

Dissecting Trends in Distributor Private Label

Heavy Duty Aftermarket Implications



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This session is designed to be a discussion of Brand Equity...

Private Labels Vs. 'Real Brands'

Creating and Protecting Enormous
Value Through Positive Association



What exactly is Brand Equity?

- **The component of overall preference that is not explained by objectively measured attributes.**
- This is often measured as the price premium over a Private Label.
- The set of customer associations and behaviors that permits the brand to earn greater volume or margins than it could without the brand name.

10 Second Quiz

Private label is a **positive trend**
for the aftermarket.

Yes

No

10 Second Quiz

Private label is **brand corrosive**.

Yes

No

Defining Brand Value

- Price premium that the name alone can support
- Impact of name on customer preferences
- Stock value less tangible assets
- **Earning power of the brand**

'Brand' may mean:

- The symbolic embodiment of a product.

-



The imprinting of brand marks on live skin.

- A lifelong association with an institution.



The 'symbolic embodiment' of a product...



BullsBalls.com


Big Boy Nuts
Made To Swing™



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Private Labels are Hardly New to the Aftermarket. Remember:

- Visall, Gard or Modac? (NAPA)
- Sturdee Batteries? (Pep Boys, 1930)
-  Polarine ? (Standard Oil)

- Craftsman ? (Sears, 1941)
- **Revelation** Shotguns?
(Western Auto 1939)



Common Private Label Rationalizations:

- PLP give the group buying leverage with brand manufacturers.
- PLPs give stores unique value offerings, especially the better-quality-for-lower-price which grow customer loyalty for the store.



We are offering our own alternate brands because:

- National brands are application coverage or technologically insufficient; **or,**
- This new brand represents a way to beat the ‘marketing tax’ ... those charges for advertising, cataloging, merchandising and training that neither the customer nor distributor needs or wants; **or,**



We are offering our own alternate brands because:

- We distributors (as the ‘last mile’), deserve a greater cut of the margin pie; **or,**
- This label is the only way we can be sure you bought this from us in the first place when you want to return it; **or,**
- Over 40% of Wal-Mart’s sales are private label...

Welcome to the real world!

Private Label or National Brand...



There are no unserved NAFTA markets.

Brand Value

Cat is most powerful industrial brand in the world.



Harvard is the most powerful in education.



Coke is the most valuable consumer brand.



Toyota is the top automotive brand





What Is a Brand Really Worth?

World's Most Valuable Brands

1 Coca-Cola	U.S.	2 Microsoft	U.S.
3 IBM	U.S.	4 GE	U.S.
5 Intel	U.S.	6 Nokia	Finland
7 Toyota	Japan	8 Disney	U.S.
9 McDonald's	U.S.	10 Mercedes	Ger.



PLP Growth and Success: Purchasers are consumers first!

- \$65 Billion... 1 in 5 items sold in U.S. supermarkets, drug chains and big boxes.

- **7 in 10 shoppers believe that PLP are as good or better than national brands.** 
-  Store brands are a way to manage returns!

10 Second Quiz

Brand suppliers should supply private label lines as well.

Yes

No

10 Second Quiz

Aftermarket private labels can create
stand alone brand equity.

Yes No

Components of Brand Equity Don't Favor Private Label

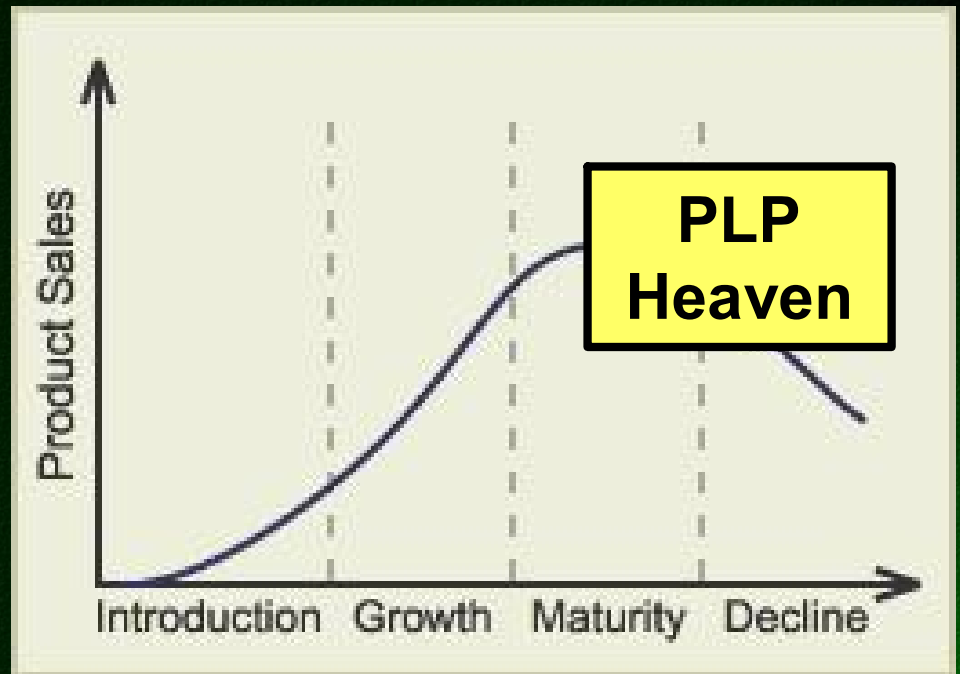
- **Brand Permeation:** advertising awareness and product availability
- **Brand Distinctiveness:** brand differentiation.
- **Brand Quality:** overall reputation of a brand (and its line extensions) in terms of quality.
- **Brand Value:** does the brand deliver what buyers pay for—often known as “price-value.”

