

The Decision to Private Label

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The Internet and related technologies has afforded us access to infinite resources to build a business. In addition to creating new channels through which to sell -- websites, apps, even Amazon Marketplace -- we can discover new ways to leverage our brands, expertise, and experience.

One of these ways is to private label a product that we now sell as an identical branded item from another manufacturer. We can also develop an entirely new product that would be packaged under our brand.

Despite the relative ease in finding manufacturing and marketing resources to private label a product, it can be a tricky pursuit for most retail, wholesale, and distribution companies. I usually advise retail companies against pursuing a private label strategy, but in some cases, it can make sense. ***Let's have a look.***

Finding a manufacturer

Indeed, sourcing a manufacturer to produce the product might be considered the easy part. However, it is imperative to find a manufacturer that meets both your price and quality criteria. This is where things get more complicated.



“Multiple private-label product manufacturers will compete with each other to earn a retailer's business, giving the retailer the opportunity to provide the best balance of quality and price for their customers,” says Brad Barbera, a product designer, [in a post on Quora](#).

While resources exist to help smaller businesses navigate the manufacturing ecosystem, the risks outweigh the benefits. [Shopify listed the disadvantages](#) of using overseas suppliers, especially those found on the internet:

- Perceived lower quality from customers
- (Usually) lower manufacturing and labor standards
- Almost no intellectual property protection
- Language and communication barrier can be difficult to overcome
- Difficult/costly to verify manufacturer and visit on-site

- Longer shipping time
- Cultural differences in business practices
- Product importation and customs clearance
- Lower level of payment security and recourse

“Good manufacturing partners are a tremendous asset while bad ones are a terrible liability,” notes Guru Hariharan, the CEO of Boomerang Commerce in an [article](#) in *Retail Touchpoints*. “Take the time to get it right.”

Additional staff and infrastructure

Private label means relationships with industrial and product designers, materials suppliers, factories around the world and logistics providers. Can you expand existing supplier relationships? If not, decide whether to rent the team (consultants) or buy the talent (hire) that will make the private-label strategy a core competency for your retail business.



Whether contract or outsourced, these people still don't come cheap. Here are some roles and responsibilities that you will need to consider, beyond simply identifying a contract manufacturer:

Product Manager - Perhaps you're thinking that this is you, but there are professional product managers who have experience in managing all costs and budgets related to the product's R&D, shipping, warehousing, pricing, marketing, packaging, merchandising, legal issues, and competition. There are expenses at every turn, and professional product managers take a holistic view to determine where opportunities lie. They can also make the decision when to make changes to the product or even retire it if needed.

Product Designer - To develop the formula or design the product you wish to sell. Even if you have an idea of what you'd like to create, a product designer brings expertise in packaging, ergonomics, and design.

Product Marketer - Perhaps you think that by simply placing the products on your store shelves or adding photos to your website, you're carrying out marketing, but there's much more to consider. A professional marketer works with the designer on packaging and also creates

advertising collateral, as well as buying the ads or sponsorships to promote the product. There



might also be costs related to websites, landing pages, search engine optimization, Google AdWords, and Google Shopping to ensure that the product is promoted properly. These definitely serve to get foot traffic into a store or clicks to a website, perhaps leading to purchases of other products, but there certainly are costs involved.

Beware of firms offering to handle all of these responsibilities for one low price. It may make financial sense at the beginning, but for ongoing management or maintenance, the costs could skyrocket. Additionally, you will pay a lot more if there is a production issue or defect, or if you'd like to tweak the original product.

Cannibalization and competition with brands

While you and your customers may be excited to see your brand name on boxes of products on your shelves, you may be jeopardizing sales of your most popular products, leading to [cannibalization](#). Indeed, your customers may suddenly decide to forego buying the brand they normally had bought and instead buy the identical or similar product with your brand name on it.

Additionally, with reduced sales figures of your previously popular products, you risk alienating your suppliers with whom you've had longstanding relationships, and with whom you've most likely been able to secure preferential pricing.

When you are pricing your private label, closely study competing branded goods. You need to decide whether you want to establish the private label brand as premium, or position it as a value/substitute brand by pricing it below other brands you carry. If product features can be easily compared and it is positioned as a value/substitute brand, understanding the price position of similar products is critical to appropriately position it against national brands/private label brands of competitors.

The Flip Side

If you have worked out the costs, and have the resources (and patience) to private label a product, perhaps launching these new products may make sense for your particular business.

Indeed, private labeled products are usually priced lower than the comparable branded product, a strategy which could spur sales and get your customers to purchase even more from you.

A private label product with feature and quality parity to big brands can cost retailers 40% or even 50% less to manufacture and distribute to customers, according to Guru Hariharan, the Boomerang Commerce CEO. Retailers can then turn around and offer bigger discounts to compete with Amazon and other low-cost online sellers without worrying about losing margins.

“This is particularly important online, where consumers have 100% price transparency,” argues Hariharan. “It works for both premium and commodity.”

Building private labels also allows retailers to make uniquely featured products for premium pricing or to produce commodity products which they can price profitably below other brands.



