Perspective

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# Private Label
# *Untapped Opportunity for GCC Retailers*

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# EXECUTIVE SUMMARY

*Grocery retailers in Gulf Cooperation Council[1] (GCC) countries are missing out on a significant opportunity. Today, although many retailers may offer their own private label products, few are making them part of their overall company strategy—to the detriment of their bottom lines. GCC grocery retailers in particular have overlooked the fact that the mere offering of a private label range does not guarantee success. Given that retailers, in the past, have struggled with performance mainly due to unwise assortment and sourcing strategies, it will become crucial for GCC retailers to redefine their private label strategies. To build a successful private label offering, grocery retailers must focus on four distinct elements:*

- The private label strategy should be integrated into the retailer's overall vision for the company, with concrete contributions to the retailer's goals and a plan as to how it will create value for customers.

- Private label offerings should have strong appeal and a compelling proposition for consumers, and be priced appropriately.

- Retailers must implement the private label value proposition consistently across categories, looking beyond the value segment to a more differentiated and targeted offering such as child-centric, healthy, gourmet, or organic.

- Private label management requires careful day-to-day execution, including pricing, promotion, display, and quality management.

Those companies that can successfully create a private label offering can increase revenues, improve profitability, and strengthen customer loyalty.

KEY HIGHLIGHTS

- Grocery retailers worldwide are setting the pace in the development of private label, increasing market share across all key grocery categories and spurring faster growth in private label than in other brands.
- Private label offerings are usually more profitable than branded products due to lower costs (in manufacturing, marketing, sales, and distribution), and they also help strengthen a retailer's negotiating position when dealing with suppliers.
- There is clearly an opportunity for GCC grocery retailers to grow their private label sales significantly, taking them from an average of 3 percent today to between 15 percent and 25 percent of grocery sales.
- To do so, GCC retailers will need to align their approach to private label with their overarching retail strategy.

# THE LANDSCAPE FOR PRIVATE LABEL

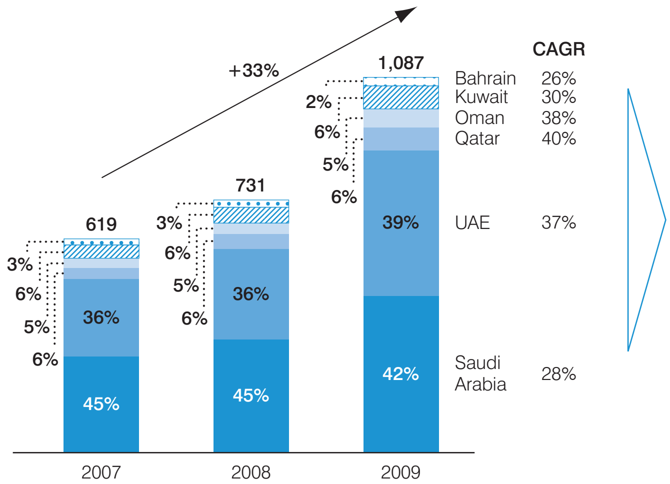
Globally, retailers' own brands, also known as private label, are growing at a faster rate than traditional consumer goods brands. In France, for instance, market share for private label has reached about 28 percent, while retailers in Switzerland, the United Kingdom, and Germany are seeing even higher private label market shares of 46 percent, 42 percent, and 32 percent, respectively (*see Exhibit 1*). This means individual retailers' private label sales worldwide are on par with or higher than some of the most successful consumer packaged goods manufacturers, including Nestlé, Procter & Gamble, and Unilever. It's no surprise, then, that most retailers in the U.S. and Europe view private label as a critical way to differentiate themselves from competitors and generate customer loyalty.

In general, private label strategies become a prevalent part of any mature retail market, as retailers typically have the scale and capabilities necessary to develop a competitive private label offering. For instance, retailers generally have larger budgets for in-store marketing and promotions; they have better access to third-party suppliers and distribution networks; they are more familiar with brand management techniques; and there is an increasing synergy between retail and manufacturing investments, as in communication and advertising.

