# VIEWPOINTS
## ON INNOVATION

VIEWPOINTS ON

## INNOVATION IN STORE BRANDS

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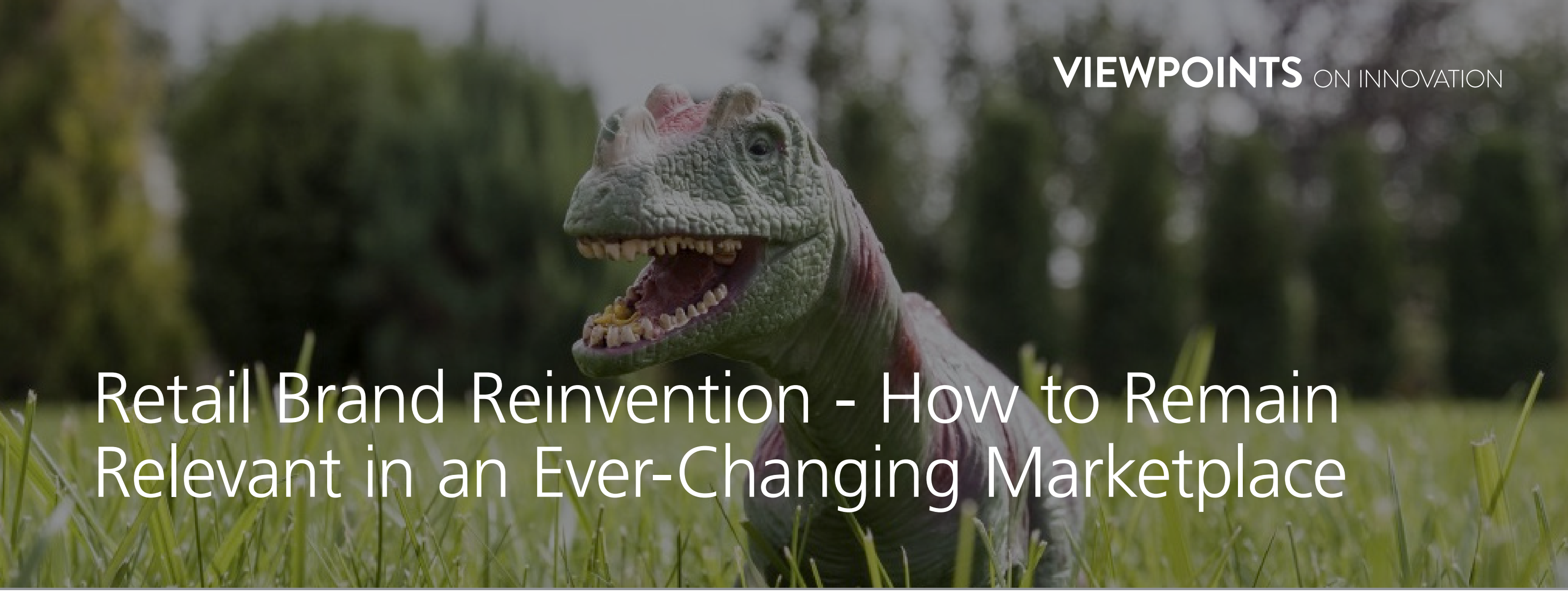
IN THIS ISSUE:

# Innovation in Store Brands



# Retail Brand Reinvention - How to Remain Relevant in an Ever-Changing Marketplace

By Hala Hassoun

**In a rapidly-evolving consumer market, it can be challenging for retailers and fashion brands to remain relevant. We often look to iconic brands like Apple that are able to continue their momentum of growth through constant innovation. But what happens to companies that are either struggling to keep up or risk going out of business because they are no longer relevant? The retail landscape is littered with brands that were once at the peak of popularity but were unable to maintain their position and have slipped into oblivion (remember Contempo Casuals or British Knights or LA Gear?)**

What makes some brands bounce back from the brink of extinction while others slowly and painfully die out? While there is no single answer, by taking a look at brands that have succeeded in turning themselves around, we can highlight certain pitfalls that should be avoided and actions that can be taken to course-correct a flailing brand. Whether you call it a refresh, reinvention, or rebrand, reviving a struggling brand can mean the difference between a future of growth versus one of bankruptcy.

## Warning Signs and Pitfalls

### Warning Sign #1 - Losing the Original Identity

Many companies stumble because they extend into categories where they don't belong. They fail to conduct the proper research before expanding into unfamiliar product categories or new consumer segments. Too often, companies will focus on the future market without factoring in what's happening today and what baggage currently exists for their brand.

Without enough insight to understand what the current customer is doing and what a potential customer wants, it's impossible to understand how to serve both.

In the mid-2000s, Walmart introduced a selection of higher-end apparel and moved its merchandising office to NYC to be closer to current fashion trends. The company launched its new private label brands at higher price points than its core products. What the company didn't consider enough was whether its target market was actually willing to shop at Walmart stores. Even though the new apparel may have been on-trend and priced right, someone who is used to paying more for clothing than the average Walmart shopper may not be willing to make the switch from his or her current retailer or choice. Walmart didn't factor in the "baggage" its brand in the apparel industry. To make matters worse, as the company struggled to attract more affluent consumers, it quickly expanded the new product lines to stores where there was no market for it, forcing it to clear through the excess inventory and causing frustrations among core consumers who felt alienated by Walmart's rebranding.

Eddie Bauer's failure was broader but more gradual. The company started as an outdoor retailer, but as the years progressed, it tried to grow revenue and widen its appeal by offering more casual apparel and specifically targeting women. As a result, the original rugged outdoorsman image faded and Eddie Bauer eventually became a middle-aged lifestyle company. After filing for bankruptcy in 2005, Eddie Bauer brought in Neil Fisk as CEO in 2007 to help turn around the ailing company. Part of Fisk's strategy included refocusing the merchandise assortment on more outdoor apparel and equipment – essentially returning to the original Eddie Bauer ethos. The plan was partially successful: First Ascent, the company's new line of expedition and ski wear, received awards and positive response from the outdoor community. However, the company continued to struggle and filed for bankruptcy again in 2009. Despite the gains it had made in the outdoor apparel category, Eddie Bauer still struggled with its broader consumer segment and may have been hurt by higher price points than its competitors, L.L. Bean and Land's End. Today, Eddie Bauer is still struggling to redefine itself. With a new management team and the appointment of a former Nike executive as VP and Brand Creative Director, the company is clearly trying to regain its reputation in the active outdoor industry. However, the jury is still on out whether they'll succeed.

