

# The rise of Private Label in the digital age

## E - Commerce Marketplaces



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# Introduction



A new revolution in the retail industry is evolving as it is underway and is going to affect the entire consumer world everywhere by the next 5 years. It mainly concerns the rapid development of the private label product and the new opportunities and challenges it will bring to both e-commerce players and brands and manufacturers. Evidently, private brands are hardly new, and their use in retail predates the birth of E-Commerce. Online retailers have in recent years begun to design and manufacture their own unique and exclusive products to bring them closer to the customer and their personalized needs but are also driven by the consumer's choice of digital economy offers and the globalization of shopping trends (media, technology, e-commerce).<sup>1</sup>

An analysis conducted by Nielsen concluded that private label dollar volume in the mass retail channel reached +41% over the last five years, compared to only 7.4% increase in sales value for national brands.<sup>2</sup> One out of every four (25%) products sold in the United States is private label or store brands, according to the Private Label Manufacturers Association. The study revealed that private label grew six times more than the national brands in 2018, reaching 4.4% and adding USD 5.5 billion in sales to reach USD 129 billion and as high as USD 170 billion.<sup>3</sup> Specifically, according to Nielsen's findings, private-labels accounted for 57% of annual Consumer packaged goods (CPG) sales and their sales increased by 4% across all CPG channels at the time.<sup>4</sup>

1. The Nielsen Company. (2018). The rise and rise again of private label.

2. PR Newswire. (2019). Store brands surge by 40% plus in mass retail channel over 5 years, far outpacing national brands.

3. Biscotti, L. (2019). Private Label Brands Roar At Retail.

4. WGB. (2019). How Private Label Is Gaining E-Commerce Traction.

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A new report from Cadent Consulting Group predicted that private brands will reach a market share of 25% in the next decade <sup>5</sup> and suggests that private label value share could hit +25.7% by 2027, growing more than 8 percentage points from where it was back in the 2017. <sup>6</sup>

A 2019 Private Label Manufacturers Association (PLMA) survey found that two thirds (almost 70%) of consumers responded 'agreed' that in general, private label brands that they have bought are equally good as the the corresponding national brands or even better. According the same survey, 25% are purchasing more private label brands than they used to five years ago. <sup>7</sup> In 2018, the global consulting firm, Kantar, reported that 85% of US shoppers buy store brands while 85% of shoppers trust private label brands as much as national brands, according to a report created by the firm Daymon. <sup>8</sup> The above can be confirmed from Nielsen data in relation to consumers' perception towards private label products; they consider them as overwhelmingly favorable while 71% of the

5. Cadent Consulting Group. (2018). Store Brands: Report: Private brands will reach 25 percent market share in next decade Cadent Consulting Group.

6. Skrovan, S. (2017). Report: Private label market share will jump nearly 10% over the next decade.

7. Biscotti, L. (2019). Private Label Brands Roar At Retail.

9. The Nielsen Company. (2014). The state of private label around the world.

global respondents say that private-label quality has improved over time. <sup>9</sup> Private label products hold almost 30% of the total apparel sales, <sup>10</sup> while CPG private label accounts for 3% of online dollar sales, compared to 1.3% two years ago, with household and baby care products holding the top positions in the ranking of the most successful CPG categories. <sup>11</sup>

As private-label products are increasingly penetrating the retailer, determining regardless the degree of success or failure, the market will continue to become more competitive. In order to stay competitive and sustainable, companies should learn from their own mistakes, utilize all the available digital tools and technology and create their own path that brings them closer to consumers' needs and preferences. Companies like Amazon that has a large base of consumers can bypass producers and sellers and create their own production based on insights that conform to consumers needs, enhancing the value for money. From the observations of researchers, it is possible to infer 3 common criteria for success:

8. Manganello, K. (2019). Driven By E-Commerce and Changing Consumer Preferences, Private Label Sourcing Spikes 158%.

10. Cohen, M. (2019). Private Label Revolution: The Second Wave.

11. WGB. (2019). How Private Label Is Gaining E-Commerce Traction.

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**Consolidation of production and distribution in order to improve quality and price control.**



**Investing in a strong and powerful and user-friendly digital platform that can enhance consumer insight.**



**Versatility and the quick response to consumer preferences and demands even when it challenges the business out of the comfort zone.<sup>12</sup>**