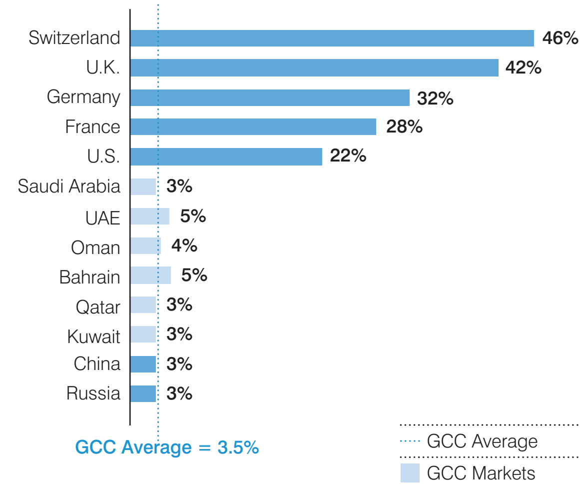
It is surprising, then, that the development of private label in the GCC—in countries such as Saudi Arabia, the United Arab Emirates, and Kuwait—is still lagging so far behind the U.S. and Europe (*see Exhibit 2*). Certainly, the retail landscape in the GCC is evolving: Modern trade is becoming more prevalent, with regional and international chains beginning to take precedence over the independent retailers that have long dominated the landscape. In Saudi Arabia, for example, modern trade retailers captured more than 40 percent of the food market in 2009, and are making even greater inroads in the UAE, where they achieved more than 70 percent share in 2009. The market is steadily consolidating, with the top five retailers accounting for 13 percent of market share in Saudi Arabia and 36 percent in the UAE. What's more, retailers are capturing ever-larger pieces of a rapidly growing pie: The GCC grocery market is growing at 11 percent per year, from US$43 billion in 2005 to $72 billion in 2010.

*Exhibit 1*
*Grocery Private Label Share in the GCC Lags Behind That of More Mature Markets*

PRIVATE LABEL MARKET SIZE
(2007–2009; IN US$ MILLIONS)



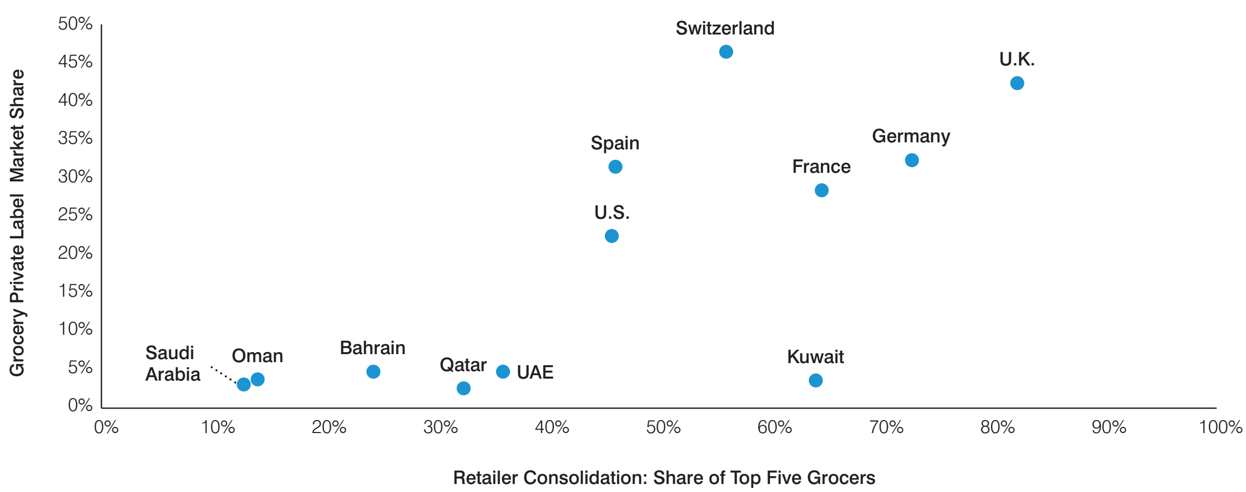

GROCERY PRIVATE LABEL MARKET SHARE[1]
(2009)




