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A [Private] Affair

By Howard Riell

Retailer proprietary brand sales expected to surge $55 billion over the next decade.

More. That's what convenience store customers can expect to see of private-label brands–and what convenience store operators need to do in order to make those brands successful.

The costs are too low, opportunities to build brand equity and loyalty too high, quality is rising too quickly and the benefits are too numerous for retailers with the necessary resources not to focus on growing their private-label programs.

And for most, there is clearly room for improvement. A McKinsey & Co. study presented at the Private Label Manufacturers Association (PLMA) Annual Conference in Chicago in November revealed that $55 billion in annual sales could shift from national brands to private label if retailers concentrate their resources on the effort over the next decade. The result of the shift, the global management consulting firm suggested, could move private label's dollar market share to 24% from 16% over the next decade.

In addition, the "share leaders" have experienced higher levels of overall growth (5.3%) than the rest of the pack (3.4%) over the past 3 years. The findings were first released in a June 2007 report to branded manufacturers.

Grocery Leads the Way

According to information released by The Nielsen Co., private label's growth has been outpacing that of national brands. Its development is greatest at, no surprise, grocery stores, with a 19% share, and supercenters, at 16%. They are lowest at convenience stores/gas stations, which came in at just 3%.

More to Come

The carrot is most definitely dangling.

"Private label will absolutely continue to grow at convenience stores," said Mair Faibish, president of Synergy Brands Inc., a publicly held holding company involved in wholesale and online distribution of groceries and HBA in the U.S. and Canada. "Private label is starting to be a real threat to branded product."

Veteran retail consultant Arlene Spiegel, president of Arlene Spiegel & Associates, Inc. in New York City, agrees. Operators, she noted, are doing it for a lot of sound reasons. "Economy of scale in purchasing, branding themselves, no slotting fees and quality control are a few of them." The dollar advantages of having private brands include "basically cutting out two handoffs of the product–manufacturer and distributor–which provides significant savings in both cost and time."

Virtually all major manufacturers are looking for additional sales for their commodity products, Spiegel pointed out, "everything from chips to tomato sauce, prepared foods, detergents and paper goods." By watching supermarkets, c-store executives have learned that American consumers "are willing to buy branded products that have a higher value and also portray similar characteristics to national brands," she said.

Increasing Share

How to increase private label products' share of the consumer dollar? Price, quality, packaging, promotion all head the list, but there is more that can be done.

Private-label marketers also might be wise to pay more attention to ethnic groups, especially Latinos. A Vertis Communications Customer Focus Opiniones survey released late in 2007 found that 78% of Hispanics in the U.S. have a positive perception of private-label store brands. The downside, Vertis found, is that only 61% of those who only speak Spanish at home feel the same, while 88% of Hispanics who speak English at home take a positive view of private label.

The study also found that product label information influenced consumer purchases. While 56% of Hispanics between the ages of 18 and 24 indicated a product label's safety guarantee was influential when considering its purchase over another brand, only 28% of Hispanics between the ages of 25 and 34 said safety messaging was important.

Consumer buy-in is crucial. Too often, private-label lines aren't consumer tested at all "but simply put on the shelves with the assumption it will sell," Spiegel pointed out. "This can work in venues with strong brands, such as Trader Joe's or Whole Foods, as well as 7-Eleven," but probably not too many other players.

The opportunity in 2008 is "even greater as the economy is slipping and customers are looking for bargains," Spiegel concluded. "Private-label products are often cheaper and sometimes better than the original brand."

And those are the cards that convenience store operators will need to play. CSD