12. CB Insights. (2018). How The Rise Of Private Labels Is Transforming CPG And Retail.

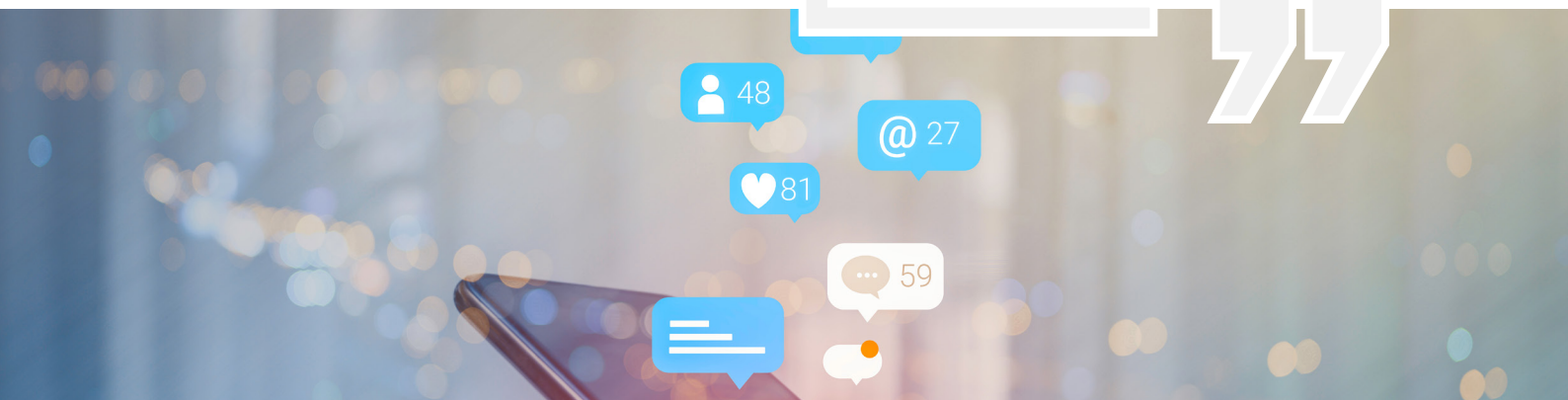
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# Conclusion

The private label market in e-commerce has a lot in common with traditional retail stores. However, due to the increasing growth of the internet technology and e-shopping in particular came to have more powerful advantages.<sup>121</sup> E-commerce players and internet giants launch their own private labels in an effort to follow the trend and win the battle. Some internet key players provide consumers numerous of benefits such as quality, premium and personalized products and services. Among the disruptors in China are NetEase, Alibaba, JD.com, Tencent, Xiaomi and Mia.com., in India is Flipcart and globally the American giants, Amazon and Walmart. Some e-commerce companies have even set up physical stores to sell their own private labels. Many of the store brands target young consumers (i.e. Millennials) who are seeking for well displayed and designed products with high quality and value. Very often focus on the lifestyle while among the most popular categories are grocery, health and beauty.



They often market their private label products as made by manufacturers of big brands via the ODM (Original Design Manufacture) model.<sup>122</sup> The opportunity for store brands extends beyond the walls of their physical stores and this hides huge potential for further growth. A good example of a traditional retail expanded its private labels via a marketplace is Kroger (USA). In 2018 the company collaborated with Alibaba's T-Mall website in China, selling its Simple Truth product line. Since Kroger have no stores in China, Simple Truth is consider as a favorable national brand to Chinese consumers. This has become a new international growth strategy for some retailers, choosing to export their own products rather than store concepts.<sup>123</sup>



121. Smith, S. (2018). The rebirth of private label.

122. The Fung Business Intelligence. (2019). Venturing into private label business – the next big thing for e-commerce operators

123. Goldberg, J. (2019). The Epic Battle Between Brands And Retailers.

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Technology has always been an ally of big business innovators. In the case of private label products, technology such as voice recognition and its extensions to voice assistants and voice ordering, can progressively influence consumer behavior, the shopping journey and therefore the final decision. As voice assistant technology improve its ability to better understand consumer preferences and habits, it will play a key role in consumer market and progressively mediate market interactions. These fast-changing market dynamics may, in the future, be relevant to national consuming brands and retailers. The loss of brand awareness, the growing importance of private labels for retailers and the rise in advertising costs are just some of the expected implications according to marketing and technology experts.<sup>124</sup> Experts believe that manufacturing companies should focus on voice search optimization. They need to make sure that their product descriptions in the marketplace are clear and match with their relevant category so that when people request those products on smart speakers increase the possibility to be displayed in the top results.

“Big brands that have been synonymous with their products, such as Kleenex will probably benefit”

*said Brett Leary, a senior vice president at the advertising agency Digitas.<sup>125</sup>*

In general, private labelling is a forward-thinking trend with positive impact in the trade world, even though there will be winners and losers, just like with any area that has the element of competition. Private label production helps manufacturers who need capacity, builds loyalty and allows bigger profit margins for retailers, but also is effective for the shoppers, especially if there are multiple options such as low-cost, high-end, and middle-cost along with specialty.<sup>126</sup>

123. Mari, A. (2019). Voice Commerce: Understanding shopping-related voice assistants and their effect on brands.

124. Meyersohn, N. (2018). Amazon's Alexa is the biggest challenge for brands since the internet.

125. Biscotti, L. (2019). Private Label Brands Roar At Retail.

126. Biscotti, L. (2019). Private Label Brands Roar At Retail.

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