[1] The share of private label is calculated as a percentage of modern trade.
Source: Planet Retail; The Nielsen Company; Booz & Company analysis

*Exhibit 2*
*Private Label Is a Fixture of Mature Retail Markets*

GROCERY PRIVATE LABEL MARKET SHARE VS. DEGREE OF GROCERY CONSOLIDATION
(2009)




Note: Consumer cooperatives are included in the top five retailers when applicable. The share of private label is calculated as a percentage of modern trade.
Source: PLMA Yearbook; The Nielsen Company; IGD Retail Analysis; Euromonitor; Booz & Company analysis

To maintain their position in this changing landscape, regional retailers are making moves to gain scale, gradually shifting the balance of power away from multinationals. For example, Saudi-based Panda acquired Giant Stores in 2008 and Geant in 2009, allowing the company to play in four regional markets: Saudi Arabia, the UAE, Qatar, and Lebanon. Another retailer, UAE-based Lulu, recently opened its 85th store in the region with 17 new stores scheduled to open in 2011, while Qatar-based Al Meera announced its own renovation and expansion plans in September 2010, estimated at 1.7 billion Qatari riyals.

These efforts to gain scale position retailers for strong plays in private label, just as the need for them to make such plays becomes more urgent. Growth in retail sales still outpaces GDP growth, but it has begun to slow down, leaving retailers focusing more intently on cash flow and profitability. Thus far, however, private label is not yet a critical focus for regional retailers: In the GCC, private label accounted for just 3 percent of 2009 total grocery sales. Although retailers recognize private label's potential, they have not effectively tapped into its benefits. For example, one large retailer in the region is projecting that private label will account for 12 percent of its revenues by 2015—and although this is a very modest target, the retailer may not be able to reach even that, because it has focused its growth strategies on M&A instead of putting the requisite effort into its private label. Another retailer has achieved 5 percent share in private label and is hoping to reach 15 percent, but that goal is also in jeopardy given that the retailer has taken an ad hoc approach rather than the strategic perspective necessary for real success in private label.

The opportunity for GCC retailers in private label is clear. There are only a few categories in which GCC retailers have achieved parity with their peers in the U.S. and Europe—primarily commodities such as salt, sugar, disposable paper products, and food wrap. These categories have been a good launching pad for GCC retailers' efforts in private label, because consumers are less selective about them, they require little advertising and marketing, and suppliers for these categories are widely available. There is room for further growth in these categories, and the field is wide open in other areas, such as personal care and most food categories, which have traditionally been dominated in the region by multinationals. In frozen food, for example, private label share in the GCC is just 3 percent, compared to 34 percent in Europe; in ready meals, too, GCC private label share is 3 percent versus 16 percent in Europe. Based on the current maturity of the GCC retail market, retailers could achieve private label share of 15 percent to 25 percent of grocery sales. Such an increase would represent a market size of $5 billion to $9 billion, and could translate into a net margin increment of 1 to 2 percent.

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# THE BENEFITS AND CHALLENGES OF PRIVATE LABEL

There are several key reasons that GCC retailers should pursue a private label strategy. A strong private label brand offers retailers the following significant benefits:

*Profitability.* Retailers can use private label products, which are more profitable than branded products, to increase gross margins; they can also use their private label offerings to increase competition for shelf space, and negotiate more favorable terms with suppliers accordingly.

*Assortment.* Retailers can improve their chances of capturing sales by using their private label products to fill in the gaps and offer a full range of products at entry, midrange, and premium price points. Using in-store data and sales information, they can analyze their customer demographics and segmentation and determine where they may need private label products to round out their assortment.

*Brand image and customer loyalty.* Today's price-conscious consumers are looking for ways to reduce costs without sacrificing quality; with the right private label products, retailers can help them meet that need and secure their loyalty. A good private label selection also helps retailers enhance their reputation as a value destination without decreasing prices on branded products.

Putting a private label strategy in place is not without its hurdles, however. Sourcing is an especially significant challenge for the GCC: The region has a limited number of manufacturers with the capabilities and facilities to supply a range of private label products of high-quality standards—and many of those that do exist are bound by contracts with leading multinationals that bar them from creating private label products for regional competitors. In addition, those manufacturers and suppliers that can provide products face operational issues such as quality and supply chain management.

