

Private labels are significant players in retail space

By [Gareth Pearson](#)

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Own brands, store brands, dealer own brands, home brands... call them what you will, private labels are here to stay and not just as in-the-background, budget-friendly brands, aimed at cash-strapped consumers but rather as significant players in the retail space. This growth provides a unique opportunity for South African retailers to connect with their customers as never before.



Gareth Pearson

Private label is a generic term that refers to private exclusive label brands as well as own brands. In South Africa, the estimate is that private labels account for around 18% of total value. This varies from category to category - the figures for private label tuna, for example, are closer to the 50% mark. It also applies to some sectors more than others do; the most profitable private label categories are refrigerated, dry and frozen foods, while categories such as personal care remain heavily manufacturer brand-biased. However, generally speaking, South Africa's private label market share is in line with that of the US and above the global average. This makes a strong case for the growth expected from this sector - between 2% and 7% over the next 5 years.

Value also drives purchase

Naturally, the recession has been a key growth driver but it is important to realise that consumers are not making their purchase decisions based solely on price, but also on value. They are 'value-conscious' shopping every time they step into a supermarket and looking for quality products at an affordable price. If they believe they have found this, that perceived value is enough to encourage them to swap their favourite branded goods for private label products.

The upside for manufacturer brands, though, is that their significant research and development budgets - most often focused on product development, packaging testing and consumer research - will continue to ensure their category leadership. Despite this, they too will need to look at adding greater value, possibly through their access to global experience, tested and proven packaging and new product offerings.

Therefore, the growth opportunity for retailers is to provide premium brands under their private label banner. Retail space (real estate) is expensive and, while price is important, quality really draws the offerings.

Belief in private labels

In developed markets, more than 80% of consumers believe that private label brands provide a good alternative to manufacturer branded products, with more than 30% of those consumers believing that the quality of private label products is better than that of manufacturer branded goods. This paints a picture of where South African private labels could be headed and presents a number of opportunities for retailers operating in this space. Currently, all major South African retailers have private label offerings, from the five major retailers to the more specialist retailers and this is across the range

of offerings.

At its most basic level, there's the prospect of increased profit margins through the introduction of additional private label products that tap into this trend. This could also include further differentiation within a retailer's existing private label range, as is the case with Pick n Pay, which currently offers an entry-level private label (No Name Brand), a midstream range (Pick n Pay brand) and a new premium collection (Finest brand).

On a larger scale, the phenomenon provides a unique opportunity for retailers to get closer to their customers and connect with them. This in turn allows them to understand what their customers want and bring to market products that meet those needs.

Loyalty a key factor

A major spinoff of this is the chance for retailers to create their 'own' customer loyalty. If a customer buys a private label product and loves it, they will keep returning to that retailer for that product because they cannot get it anywhere else. This could also prompt them to try other products in that private label range, sustaining loyalty even further.

The growth of private label ranges has altered the retail landscape: manufacturers are increasingly under pressure as they now compete with their own clients for customers; the negotiating power brand owners once enjoyed could possibly have been diluted; and packing suppliers and independent manufacturers are now connecting directly with retailers.

This has added a new competitive edge to the industry and brand owners will have to spend more on research and development and constantly innovate, in order to remain ahead of the pack. Product innovation is now much more of a collaborative feature in retailer and manufacturer relationships.

There has been a fundamental shift in the way consumers perceive private label products, which bodes well for the future of the sector, but the challenge lies in how retailers take advantage of this opportunity to ensure sustained consumer support, especially post-recession.

ABOUT GARETH PEARSON

Gareth Pearson, CEO and shareholder of BMI Research (www.bmi.co.za), is a market research specialist with particular focus in the industrial and FMCG markets in various sectors, including the retail market. He serves as a member of the South African Institute of Packaging's Regional Committee and is involved with the South African Packaging Council. Gareth was responsible for the merger of BMI Foodpack and Adcheck Research during 2008. Contact Gareth on tel +27 (0)11 615 7000.

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