

Private label plans too ambitious – study

More time needed to develop brands

Australian supermarket retailers have announced their intention to dramatically increase the number of private label products they sell – but questions remain as to whether their targets are too ambitious.

A study by market research firm Coriolis Research said all majors had some plans to ramp up their private labels, but experience overseas indicated this took far more time to achieve than they had allowed.

For example, Coles is aiming for a 30% market share for its private labels within three years.

But as the current figures for Coles and Bi-Lo are 9% and 18% respectively, this represents a significant increase in market share. Many thousands of SKUs would need to be developed.

Coriolis said the target might be achievable, but certainly not within three years if history had anything to do with it.

The study noted that in the 16 years from 1987 to 2003, the market share of private label products in Australia increased only 0.2% to 11.9%.

In comparison, private label sales increased 3.8% in the US to 16.3%, 8.8% in Canada to 23%, and 15.5% in the UK to 45.7%.

Therefore, although a target of 30% was relatively conservative compared to the UK, it was completely out of line with historical growth in Australia.

Furthermore, the growth rate was also far too ambitious. Over the 16 years to 2003, sales of private label products increased slightly less than 1% per year.

Coriolis said if Coles managed to increase its private label share from 9% to 30% in three years, this equated to a 7% annual increase, far above what had been achieved in other markets.

Although Coles was singled out by Coriolis because it had made the firmest commitments, Coriolis said the same challenges would also face the other majors.

Another problem was that private label products had already been around for decades, but retailers had so far been unable to convert this longevity to increased market share. Consumers were likely to be sceptical of any 'new' range of private label products when previous incarnations had proved unsuccessful.

The Australian private label supply base also didn't have or was unwilling to supply the technology required across a wide range of categories. While there might be some opportunities for retailers to acquire or use intellectual property from other retailers, the scale of this was small at best.

As a result, any private label growth would be largely dictated by manufacturers.

Big brands also needed time to grow. A few years would be far too short a period of time for any brand to develop a meaningful relationship with the customer base.

There were also practical limitations on the numbers of new private label products that could be developed at any one time.

Loblaws in Canada needed about 5500 SKUs to reach 30% share. Therefore, it was unlikely that Coles would be able to develop the thousands of necessary extra products in the time available.

Sainsbury's, a world leader in private label development, was able to get through about 15 new SKUs per week. Coles would need to move faster than this to reach its target.

It could also be very hard to modify consumer habits, especially when it comes to passing on trusted brands in favour of something new.

Coriolis also said there was also an upper limit on how many private label products retailers could offer.

For example, when Sainsbury's in the UK attempted to push private label products to 60% of sales, customers rebelled and complained, eventually forcing the company to reduce its private label ranges.

If a consumer buys a private label product and it doesn't perform, they are unlikely to buy it again. In addition, their bad experience with that product was likely to be carried over to the whole range.

The study noted that brand building required significant expenditure in advertising over an extended period. Retailers' brands were no different from any other, so supermarkets needed to commit large amounts of money over a long period of time to make them work.

The more market share a retailer wanted for private label, Coriolis said, the more products they needed to launch.

Unfortunately, while the first 500 lines may deliver on significant share, each additional share point required ever larger numbers of new products, making the whole process extremely expensive.

The growth of private label products would undoubtedly have a major impact on existing manufacturers and their brands.

In the UK between 1975 and 2003, the private label share of market increased from 16% to 45.7%.

The market leading brand lost 3% of its market share over the same period to 31%, while the second placed brand lost 4% to 12%.

Smaller brands therefore bore the brunt of the private label boom, losing 22% of their market share to drop to just 12%.

These figures indicate that smaller brands and manufacturers have the most to lose, while the market leaders could further consolidate their positions due to the smaller number of competitors.

As a result, Coriolis said smaller brands need to either get bigger, or manufacturers may have to consolidate brands in order to give them a better chance of survival. **FOODweek**

Consumer scepticism likely