As previously mentioned, cannibalization with an existing product mix could be a concern, but Nielsen disagrees. [In a 2014 study](#), the market research firm found that the category leader is not typically challenged by private label cannibalization; rather, the No. 2 and 3 brands often face the greatest threat to sales. Nielsen discovered that in the U.S., 31 percent of sales come from the leader, 17 percent come from private label, and 52 percent come from all others.

Retailers are in the service business -- providing a unique and consistent customer experience. Having your brand on your shelves is another way to extend mindshare, as customers are already pleased with the service you offer, and so now with your name on a product, they can take home a little piece of that.

And if the private label product is stellar and sold at a lower price, you can be sure that your brand will be strengthened immeasurably.

However, keep in mind that as a retailer or distributor, your core strengths may not lie in the product development and management business. The goals of manufacturers are to create and move as much product as possible -- by reducing costs so as to maximize profits -- and this goal or ability may not be attainable for retailers.

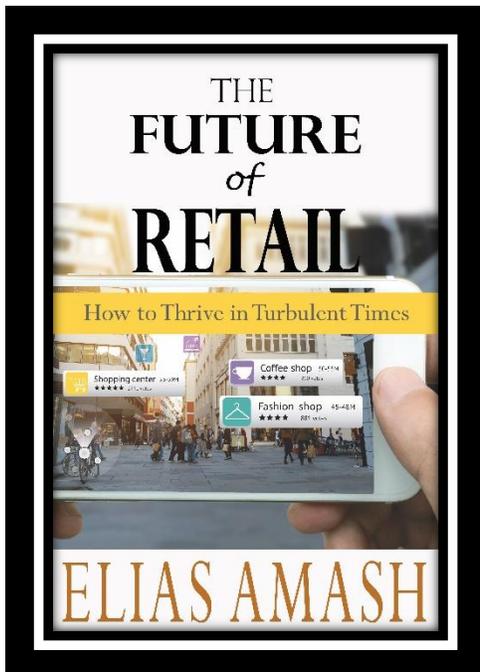
While the idea of creating products with your company's name on them sounds exciting, it may lead to hundreds of wasted hours (and thousands of wasted dollars.)

"It's at moments like those that entrepreneurs need to ask themselves: "What business am I really in? Where do I want to wind up?"" , [asks](#) Norm Brodsky, senior contributing editor of *Inc.* magazine.

Retail beyond shopping

Having your brand name not only on the sign outside the building but also on products on the shelf is only one way of extending your company's brand.

As I've pointed out in [one of my books](#) and in previous articles, the most successful retailers are finding ways to extend the traditional shopping experience and deliver unique ways to bond with customers.



The in-store buying experience should delight customers with personalized service and more importantly, provide critical purchasing information that consumers cannot get online.

With access to well-trained, highly knowledgeable and fully-engaged retail store associates, customers will return to that store time and again because they know that that in-store experience cannot be found elsewhere -- whether online or at another retailer.

Shoppers are willing to pay for for these unique, unforgettable experiences. To extend their brands and get cozier with customers, many retail chains have launched such programs as DIY demonstrations, food and wine tastings, art classes, fashion shows, and fitness

competitions -- thereby keeping a steady stream of foot traffic in their stores.

Customers are enabled to derive an emotional or physical connection with the products offered in the store. This encourages the shopper to make a purchase, so as to retain that experience once he or she leaves. The emotional tie-in or memory of the product also serves as a reminder that a future trip to that physical location might be in order.

As we all know, a unique customer experience leads to customer loyalty. You can ask yourself, do you want to dazzle customers with your name brand on the shelf, or with unique experiences that they will later share on Facebook and Instagram?

If you are a retailer and you are curious about developing a private label product, please feel free to contact me. I have over 20 years of experience launching brands, and also licensing other brands and creating new products for the marketplace.

To sum up, the costs associated with the development, launch, and maintenance of private label products may outweigh the benefits. And if brand extension and customer loyalty are your goals, you can find other ways to achieve these without the headaches often associated with creating private label products.

About the Author

Elias Amash, President of GRIP, is an industry veteran with more than 20 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has “leveled up” the industry with GRIP’s undying commitment to offering only the highest levels of service to its customers. Amash has recently published his third business book, [The Future of Retail](#) which is available on Amazon. He is also the author of *Importing from China: The Good, The Bad, and The Ugly*, and *101 Bright Ideas: Winning Tactics to Increase Retail Sales*.



About GRIP

GRIP was incorporated by Charles Amash in 1980 and has grown into one of the nation’s top suppliers of innovative products to the retail industry. Located just south of Grand Rapids, Michigan, GRIP features a 200,000 sq ft state of the art warehouse facility including a 2,000 sq ft product showroom. GRIP carries a product line of over 1,000 specialty hand tools, automotive, cargo control,

Goodyear Air hose, LED lighting, Magnetics, outdoors, household items, and general merchandise. GRIP has a proven track record of excellence in supplying retail clients with innovative products, timely fulfillment, and world-class customer support. At GRIP, everything is about earning your business...one customer at a time. It’s about building relationships and fostering business partnerships that will last long into the future. Our goal is to have Customers for Life. The future at GRIP is exciting and we’re hoping that you can be a part of it as one of our many Customers for Life. Learn more at www.whygrip.com.