### Warning Sign #2 - Not Keeping up with Changing Consumers

Consumers and market dynamics change. Tastes evolve, new competitors come in, and the playing field shifts. Companies that can't keep up with the evolution of their market will eventually lose relevancy.

Abercrombie & Fitch was once the epitome of cool for high school and college students and had developed a clearly defined look under the strict guidance of Mike Jeffries. The brand did not waver from its image of young, fit, and highly sexualized men and women. During its heyday, this image of exclusivity was what young consumers wanted and wearing the Abercrombie logo was a clear status symbol. However, teenagers' tastes began to change and A&F's core consumers became less and less interested in following a prescribed image. The company stubbornly kept the same look it had since the 1990s even as its customers started moving towards the newer fast fashion competitors in the market. The company tried to evolve by offering more fashionable clothes, reducing the amount of products with logos, and collaborating with other companies such as Keds. However, they tried to play it safe with subtle changes and failed to truly innovate. After 11 straight quarters of same-store sales declines, Mike Jeffries stepped down. The company continues to struggle and has not been able to regain some of its foothold in the market. Without a significant change in its brand identity, A&F may end up being another Blockbuster or Filene's Basement – a brand that was once at the peak of its market but became irrelevant.

## Turning Around an Ailing Brand

Multiple factors are needed to revive a company that has lost its way; strong leadership committed to changing the company, a willingness to take risks, a sense of trust among employees, and true understanding of the consumer. Everyone needs to be committed to the goal (employees, shareholders, executive team, etc.) and not fear reprisal at the first failure. A retail company on the decline must first determine how dire the situation is: do they need to refresh an existing brand to keep up with changing trends, or do they need to completely restage the brand to regain relevancy?

### Brand Restage

Classic brands that have faded from the mainstream can survive because of a loyal core consumer. But when a company focuses too narrowly on a single segment, it risks aging itself out of the market. At the same time, brands that extend beyond their capabilities can lose their identity. Companies that have lost their way can regain a foothold in the marketplace by restaging their brand.

Two iconic 1980's footwear brands are perfect examples of companies that have recently experienced a resurgence in popularity. After the glory days of the preppy 80's, Sperry Topsider and Keds both lost their appeal due to changing trends. However, in the late 2000s as designers and consumers began to pay more attention to heritage brands, both companies partnered with other brands to create buzz-worthy collaboration products. Sperry Topsider partnered with cutting-edge fashion labels such as Band of Outsiders, Milly, and A Bathing Ape while Keds worked with likes of Kate Spade and Taylor Swift. These collaborations extended the brands' exposure and made them more relevant to younger and more fashion-savvy consumers.

Brooks Sports also recently restaged its brand. Despite reaching success in the 1970's and 90's, the company was on the verge of bankruptcy in 2001. At that point, the company was selling footwear and apparel for a variety of sports as well as cheaper athletic-style shoes that couldn't compete with true athletic footwear (CEO Jim Weber refers to them as "barbecue and lawnmower shoes" because that was all wearers would use them for). In order to compete with other footwear companies, the company decided to focus exclusively on running. This specialization allowed them to compete in one category and focus all of their energy into perfecting products for runners. Product innovation became the top priority as the company expanded its material research, partnered with biomechanics researchers and developed a shoe lab to test the effect of its shoes on performance, comfort and biomechanics. By streamlining their product development processes and focusing on new product innovation, the company continues to improve its product offerings.

