A broader scope of influence
by Lesa Sawahata

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The competitive advantage of private label branding in FMCG

by Maciej Szymanowski

Retailer own-branded products, known as Private Labels, have been steadily gaining market share over the last few decades and now account for about one third of Fast Moving Consumer Goods’ sales. As a result, increasing attention is being paid to leveraging the most from Private Labels, while national brands are undergoing a marketing shift in an effort to counteract this.

The Private Label (PL) as we know it today is a progression from an idea that emerged in the 1970s as a bottom-range alternative to national brands. From the original concept of communicating no-frills value to customers on the very lowest budgets through basic items in simple packaging, today’s PLs have developed into various tiered ranges targeted to different types of customers. While the original version still appeals to those with the tightest purse strings, its siblings offer mid range and even premium products.

Despite their current success, PLs remain low profile in a marketing sense, with their primary means of competition against national brands being the value they offer.

Competitive advantage

Our research has shown that Fast Moving Consumer Goods (FMCG) choices are very strongly influenced by familiarity. That is to say, products that the consumer already has experience in using. Shopping habits are not easily broken, but pressure on finances, for example during economic recession, can be a powerful catalyst for doing so. Because PL products are easily identified as cheaper alternatives to comparable, familiar branded items, they are an easy and obvious way to save money.

Once the consumer makes the switch, they develop familiarity with the PL itself. Subsequently, even when consumers’ financial situations improve, this familiarity effect prevails. Once they start buying PLs they tend to stick with them. This results in a steady growth of PL market share.

Increased consumer acceptance of PLs has led to their owners wondering how to leverage more from them. While range expansion and increased differentiation appear to be attractive options, our research suggests neither of these strategies is necessarily wise. (Note: the following observations do not apply to premium PL ranges.)

PLs are known for being copycats of familiar, standard products that are not associated with specialist expertise. Consumers do not trust PLs to be innovators, which means they are unlikely to succeed when introducing new products for which there is no direct comparison. Similarly, expanding a range with variations on a theme can be counter-productive.

As a general rule, too much choice can be overwhelming for consumers. Particularly with PL products, which are understood to be simple low-cost basics, consumers don’t expect to have to make complex decisions.

The competitive advantage of private label branding in FMCG

by Maciej Szymanowski

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As a general rule, too much choice can be overwhelming for consumers. Particularly with PL products, which are understood to be simple low-cost basics, consumers don’t expect to have to make complex decisions.
Although retail chains invest heavily in differentiating their store brands, our research reveals that in the case of PL goods this isn’t likely to be worthwhile. We find that in consumers’ eyes all PLs are roughly equal, with the comfort zone of familiarity with one PL being carried over into all others. Consequently, if a retailer invests in developing and promoting its PL, the benefits gained are shared with other retailers’ PLs.

In the quest to gain the upper hand, it could be tempting to differentiate a PL to the point where consumers perceive it to be truly unique. But doing this would come at a cost of negative consumer opinion about the corporation, it actually presents the opportunity for the owner company to market itself, and by association all of its brands, in a positive way.

While Private Labels mimic branded products, national brands are beginning to mimic Private Labels’ use of familiarity as a competitive weapon. This indicates a move towards simplified consumer choice. In the future, we can expect further innovations from retailers and manufacturers in terms of product display and labelling to further simplify consumer choices and take advantage of consumer familiarity.

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