsibility to a private brand specialist as opposed to having each category manager deal with his own line.

TruServ Canada Cooperative Inc. carries almost 600 own-label SKUs. Private labels “allows TruServ to somehow differentiate itself from others,” says Leo Charriere, chief operating officer. “The product is exclusive to you, so if someone likes the product, then they will hopefully continue to visit your store for those products and other products. It helps you create a relationship with the customer.”

Every retailer has its own definition of what that relationship should be. Tim-BR Mart stores strive to offer “building supply solutions” to their customers. The private label program is a big part of its branding initiative. “It really does fall into the line of



to try the product and, hopefully, realize its quality and return to buy it again. Ace currently offers about 1,000 SKUs of private label products in Canada.

Collins says having the Ace name on

The Trend Continues

Paints, paint sundries, insulation, and tool accessories are some of the best selling private label products. Currently store brands account for roughly one-fifth of revenues in the U.S. (including other industries such as the supermarkets). In the Netherlands and Scandinavia, private label contributes one-third of retail revenues.

With the current economic trends, analysts anticipate their popularity will continue to increase. With retailers reducing inventory mix due to continuing industry consolidation, proprietary products will see even more attention.

Private label goods were once limited to opening price-point products with no-frill presentations and packaging. As they become a larger percentage of revenues, higher end products will come to the market using ‘good-better-best’ set-ups.

everything we do as a positive complement to (our Tim-BR Mart branding program)," says Tom Smith, president, AWARD Wholesale and Retail Distributors Ltd. AWARD is the co-operative buying group for Tim-BR Mart stores and independents such as Chester Dawe stores in Atlantic Canada.

"We're very proud of our private label products. It's taking off like a house on fire." Tim-BR Mart presents its labels as a quality yet affordable line. It has more than 200 SKUs and is in the process of launching a hand tool line with more than 70 SKUs.

Smith also feels the most important thing about private labels is re-buy. "It's all about a premium, quality product that people use, and use, and use again."

Dave Morton, national marketing manager with Castle Building Centres Group Ltd., says it's also important that the product is complimentary to manufacturers. "Take paint as an example," he says. "We produce a mid-line paint product, but it's designed to be sold with the national brand. The store can upsell a customer into the national brand product."

Castle's private label strategy is to have enough products it can feature in retail flyers so it can promote private brands that are of comparable quality to national brand products. Castle currently offers almost 300 own-label SKUs. It only chooses products that are commonly found at a majority of its stores. The product has to appeal to consumers when promoted and lend itself as a private label product.

Own-labels can also offer higher margins. "The strategy is to buy it at a better price than a nationally branded product so there is an opportunity to earn a better margin," says Morton.

Home Hardware Stores Limited took the notion of private labels one step further. "We

bought our own manufacturing facility for paint and home products such as caulking, polishes, cleaning products, and fertilizers," says Paul Straus, vice-president and chief executive officer. "This means we not only develop the products, we also manufacture them. We have full control over development and quality. It also means we offer these products to our dealers at greater cost

savings. Profits from the sale of these products go right back into product development and marketing to further benefit our dealers."

Home has offered exclusive private label products to its dealers almost since its beginnings in 1964. It has a variety of house brands developed by product managers who work with vendors. ○

Manufacturers Benefit From Private Labels Too

Manufacturers want to sell their products, with or without their name on the label.

"I think (private labeling) is beneficial for everybody, including the consumer," says Marina Kovrig, vice-president of development and external affairs at Recochem Inc. "For a manufacturer to establish a national brand in Canada would cost a lot of money. The retailer can use the store name as the brand and advertise in flyers it already puts out. The cost of promoting the products is less and we can keep the prices down for everybody."

For private label markets, Recochem offers windshield washer, paint thinners, automotive coolants, and paint sundry solvents.

"We offer the formulation, the research, and all the regulatory compliance," says Kovrig. "Then we offer these products under the house brand because the retailers already

have the consumers' confidence. That way the consumer who doesn't know us feels assured that she is getting a good product and the retailer doesn't have to worry about legal compliance or anything else."

Kovrig doesn't mind not having the Recochem name on all products. "As long as we don't get requests for items made so inexpensively that it starts to be known as ineffective or poor quality, there is no downside to the consumer. It means we don't get consumer recognition, but that doesn't matter because the consumer isn't our customer anyway - the retailer is."

In some cases, retailers will use Recochem's products as the national brand, with its house brand as the discount. "Sometimes consumers find out and think this is taking advantage of them, but it's not. They ought to be assured that the quality that is specified by the retailer, and whatever claims are on the label, are met." ○