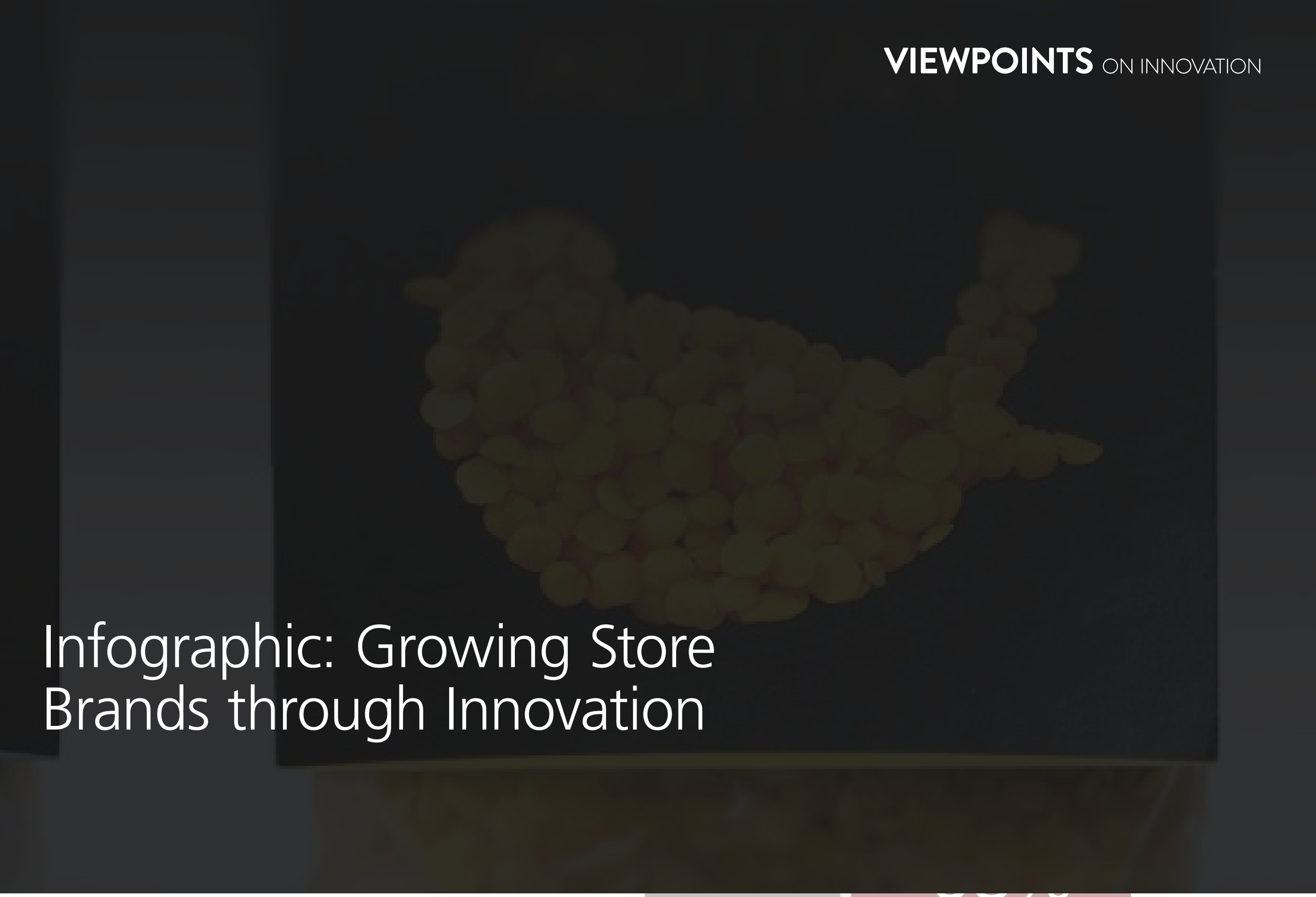
## Brand Refreshes and Brand Extensions

Burberry is constantly mentioned as a great example of a fashion come-back. And for good reason. After years of diluting the brand image through licensing, lower-end product lines, and declining quality control from a broad and disparate supplier network, the 159-year old company has done an excellent job repositioning itself. In 2001 the company appointed Christopher Bailey as Creative Director (now Chief Creative Officer), responsible for all aspects of design including apparel, marketing, store concepts, etc. This ensured that everything the customer saw and interacted with went through his office, creating a more cohesive brand experience. The company eliminated or phased out of its lower-end products and refocused on the luxury consumer. The team continues to develop new products while still remaining true to the company heritage.

L.L. Bean, an iconic brand that has survived for over a century, was at risk of aging itself out of the market. The company benefited from a loyal customers base, but that customer was aging and L.L. Bean was unable to attract younger customers with their existing product lines. The company was not keeping up with current trends and was better known for its hunting boots and "mom jeans." In order to reach out to a younger and more fashion-conscious consumer without alienating its core customers, L.L. Bean launched Signature in 2010.

The Signature line reinterpreted heritage products with new styling details and updated fits to appeal to younger consumers. The line launch garnered significant media exposure in the fashion industry and helped the company attract younger customers. In 2014, the company recorded record profits and four years of revenue growth, driven in part by the success of the Signature line.

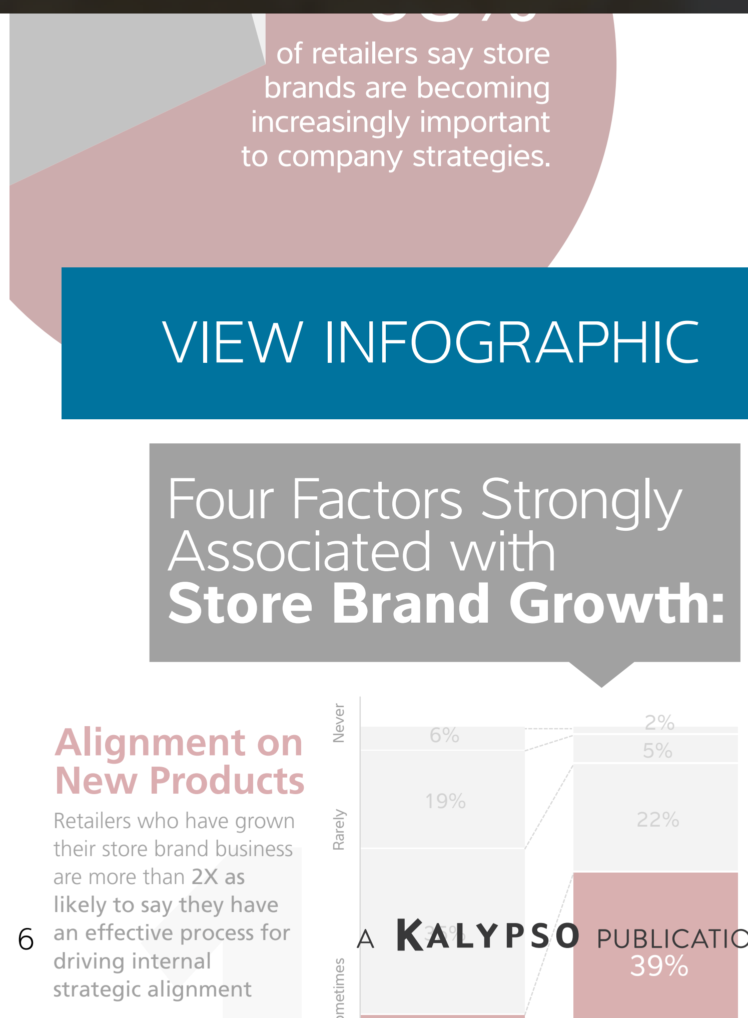
Just like there is no single reason for a popular brand to lose its luster, there is no silver bullet solution to revive an ailing brand. A strong and committed leadership needs to be willing to take risks by shaking up the product portfolio, establishing better process and systems to innovate new and more relevant products, and going beyond its comfort zone to attract new customers willing to pay for innovative products. This can't be done all at once and often requires outside help to provide new perspectives, industry best practices, and a clear understanding of how innovation must be leveraged to make a brand more competitive.



# Infographic: Growing Store Brands through Innovation

by Charisse Jacques

More than half of all new products fail to meet in-market objectives. Kalypso and Indiana University conducted research to identify factors that retailers should focus on if they want to drive growth in their store brands.




