You know that awful feeling when you walk out on stage in front of thousands of ecstatic fans, and it turns out that half the women in the front row are wearing the same outfit as you?

Welcome to Madonna’s world. After her first concert in Spain on a recent tour, we learn in this new book, the fashion chain Zara got to work on copying one of her dresses. By her last gig, she was confronted by an all-too-familiar look on the gyrating bodies of her fans.

But this is not just Madonna’s world. This is the commercial environment in which the manufacturers of premium branded goods must operate. Private labels – whether those offered by deep discounters such as Aldi, by supermarkets such as Wal-Mart or Tesco, or by lively fashion stores such as H&M and Zara – are menacing the once comfortable world of the premium brand owners.

That is not a new insight. But this book does usefully succeed in marking out the territory in which own-label goods and premium brands are doing battle. And it offers a thorough analysis of the strategic and tactical options that are open to all the players in this market.

Like the marketing experts they are, the authors have set out to fill a gap on the business bookshelves. Professors Nirmalya Kumar (London Business School) and Jan-Benedict Steenkamp (University of North Carolina) knew of no other concise summary of the private label versus premium brand phenomenon – or none that looked at the implications of this clash for retailers and manufacturers alike.

The professors undoubtedly succeed in covering all the bases. In terms of price, quality, market position and relationships between retailers and manufacturers, they weigh every aspect of this key commercial struggle.
The power of stores to challenge traditional market-leading brands is remarkable. Recent research by AC Nielsen confirms that two thirds of customers around the world believe that “supermarket own brands are a good alternative to other brands”.

Private labels can compete effectively in almost any product category. Only five years ago the UK supermarket chain Asda (now owned by Wal-Mart) sold clothes to under one in 10 of its customers. Today that figure is one in three. It is now the UK’s biggest clothing retailer.

Here price is the crucial attraction. But there are four types of private labels, as our authors explain. As well as the generic, “value” (or basic) category, there is the copycat brand, which apes the qualities of a premium brand but at a moderately lower price. Then there is the premium store brand, which may be sold at the same or even a higher price than the premium brands of other manufacturers. And finally there are what the authors call the “value innovators” – IKea or Aldi are good examples – which offer their own value for money brand to the world.

Private labels can no longer be dismissed as a cheap and nasty alternative to the real thing. Aldi stores are a resolutely “no-frills” environment, but that does not mean its products are equally lacking in appeal. Aldi has won several independent quality and taste tests in Germany, where it is now the country’s third most respected brand, after Siemens and BMW but ahead of DaimlerChrysler.

Tesco is another retailer that has cleverly segmented its own-label offering into three successful tiers – “value”, “standard” and “finest”. Today more than half of Tesco’s revenue is generated by own-label products, double what it was 10 years ago.

What can manufacturers do about all this? Must they bow down before the all-powerful retailers? Here the authors offer sensible if not earth-shattering advice. Brands are not dead, they insist. But premium brand manufacturers must fight to justify any price gap and perceived quality advantage. They must “innovate brilliantly, partner effectively, fight selectively and create winning value propositions”.

The “them and us” approach of the past is no longer effective. As Nestlé’s chief executive, Peter Brabeck, told the Financial Times recently (quoted again by the authors): “Ten years ago we were in a cockfight with the retailers. But we must not forget that they invested in very, very expensive distribution systems that brought prices down and contributed to our volume growth. So now we want to be a partner, not a supplier.”

This will be a tough partnership to manage, however. Retailers invest heavily in their own-label brands too. The authors also make this telling observation: “It is almost as if quality has now become a commodity.”

Private Label Strategy
How to meet the store brand challenge

By Nirmalya Kumar and Jan-Benedict E.M. Steenkamp


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