

## Private Labeling — Offering Retailers A Competitive Edge

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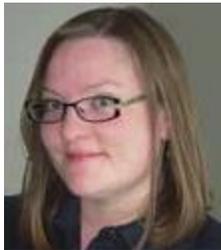
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By *Bob Johns, associate editor*

*Retailers are turning to private labeling to increase margins — but not without risks.*

Private labeling has emerged as an excellent opportunity for retailers to gain market share and increase margins when executed correctly. Here, Danika Manchester, strategic business development manager with SATO America, Inc., discusses the benefits and pitfalls of private labeling for retailers.

### **As more retailers look toward private label products to increase margins, what are the major concerns for maintaining inventory levels?**



**Manchester:** Production, transit lead times, and forecasting. Private labels are normally sold through a single retailer, so they often require smaller production runs than a national brand would place. At the factory, larger runs often take priority over smaller ones. So, either the smaller job is moved down on the schedule, or the buyers are forced to look for another factory. Factories with capacity are often located more inland and further from ports, so savings in production lead time may be offset by increased land transit time to get the merchandise to the airport or cargo vessel.

As a new product line, historical order/sales information is not available. Buying will be managed by forecasting how much business will move from other brands to the new private label and how much new business will be generated. Once the stock is produced and in-country, it is the only stock available — there is no begging, borrowing, stealing, or cajoling the Brand to get more of a specific style or size to replenish stores. As sales data becomes available, it will be important for the retailer to update the original forecast model and make the necessary adjustments for replenishment orders.

### **What are some of the logistical and tracking advantages of using private label brands?**

**Manchester:** Private labels are an excellent place to use item-level RFID. As both the manufacturer and the retailer, the benefits of item-level tracking can be realized throughout the entire supply chain. Decreased loss through the supply chain — manufacture, shipping, and distribution — and fewer store stock-outs — faster replenishment to stores utilizing RFID to log sales and automatically request replacement stock — directly impact sales.

The opportunity to pack and ticket the merchandise “Store Ready” is also a huge opportunity for retailers. As the only group buying that merchandise, the retailer can dictate the store pack and ticketing 100%. This includes product ticketing, packaging, labeling, and shipping. The merchandise can arrive to the DC completely store ready — with cartons being loaded immediately onto trucks to stores without being delayed due to additional processing like ticketing or repacking. This puts product on store shelves faster and without additional labor costs.

### **How can retailers use the control they have over the private label supply to their advantage?**

**Manchester:** Store-within-store areas are terrific for the consumer experience. The retailer can offer a more personalized, boutique experience within their current operation (same building, staff, etc.). By reserving this space for the private label, the retailer is making an investment and accepting a risk — it is taking floor space away from other products. If the private label merchandise is not there, it is more difficult to fill the space with other merchandise to mitigate lost sales (and it is losing the opportunity to convert consumers to its own label). Retailers can use store sales information to prioritize production jobs of certain styles or sizes and manage the supply chain to quickly reroute merchandise to the DCs/stores most in need.

Additionally, retailers need to allocate to stores based on local markets. Macy’s does this well — they are not going to ship the same store packs to Atlanta that they will ship to Chicago. Actually, they may not ship the same merchandise to the store in Chicago that they ship to another store in Illinois only 100 miles away. This is about knowing your customers not only by their region but actually at the store level.

Once merchandise is in the store, utilize a system for store-to-store or store-to-consumer transfers. Nordstrom makes its entire inventory available to shoppers — from warehouse to store — whether they are shopping online or in the store. This delivers product quickly and cost-effectively to the customer while also decreasing future markdowns.