VIEW INFOGRAPHIC

# Store Brands: What Works and What Doesn't

by Sascha Jamall, Sonia Parekh and Charisse Jacques

Over the past decade, store brands have grown significantly across all retail sectors in the US. More recently, however, the growth seems to be slowing. For example, between 2012 and 2013 private label share of consumer packaged goods (CPG) unit sales remained unchanged at 17.2%[1] and private brand share in the arts & crafts sector has remained in the 35-45% range. While shoppers today are much more open to store brands, and may even be loyal to a store because of the private brands, competition and customer expectations have increased.

Why are some store brands successful while others fail? These four real examples identify key learnings about what works and what doesn't.

## What Works: Starting with the Customer

Understanding the customer's needs and motivations is critical to the success of any brand. For example, a national specialty goods retailer heard from customers that the stores were hard to shop because the aisles were crowded with products that were not differentiated from one another. The retailer decided to launch a private label portfolio across several key categories, with two specific opportunities:

1. Use a private brand to replace some of the smaller, less significant brands that were getting lost on the shelf and creating more clutter for the customer to sift through
2. Design simple and consistent packaging for private brands to speak to the customers in a refreshed way – with a focus on features and performance

This strategy proved especially successful in the kids category, allowing time-starved mothers to quickly find interesting, simple and safe projects to keep their kids busy. Both category sales and customer loyalty grew tremendously as a result of the initiative.

## What Doesn't Work: Building a Brand based on Internally Driven Interests

Retailers often decide to pursue private brands solely because they want to develop higher margin products, or gain leverage with the national brands. This was the case with an e-commerce retailer who developed a private brand based on the pursuit of margin and leverage, as well as competitive differentiation. However, by focusing primarily on internally driven measures, they missed the opportunity to ask the customer what she valued and expected from a private brand. Early customer insight would have helped the retailer better position the brand to meet the real customer needs. When they did ask for customer input, it was too late; key decisions were already made and downstream implications made it too hard to change positioning. Facing an uphill battle for wallet share, results were lackluster and the private brand was de-emphasized.

1 Private Label & National Brands: Paving the Path to Growth Together, IRI, December 2013.

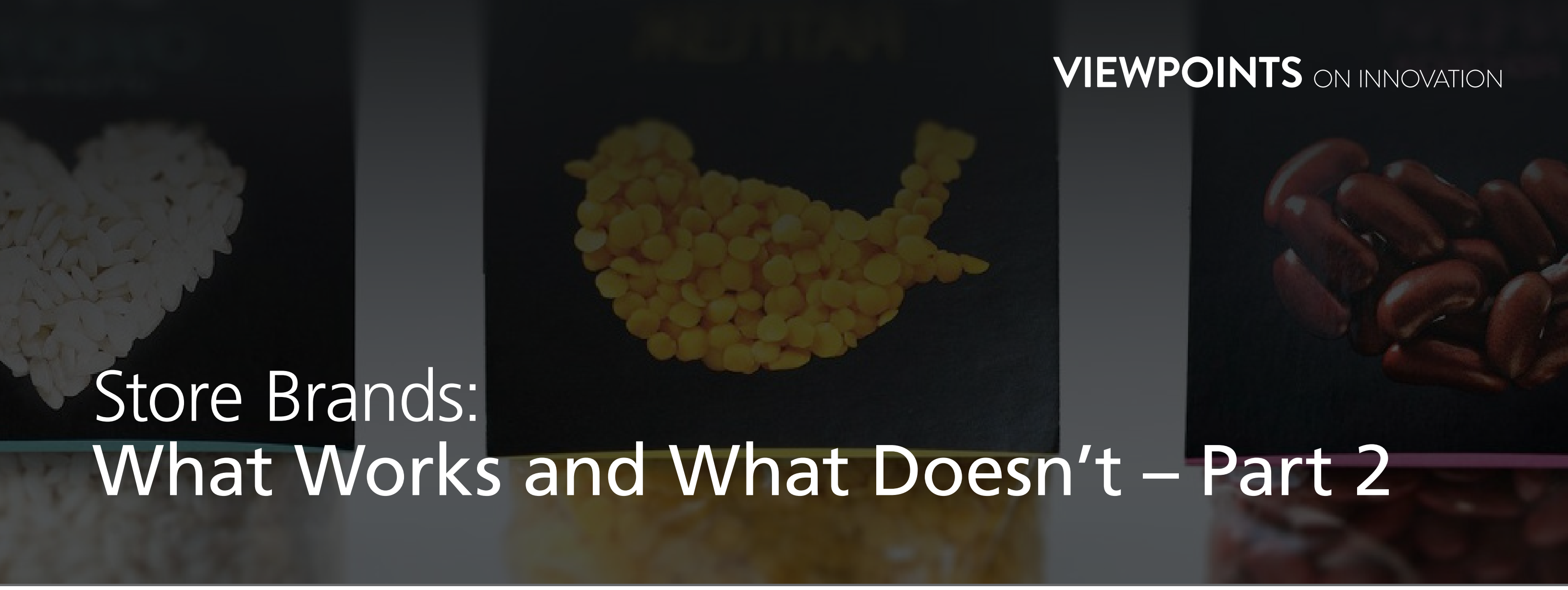
## What Works: Making the Store Brand a Strategic Part of the Portfolio

Store brands should be strong strategic assets that drive loyalty and profitable growth of the overall retail brand. A broad line national retailer recently drove success by building and nurturing their store brand through a well planned and executed marketing and promotional strategy, backed by the right level of investment. They built up separate marketing spend by holding back some margin and working with their store brand suppliers to contribute earmarked funds. They used the funds to execute coordinated, cohesive campaigns that enabled the brand to stand out amongst the sea of all the other brands. As a result, the store brand created a halo affect for the overall retail brand.