Components of Brand Equity Don't Favor Private Label

- **Brand Personality:** The extent to which the brand's image is congruent with the buyer.
- **Brand Potential:** are consumers willing to try new products, services, or line extensions.
- **Competitive Inoculation:** The consumer loyalty in times of adversity or competitiveness.

Brand Life Cycles

- Introduction
- Elaboration
- Fortification
- Abandonment



10 Second Quiz

Private labels suggest a **marketing failure** on the part of branded lines.

Yes No

10 Second Quiz

Most private labels are **more profitable** than their branded counterparts.

Yes No

Why Store Brands Succeed

- Brands depend on unchanging commodities
- **Consolidating distribution sells the copy cat products with satisfaction guarantees.**



- **Functional consumers and repair techs continue to test products, find real value and spread the word.**
- PLP sales have shifted profit power to retailers from suppliers.

Personal Opinion...

With the solid 'domestic' supply base we have in the heavy duty market...

with at least three national branders competing in each product segment...

I generally don't get the need for an increasing number of alternate brands.

Merrifield's 7 Cautions:

Studies conclude that 50% of PLP are net losers from a profitability perspective...

even though the PLP have higher margin percents built into their lower price.

\$ ≠ %

Net margin dollars are less on the store brand per square foot...

And this creates at least twice the SKU / inventory costs.

Average PLP Price Discounts

Discount

Market Position

56%

PLP brand is perceived to be inferior (generic/value)

37%

Copycat brands of equal quality

21%

Premium store brands

Categories with the strongest brand power force PLPs to be discounted the most and still get the lowest share.

Merrifield's 7 Cautions:

What percent of these sales are to new customers....

as opposed to cannibalizing sales to old customers that were already buying the branded products...

that yielded almost the same total margin dollars (albeit at a lower margin percent times a higher price)?

Merrifield's 7 Cautions:

With long supply lines from Asia, plus container quantity shipments...

are the clones really turning-and-earning as well as we might think with equal or better fill-rate



Merrifield's 7 Cautions:

Even if the first wave of copy-cat products proves to be a winner...



when will we cross the line into the 50% of PLP items that aren't profitable?

Merrifield's 7 Cautions:

What are the criteria for ranking which items should be cloned... first to last?

Should the criteria be modified and re-weighted for each new category of items and for each different segment of customers that category might be sold to?

Merrifield's 7 Cautions:

As we source more items and do more repeat buys from Asian sources...

How do we stay on top of those producers' all around reliability and economic efficiency?

Should we consider outsourcing all of these problems to firms that have grown into giant, supply-chain, process managers for store brands and now have "industrial divisions"?



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Merrifield's 7 Cautions:

Could mimicking the private brand strategies from the world of retailers be less successful in a commercial or industrial distribution channel?

**PLP Demand Replenishment
vs.
Branded Product Push**

Recent Wal-Mart Admission

Castro-Wright... We learned that providing customer choice wasn't about more product, but about carefully selected product...

We made big bets in growth categories like electronics... **Providing brands that gave us authority.**

10 Second Quiz

Private label growth has **altered the power** structure of the aftermarket.

Yes

No

10 Second Quiz

What should manufacturers do to **counter** the private label growth trend?

- A) Produce private labels to limit disruption.
- B) Partner (the PLP distributor) effectively to craft Win-Win relationships.
- C) Innovate brilliantly to beat private labels.
- D) Fight selectively to marshal resources against private labels.

Enjoy the Beach!



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Heavy Duty Aftermarket Implications:

Global Trends in Distributor Private Label




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Types of private labels

- **Store brands** - The retailer's name is very evident.
- **Umbrella branding** - Generic brand, independent from the name of the retailer.
- **Exclusive brands** - Name used in one category.
- **Group brands** - Brands are typically seen in independent stores that cannot afford own PLP.
- **Copycat labels** - Owned by a retailer which use similar trade dress as a leading national brand.

Who makes store brands?

- Large national brand manufacturers that utilize their expertise and excess plant capacity
- Small manufacturers who specialize in particular product lines and concentrate on producing store brands almost exclusively.
- Offshore manufacturers that produce private label products for specific markets
- Now a Turnkey proposition



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