Meeting consumer needs is another challenge. First, the region has a complicated consumer profile, which includes a wide range of nationalities and income levels—a challenge exacerbated by the region's lack of reliable consumer data. At the same time, GCC consumers consider branded products to be symbols of quality, trust, and influence. Combined, these elements make it difficult for retailers to effectively and profitably address the needs and expectations of disparate consumer segments.

One of the biggest problems, however, is retailers' limited ability to customize and adapt their private label offerings to fit the needs of their diverse shoppers. Too often, retailers focus solely on value items, rather than determining where there are gaps in their assortment and how they can use private label to meet customers' needs.

# A FOUR-PRONGED STRATEGY

To develop a successful private label strategy, retailers must consider their offering holistically, taking into account the company's overall objectives and the customers' needs. This strategic approach includes four distinct elements.

*1. The private label strategy should be integrated into the retailer's company vision.* It should:

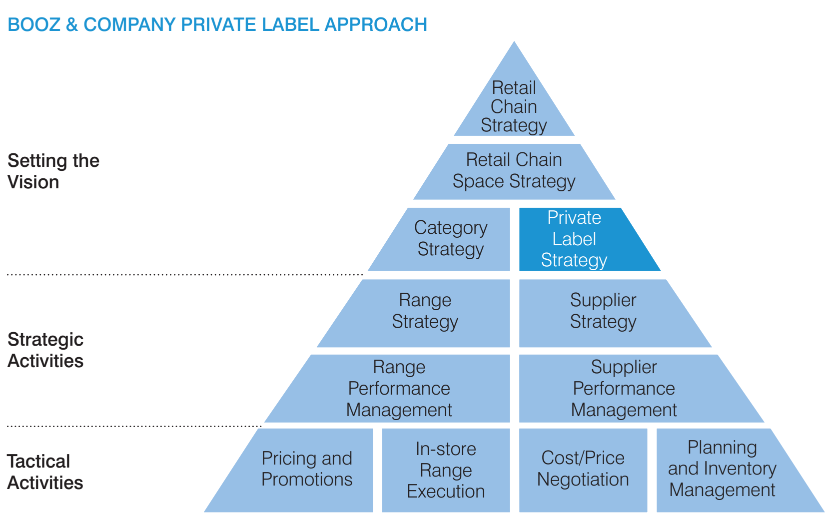
- Be consistent with the retail chain strategy
- Provide concrete contributions to the retailer's goals and a method for creating value for its customers
- Be fully synergistic with key category strategies

The strategy should also be consistently articulated to produce a set of strategic and tactical activities across the retail core in line with the overall retail strategy (*see Exhibit 3*). These include range strategy and execution, pricing and promotions, supplier relationships, performance management, and category management tactics.

Indeed, private label should be an integral pillar in a retailer's strategic blueprint, consistent with the overall positioning of the retail banner across all categories. This strategy should come from the top down: Private label initiatives should start with senior executives who are privy to every aspect of their company's overall profitability, goals, and existing strategies. Unfortunately, this is not the case in the GCC, where private label is often handled by teams outside the executive suite. When a retailer's approach to private label is driven by someone who has limited knowledge of overarching company goals, it can lead to an assortment that takes cues from the wrong variables. Development may be based on how a retailer can source and sell products more cheaply rather than how private label products can better fulfill customer needs. Simply put, GCC retailers have not focused on the ultimate meaning and goal of having a private label strategy in their stores. This must change, and strategy must come from a retailer's top management in order to ensure success.

For example, Tesco and Asda initially used their private label offerings to position themselves as the most price-competitive retailers in the U.K. Tesco has since expanded its private label range beyond discount items, adding premium products and nutritional labels to establish its value proposition as a retailer that offers customers value in any category. Marks & Spencer has built its private label business by using it to support its unique value proposition of convenience, high quality, and freshness. Other European retailers, such as the consumer co-ops, use their private label ranges

***Exhibit 3***
***Private Label Is Integral to a Retailer's Overarching Strategy***




Source: Booz & Company

to espouse a philosophy and value proposition centered on local sourcing and development that is ecologically and socially sustainable.