## What Doesn't Work: Treating the Store Brand like Just Another Vendor

For some retailers, store brands are developed by a product development team that works with little input from merchants. A national department store carrying over 50% private label merchandise built a large and highly capable product development team to support all of the store brands. This team worked in a silo, and while merchants participated in some of the key meetings during the process, their relationship was not collaborative. As a result, merchants treated the private brands in the same manner as outside vendors, forcing them to compete with national brands for space in the assortment plan. Inconsistent adoption rates and last minute changes requested by merchants drove product costs up and created frustration in the product development organization. As a result, the store brands never flourished as a strategic asset.

Developing a successful store brand requires a significant investment of time and resources coupled with innovative thinking, marketing prowess and a cross functional commitment. For many retailers, it also requires building new muscle and capabilities across the enterprise. In our next article we will explore the specific areas of the ecosystem that are impacted as part of the store brand journey



# Store Brands:
# What Works and What Doesn’t – Part 2

by Sascha Jamall, Sonia Parekh and Charisse Jacques

In part 1 of this series we reviewed some of the key elements for success in building a private brand strategy. We focused on the importance of starting with an understanding of the customer and asking her about what would motivate her to buy private brand product. We also reviewed some of the pitfalls retailers face when the strategy is purely internally driven and not customer centric.

In this article, we will focus more on some of the internal implications that the best retailers think about and plan for. Developing and sustaining successful store brands requires a broad commitment and participation across the organization – it requires an ecosystem. Without it, there can be a myriad of unplanned issues that arise during and after implementation that can take away from the benefits. Here are four things that work when developing an effective store brands ecosystem.

## What Works:
## Partner with Merchandising

For a retailer that primarily sells national brands or brands with limited customer recognition, private brands can build customer loyalty, create competitive differentiation and drive incremental margin growth. A well-crafted strategy starts with the total involvement of the merchandising function. Whether the work of executing the strategy falls on existing buyers or a new private brand function, the buyers must be equal and active partners in defining the strategy, approach and metrics. Partner with merchandising to determine a step-by-step road map for each product category with specific sales penetration and margin targets. Establish alignment in regards to private brand’s role in the assortment and discuss whether national brands will be offered an opportunity to retain their business. Retailers that partner with merchandising up front to address these critical issues will develop a well-crafted strategy that is much easier to execute.

## What Works:
## Invest in New Capabilities and Skills

Many retailers sell national brands as well as their own. In order to create a differentiated assortment and source it profitably, invest in new functions and skills. A traditional buyer is most likely used to working with domestic vendors that provide the design, product planning and sourcing services. To do private brands well, retailers need design/product development, sourcing and quality assurance talent. Although some of the basic functions can be supported by vendor partners, a strong internal team can efficiently oversee and manage a private brand strategy. A related decision will require a “buy or build” assessment on using 3rd party buying agents or opening overseas offices. In some industries (eg: grocery), a similar decision on building manufacturing facilities or using contract manufacturers may be necessary.

## What Works: **Remember - When it Comes to Risk, a Private Brand Retailer is a Vendor**

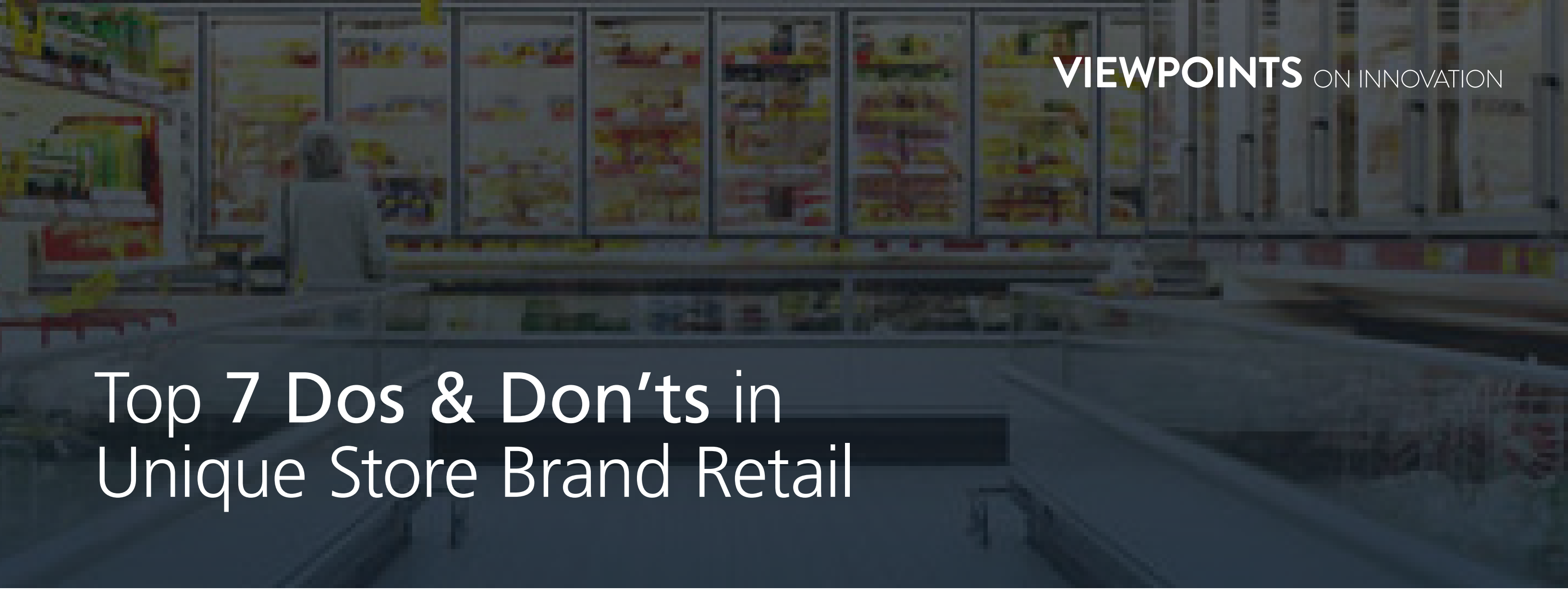
When selling private label products, the retailer has a new role - that of vendor or manufacturer. In the event of a regulatory or quality issue, the retailer is the vendor – but without the same resources as a national brand, resulting in lengthy, complicated and expensive negotiations. In the event of a product recall, the retailer is exposed to reputational risk with their customer. The best retailers invest in a quality assurance capability that includes supplier audits, quality inspections and product testing components. An additional investment is often required in the legal function where intellectual property and product recall risks can be monitored and mitigated when issues arise. Retailers that become private brand "vendors" must also implement traceability throughout the supply chain. This means understanding who made the product and where all the raw materials came from.

