PEARSON HAM

THE PRICING SPECIALISTS

# Private label pricing: Key considerations for retailers

As consumers seek to take the sting out of their shopping budget, private label sales are hitting record levels, rising 7.3% this year to hold more than 51% market share, according to market research firm Kantar.

With multiple market forces driving consumers towards better deals in the medium to long term, it has opened an opportunity for more retailers to produce their own alternatives to branded products.

You need to find the right balance between customer needs, your market/brand positioning, profitability and changes to your supply-chain.

For your new private label product to deliver on your objectives profitably, there are a few business and pricing considerations to address first.

+44 7498 910213 alexromanenko@pearsonham.com

## How have your customers' needs changed?

As a starting point, you should have a clear understanding of your customers' needs and how they are changing in the current environment. This provides you with a better appreciation of the underlying customer segmentation and their needs by segment.

By exploring changing purchasing patterns, you can find the gaps that a private label offering might be able to fill. For example, a significant drop in volume of a branded product over a sustained period is an indication that the consumer is no longer willing to accept its high price.

## Balancing the consumer basket

The branded and private label items within a typical basket will differ by customer segment. Introducing a private label product cannot risk cannibalising the branded offerings that are strategically important for you as a retailer.

At the same time, private label products can improve profitability of a typical basket thanks to the higher margin available to retailers and lower price point for the consumer.

## The brand perception question

A common consequence of introducing new private label products is a shift in perception of your brand towards the lower end of the scale. Even as the popularity of private labels has grown, there is still a belief from consumers that they are sacrificing quality and innovation for a lower price point – something that can be exacerbated by getting private label pricing wrong in the first place.

+44 7498 910213 alexromanenko@pearsonham.com

The trouble is that if the market perception starts to shift this way, it is difficult to reverse, which raises the strategic question of whether you are comfortable being perceived as a low-cost provider.

If so, do you permanently integrate your private label range into your retail strategy? Or do you introduce them as a temporary measure, with the expectation that when the economy improves the growth of the private labels will slow down?

## How to optimise your private label prices

In this environment, it is definitely a challenge to get private label pricing right. Go too low, and you will risk lowering your brand perception to a point that will be difficult to shift. But, if your price is too high, then consumers will question your value proposition versus established brands. So, how do you balance this?
To optimise your private label product pricing, you need to consider:

- Any value similarities and differentiators compared with the branded offering. How should they be reflected in your price?
- The brand reference price. Do your private label items have to be at a lower price point? If yes, then by how much?
- The pricing ladder. If the product family contains branded and private label products, what are the pricing gaps between these offerings?
- Your customers' willingness-to-pay for your private label items. What is the price elasticity?

+44 7498 910213 alexromanenko@pearsonham.com

This all about reducing the risk associated with introducing a new private label product. And for that to happen, there are five steps that you need to follow.

**1. Align your company strategy**
Decide whether growing your private label products is a time-limited or permanent move. Do you plan to occupy a different market niche, grow a different composition of market segments, or simply improve your margins?

**2. Determine your target segments and their needs**
What are your target customer segments and how have their purchasing behaviour changed? Explore whether there are any clear indications about changed preferences towards branded offerings that can be identified via market sentiment and/or historical transactions analysis.

**3. Set the private label prices**
Answering the first two questions will give you a good idea of the initial pricing of new products. In turn, this should secure a higher chance that their launch will fit well within your overall assortment of products.
If you're assessing existing offerings, you can complement these considerations with estimates of price elasticity. This helps to ensure you're setting the margins optimally, which should lead to a better alignment with the customers' willingness-to-buy and better profitability.

**4. Launch a pilot**
In a market dominated by high inflation, it's especially worthwhile to launch a pilot first. Not only will it deliver invaluable insights into the dynamics between branded and private label products, it will also lower the risk of the full rollout.

**5. Roll it out**
Once the learnings from your pilot are analysed and any adjustments made, it is time to roll out the pricing recommendations for your private label products across the entire business.

+44 7498 910213 alexromanenko@pearsonham.com

PEARSON HAM

THE PRICING SPECIALISTS

## Why private label pricing matters

Consumer perception of own brand ranges has considerably improved in recent years and their popularity is unlikely to diminish anytime soon. In addition to being at least a partial answer to diminishing margins, these products can improve customer loyalty and the overall perception of value.

However, getting the pricing right means you need to consider their relative positioning versus established brands, your overall profitability targets, any risk of product cannibalisation, and a whole gamut of other objectives and risks.

If priced correctly, current trends clearly show that private label products offer powerful alternatives to established brands that benefit both the customer and the retailer.

And with the current market challenges, that additional flexibility could make all the difference.

## Get In Touch

Alex Romanenko is Retail Sector Director for Pearson Ham. Please get in touch to discuss your retail pricing challenges.
Tel: +44 7498 910213
Email: alexromanenko@pearsonham.com