*2. Private label ranges should have a strong appeal and a compelling proposition for consumers, and be priced appropriately.* Retailers need to prioritize their private label investments by examining their assortment, determining what categories would support a private label brand in line with the company's overall value proposition, and then deciding what product they can develop to fill in that piece of the puzzle. It will be critical to make sure the product adequately balances price and quality: In order for it to do so, retailers will need a deep understanding of customers' needs in both regards. They can mitigate the lack of data in this space by using in-store surveys, product trials, and sales analyses of existing category offerings. Executives should be looking to define the role of private label in each category.

If a retailer does not have sufficient scale to develop an appealing product, it could consider licensing an existing private label brand or developing it under a different brand name. For instance, Spinneys is licensing private label products from Tesco.

In any case, retailers should be sure to build strategic relationships with manufacturers, rather than farming out products on a one-off basis. They will likely need to find a mix of regional and international manufacturers to meet all of their needs. Asian manufacturers are one source for traditional food categories such as tea, honey, coffee, and rice. Manufacturers in Western markets can be tapped to provide more sophisticated categories, including diet and organic assortments, to provide the best mix to support the retailer's value.

Once a product or line is on the shelves, retailers need to carefully monitor its performance. They will have to assess its contributions to the category and the retailer overall, and follow up with customers to gauge their satisfaction with the products and their accompanying packaging and merchandising.

*3. The private label value proposition should be implemented consistently across categories.* Retailers need to be pragmatic about defining where opportunities exist. Generally, a retailer's range of private label products should include at minimum a "good" and "better" segmentation, with some specialty retailers examining additional offerings.

At this point, however, GCC private label offerings focus almost exclusively on the value segment, overlooking potential categories such as child-centric, healthy, gourmet, and organic offerings. Going forward, for example, retailers may want to consider organic private label products because the latest shopper insights indicate a strong awareness of this category.

The Sultan Center (TSC) is one of the GCC retailers that have embraced a strategy that spans various ranges; it offers a price/value range (TSC Value), premium offerings, a gourmet range (TSC Gourmet), and an organic line. Likewise, Carrefour Middle East has offerings in the price/value category, premium range, and two children's categories—Carrefour Baby and Carrefour Kids. This is also something that many American and European retailers are doing well. For instance, U.S. retailer Whole Foods captures the organic market with its 365 Everyday Value and 365 Organic Everyday Value private label lines, which compete effectively with other leading organic brands. Regardless of the range that the retailer chooses, however, the customer's experience of the brand needs to be consistent across all categories, offering uniform levels of quality, affordability, and look and feel.

*4. A day-by-day focus on private label management is paramount.* Given the importance of private label to retailers' overall strategies, they should carefully manage its execution, including pricing, promotion, and quality assurance. It will be crucial to keep products consistent from a quality and availability perspective, and to make sure that invoice costs reflect input costs and sustain margins. This is why, once an overall strategy is in place, retail executives may want to develop a dedicated private label management team that has the right mix of product development, sourcing, and marketing capabilities. This team will work in conjunction with its peers across the organization to ensure alignment, and should take full responsibility for category management activities (e.g., range development, sourcing, pricing, promotions), reporting back frequently so the strategy can be tweaked when needed. However, shelf optimization and supply chain activities should continue to be managed by the relevant departments.

## CONCLUSION

GCC grocery retailers have made great progress in developing their private label business. However, there is still room for more growth; retailers can further boost profitability and consumer loyalty, as customers will welcome and purchase private label products of good quality at the right price point. In order to ensure customer loyalty and repeat purchases, retailers must fine-tune and optimize their category range, making sure they have the right mix of entry-level, midrange, and premium-range selections. They must also perfect their retail execution, ensuring that those products are in stock and that their quality remains consistent. This will require thoughtful customer research and alignment between retail strategy and customer needs. Private label offerings must be at the center of a retailer's vision, and complement and inform all strategic decisions. When this happens, retailers can see a boost in revenue and their bottom line from private label brands as well as existing key brands.

## Endnote

[1] The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.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