## What Works: **Inventory Management and Planning Support**

Unlike most national brands that have liquidation allowances (i.e.: mark downs, returns, guaranteed sales), the retailer must internally fund a private brand liquidation. Ideally, a certain percentage of the incremental margin is set aside to help manage the normal lifecycle of the product from birth to death. If liquidated product will be sold to off-price retailers or another external channel, retailers should carefully consider branding and product packaging.

Many private brand strategies in the apparel and home industries include an element of working "factory direct" versus through a domestic vendor. In most cases, the longer shipping lead times can create a problem for stranded inventory (i.e.: inventory that is not optimized for sell-through at a particular store, too much distribution center inventory, etc). Retailers that improve forecast accuracy and inventory flow avoid many of these issues.

Developing store brands can help drive sales and strengthen the overall retail brand. However, successful store brands require the support of an ecosystem. Make sure your company understands what works and what doesn't to ensure the success of your private brand investments.





# Top 7 Dos & Don'ts in Unique Store Brand Retail

by Steve Riordan

Today's retailers win by developing differentiated and innovative unique store brands. This eBook offers seven dos and don'ts for developing a unique store brand program that reaps the benefits of superior category sales, consumer loyalty and brand equity.

## A History

Historically, U.S. retailers have used unique store brands for three reasons:

1. **To provide strong price point** comparisons to national brands.
2. **To enhance profitability.**
3. **To increase leverage in national brand negotiations.**

However, a focus on these points alone is no longer a sufficient strategy to win in today's value-driven world. Today, retailers win by developing and strategically using differentiated and innovative unique store brands.

## What's Winning Now?

A well-executed, unique store brand program can be a powerful weapon in the fight for consumer loyalty. Winners use unique store brands to differentiate and win against the competition. Unique store brands draw consumers into the retailer via the strength of their equity versus competing as national brand equivalents.

### "Winners" in Unique Store Brands:

- Demonstrate the ability to successfully build a differentiated brand strategy.
- Change consumer perceptions about unique store brands.

These players benefit from superior **sales, loyalty** and **economics -** and grow overall category sales through the use of their unique store brand programs.

### Proof Points

- Winners have an average **market share index of 110** versus the competition in categories with high levels of unique store brand penetration.
- Winners have a **1.8x share of wallet** versus competitors.
- Well-designed, well-executed store programs can drive over **40% higher margins** versus national brands.[1]

1 Source: "Breaking Through in Private Label: A Key Platform for Competing in a Value-Driven World." McKinsey/ACNielsen, May 2006.

# Apply Brand Management Principles

Retailers who excel with unique store brands have treated them as "brands," using best-in-class brand management principles to understand:

- **Who** is the brand's target consumer and what is her/his desired shopping and usage experience? (i.e. specific consumer insights)
- **What** will our brand stand for? What is our unique brand equity or points of difference versus the competition? What is our innovation plan to delight the consumer and deliver on our equity?
- **How** and where will we reach our target consumer? What is our marketing plan? What is our pricing strategy?

For retailers struggling to answer these questions, start by focusing on the following seven dos and don'ts for unique store brands.

## 1. **Do…**

### Do commit to using your unique store brands as a strategic weapon.

- Resolve to change the game by defining the role of unique store brands in your overall retail brand strategy.
- Use unique store brands to tell your consumers/shoppers what you stand for as a retail brand overall.
- Adopt a long-term view for your unique store brands, starting with a vision of where you want to be.
- Leverage your unique store brands in category strategies—how can your unique store brands drive category sales and profit?

## 2. **Do…**

### Do elevate and develop your brand-building capabilities.

- Start by applying traditional brand management competencies and processes to launch and manage your products.
- Create consumer/shopper insight capabilities to better understand your consumer and identify opportunities to innovate and improve. Remember, the consumer/shopper is boss!
- Build up your innovation capabilities so you can find and develop unique and relevant products that meet the needs of your consumers and help set your brand apart.

## 3. **Do…**

### Do manage your brands as a strategic portfolio.

- Understand the unique reason for being of each unique store brand in your portfolio and then invest in your key brands.
- If a brand is not a key piece of your portfolio, consider de-listing it to focus on brands that count.
- Actively market your unique store brands. Use in-store, features, loyalty card databases, TV and print advertising.

## 4. **Don't…**

### Don't overlook the store as a branding vehicle.

- Store design, display, signage is your real estate. Use all of your in-store tools to actively promote your brands ahead of national brands.
- Develop brand design themes to ensure consistent look, tone and feel across all in-store touch points.
- Have your entire organization own the brand, not just the brand management group; put your store design group in charge of bringing the brand alive in-store.

## 5.**Do…**

### Do innovate systematically.

- Break down mindsets in your organization that stifle innovation, such as "it's too expensive to innovate," and "we don't know how to innovate."
- Become obsessive about knowing your consumer/shopper by developing and using a broad set of insight, generating approaches to understand them and help you generate new ideas to meet their needs.
- Think outside the box by actively looking beyond your organization to multiple sources for new ideas and technologies. Don't just bring the outside in – welcome it!

## 6. **Don't…**

### Don't assume that you can transform with your current resources alone.

- Your current personnel may be talented, but they may not be those who will enable you to become a great a brand management organization.
- You need the right skills and the right people to create the mindset of a truly brand-focused organization. Be open to hiring from the outside to achieve this.

## 7. **Don't..**

### Don't assume this is a one-time fix.

- Remember that building your brands' equity also builds your overall retailer equity.
- To grab their interest in your brand; you'll need to maintain a relentless focus on delighting your consumers.
- Make sure you continually reinforce a commitment to product quality and innovation – the national brands do. To keep up and stay ahead; you'll need to as well.

## Unique Store Brand Retail

Today, the best-in-class retailers are winning with unique store brands.

To achieve the same success, it's time to adopt a classic brand/category management approach.

To learn more visit **kalypso.com/storebrands**

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# Solving the Store Brand Leader Dilemma

by Steve Riordan and Scott Gamble

Growing the store brands business can help retail companies differentiate and win. With an initiative this important, retail organizations require the right kind of leader to provide vision, direction and execution. This Viewpoint details two options - the Retail Rising Star and the CPG Free Agent - and discusses the pros and cons as well as tips to enable success.

Many retailers are making a push to dramatically grow their store brands businesses to differentiate their stores and win in market. Boards demand it, shoppers expect it, and competitors see the same opportunity. As a result, retail organizations require the right kind of leader to provide vision, direction and execution to grow their store brand businesses.

## The Retail Rising Star

The retail rising star, is typically someone who has moved up in her retail organization via the fast track. She has been successful in buying and/or supply chain roles, gaining increasing levels of responsibility. She has built a number of strong, cross-functional relationships over the course of significant initiatives conducted within the company. This leader has demonstrated success in both driving operating results and in building talented teams. Although building a store brands program is outside of her expertise, senior leaders in her organization trust her to take on this substantial responsibility.

There are a number of obvious advantages to selecting the internal retail rising star for this role. First, this person is a known entity in terms of cultural fit, and will not require as much time to become integrated into, and accepted by the company. It is likely that the vast majority of executives see her as the logical choice for the role, as she will likely have a strong, informed view of the issues and opportunities associated with taking the store brand program to the next level. Also, this leader is capable of quickly putting together an internal team, drawn from people she has directly worked with and mentored throughout her career. She will likely have the trust of senior leaders, peers and other key executives required to navigate the inevitable challenges that will occur in the course of growing the store brands program. As a result of these advantages, the retail rising star should be able to quickly build a strong, long lasting coalition of cross-functional support to ensure the success of the program.

However, there are a number of gaps that may exist in the rising retail star's capability set. It is likely that she has not directly lived leading practices in bringing new store brands and merchandise to market. Many of the leading practices for the strategies, tactics, structure and processes required to build a thriving brands program reside outside of retail, and instead are often found in CPG companies. Because of this, she may not have a deep-rooted understanding of the best way to execute this initiative.

Further, the rising retail leader's skills and experiences may not transfer to the unique type of leadership needed to build new capabilities within the company. If the program struggles, doubters may be quick blame these deficiencies on the retail rising star.

### To ensure her success, retail leadership must support the retail rising star in several ways:

1. Enable her to hire a first lieutenant from outside the company – and from within the CPG ranks – to complement her strengths and bring credibility to the team. As a leader, she should be able to supplement her team with additional outsiders as needed, especially in the early phases where building momentum is key.

2. This leader should take the time early on in her new role to ensure her team understands leading practices for establishing a viable store brands program. This may be accomplished by attending conferences, conducting secondary research, leading workshops and summarizing the insights and implications from this learning process. This will provide the team context for their own strategy development.

3. Finally, retail management must understand that building a leading store brands program requires ongoing investment to realize sustainable results. As such, the retail rising star must be able to present a business case requiring upfront investments which lead to a strong, three to five year ROI. To succeed, her team will need to secure short term "P&L relief" to build a superior, differentiated store brand program.

## The CPG Free Agent

The other choice, the CPG free agent, is someone who has advanced in the CPG ranks via the fast track, often in more than one company. She has likely been successful in brand building, product development, or supply chain roles, and has gained increasing levels of responsibility. This leader has established a reputation in the industry for building and launching successful brands and/or products and is well known outside of her company. Similar to the retail rising star, this leader has had success driving operating results, building teams and playing leadership roles on important initiatives. A retailer would see opportunity in this person because of her proven ability to build and launch brands.

There is a different set of advantages to selecting the CPG free agent. Simply, this leader understands what to do and how to do it. She knows how to set a vision and strategy based on the unfulfilled wants and needs of the shopper and end-consumer, and how to successfully execute this plan. She knows how to put the right operational processes and technologies in place, and how to measure and motivate cross-functional teams to bring new brands and merchandise to market. CPG free agents often come from companies that have greater access to market and consumer insights than retailers themselves.

Of course, possible deficiencies may exist in the CPG free agent's capability set. As an outsider, she will be an unknown within the organization, and as such, will need onboarding and integration time, which may affect her ability to ramp up growth activities quickly. She may face challenges from internal executives who competed for this role, and from others who would have preferred the leader to be promoted from within. Ultimately, she will need to meld into the culture to form the cross-functional relationships necessary to be successful. She may face challenges from her new team, with unrealistic expectations about the size and timing of the operating and financial impact that a new leader can have.

Finally, as it is unlikely that she will have first-hand experience as a senior executive in a retail company, there will be aspects of retail that she simply may not understand well.

### To ensure the success of the CPG free agent, the retail organization must address both her strengths and weaknesses.

1. The CPG free agent will need strong sponsorship at the C suite level, with one person clearly owning responsibility and accountability for the new leader's success. The retailer should support her by collaboratively building consensus and aligning expectations for the role by developing a "100 days plan" during the recruiting process. A draft plan should be completed before the first day of hire, and vetted with the two to three key executives she will work with most, ideally from supply chain, marketing and finance.

2. The CPG free agent should be granted the ability to recruit internally and reassign a highly regarded, high talent first lieutenant to complement her capabilities and bring credibility to the team. This asset should not be someone who was a candidate for the CPG free agent's role, but rather a more junior employee with high potential.

3. Finally, the CPG free agent will require time to understand what she has inherited. She will need time and a budget to assess the retailer's current program, to set priorities and to establish a multi-year roadmap for her growth program.

Both the retail rising star and the CPG free agent have the potential and skill sets to succeed in leading a store brands program when provided adequate support from senior retail leadership. With either choice, the retailer should expect a three to five year journey from initial selection to the fulfillment of the new leader's vision and strategy, including investments in delivering results and building sustainable organizational capabilities.

While selecting the right leader is the first step, the key in today's short-term focused business environment is to deliver quick wins to demonstrate progress, and then to stick with a subsequent long-term growth program to fuel ongoing differentiation in the market.

With contributions by Mallory Engler

# Topic Roundup from the **Store Brands Collaboration Summit**

by Amber Lyons

The Store Brands Collaboration Summit brought together representatives from the store brands industry with the goal of growing their brands and learning to be more collaborative, both internally and externally. Here are my key takeaways.

## Store Brands Are Gaining Market Share

The store brands market has gained significant power in the last decade, with many retailers extending their product mix from a focus on "me too" products that only compete on margin to a mix that includes innovative, differentiated products that compete head-to-head with national brands. The store brand drug segment in particular has seen significant growth, increasing from 38% market share in 2006 to 59% market share in 2014.

## Retailers and Suppliers Must Address the Omnichannel Opportunity

Retailers must be able to offer a seamless shopper experience to capture the needs of every individual consumer who wants to shop "my time, my way, my experience". Traditional medial channels are no longer enough to reach today's consumer who turns to social media and digital markets. Omnichannel marketing brings together all available shopping channels in a unified approach. National brands are already investing heavily in onmichannel, but what can retailers and suppliers in the store brand industry do to compete?

They need to be diligent in providing content through all channels to their customer base, understand how omnichannel decisions are made at each customer level and build that into their marketing plan, and use direct-to-consumer customization at each retailer when possible.

## Collaboration is Important

Panelists were asked how they would define collaboration, and a clear theme surfaced around achieving common goals by working together and developing transparent relationships. This theme was evident throughout the Summit, along with the internal and external challenges they faced when making collaboration a reality.

### Internal challenges

Several times throughout the Summit we heard about the disconnect between category manager and store brand teams. Cross-functional collaboration within a company is just as important – maybe even more important – than external collaboration. If business functions are not communicating, it's impossible to ensure their products and strategies are in line.

Another internal challenge is the lack of marketing funds for store brand products, which is a particular challenge when competing with national brands with deep marketing pockets.

One example given highlighted national brand dominance of online coupon services, which gives national brands an immediate advantage over store brands with coupon-conscious consumers who make their buying decisions before they enter the store. The answer may not be online coupons, but communicating with the marketing department, and ensuring marketing funds are appropriately allocated to the store brand teams, is essential.

## External challenges

Collaboration between retailers and suppliers often happens too late in the development process. When retailers and suppliers come together early in the product development process, their shared knowledge improves not only the products they develop but the processes they follow when working together. A retailer provided an example of a process improvement suggestion they received from a supplier that significantly cut the bidding time for all suppliers. The retailer's openness to collaborate was an important first step. This may not be easy for many retailers who have 500 or more suppliers, so what should they do? Don't try to boil the ocean, but pick a few strategic suppliers to focus on and begin building relationships to collaborate.

The Summit was a valuable opportunity for retailers and suppliers in the store brands industry to build relationships and move to a more collaborative environment across the industry.

# Store Brand Topic Roundup from the Innovation and Marketing Summit

By Charisse Jacques

There was a lot of great content shared during the Store Brands Decisions Innovation & Marketing Summit. Retailers continue to focus on growing their store brand (private label) business as a strategic imperative. Here are my key takeaways.

## Emulate or Innovate?

We heard a lot of discussion on whether store brands should "emulate" (copy national brands) or "innovate" (come up with their own products). The clear takeaway is that there is a place for both, depending upon the retailer's strategic objectives.

- **If all that the retailer cares about is margin, then they can get away with just emulating** with a national brand equivalent (NBE) that copies the national brand. However, this type of "me too" strategy doesn't grow the business; it only shifts business from lower margin national brands to the NBE. To grow the category overall, retailers need differentiation – which only comes from innovating.
- **The most successful retailers (when it comes to private brand share) appear to both emulate and innovate.** In addition, when they emulate, they do so with an eye towards not just copying, but incorporating some additional value to the NBE. In addition, these retailers typically have a premium line (upscale for the masses) where they also innovate. However, truly 'world class' private brand retailers go even a step further and use private brands to drive and set trends themselves - in which case, other retailers end up copying what they do. Trader Joe's is an example.

## Focus on the Shopper, not Just the Consumer

A clear advantage for retailers vs. manufacturers is that they have so much perspective on their shopper, and they need to take advantage of that. Incorporating shopper insight, along with general consumer insight, enables the retailer to be more targeted as they develop their private brand products. In addition, they should proactively think about shopability. Very few manufacturers take shopability into account, and the rubber meets the road when the consumer is in the store shopping for products.

## Learn from CPG Companies, but Only as Appropriate

Much is said about the things retailers can learn from consumer packaged goods (CPG) companies, but not everything in the CPG world is appropriate for retail. It's important to only take the most applicable leading practices. One presenter described the differences between the industries as "retailers snorkel, while CPG companies scuba dive." As an example, Safeway creates more than 700 items per year across more than 700 categories, but Frito Lay creates just over 100 items per year over far fewer categories.

This tells us that retailers need to stay "shallow and wide" in terms of how they approach their product development process. In the CPG world, a focus on phase gate processes and productivity are important, but this is less true for retailers. However, retailers should take a hard look at the organizational structure that CPG companies utilize, since they know what it really takes to build a brand.

## To Innovate, Evolve the Operating Model

To truly innovate in private brands and use them as a vehicle to drive differentiation, retailers need a different operating model.

- **Externally: Bring all the Players to the Table** – A standard linear product development process may let retailers down. When the most knowledgeable people aren't involved until later in the process, retailers aren't able to take advantage of their knowledge. It will help to get all the key players around the table earlier in the process, and be willing to co-invest in the innovation if it's needed.
- **Internally: Build the Private Brand Organization of the Future –** The way that merchandising and private brand teams work together needs to change. The private brands team should be structured and should operate like they are a CPG company competing against the national brands for shelf space. This requires distinct roles within the private brands team (i.e. marketing, sales, insights) as well as investment in the brand (trade funding to provide the merchant and resources to support future development).

All in all, the Summit was a valuable experience to dive deeper into the challenges retailers are facing with store brands.

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