ornico KNOW HOW TO GROW

Publication		
BUSINESS DAY		
Page	Date	AVE (ZAR)
1-12	Fri 22 Mar 2019	33083.25

Focus changes to in-house brands

Many retailers have products that are specifically made for them and are generally punted as downmarket products that don't really compete with name brands. This is changing as retailers turn to in-house brands to drive growth. /Page 12

RETAIL MARKET

Change of focus to in-house brands as stores look for growth

Larry Claasen

Many retailers have always had products, ranging from baked beans to shoes, which are specifically made for them. They have generally been punted as affordable downmarket products that don't really compete with name brands.

This is changing as retailers turn to in-house brands to drive growth in a difficult economy where consumer spending has remained stubbornly muted.

An example is clothing retailer Edcon. The company, which was rescued by creditors taking a shareholding, sees the promotion of in-house brands such as Kelso and Stone Harbour as key to its turnaround.

CEO Grant Pattison says his group made the mistake of responding to the arrival of global retailers by trying to sell more international brands. This did not work because it basically ended up selling pricey goods for small commissions.

Edcon did not have this problem with its in-house brands. In getting clothing producers across Southern Africa to supply clothes at reasonable mark-ups, it made more money from its own brands than on selling branded goods.

Edcon is not the only clothing retailer going big on in-house brands. Woolworths Group CEO Ian Moir disputes the notion his group is a department chain. It should rather be seen as a "private label" retailer that offers consumers trusted house brands, he says.

@Smalltalkdaily research analyst Anthony Clark says the importance of house brands has grown for retailers as the tough economy has made consumers consider switching to less expensive brands.

This can be seen in the 2018 Nielsen State of Private Label in SA report, which notes that private labels, or "no-name brands", accounted for about R49.3bn, or 21.1%, of total retail sales in SA. This was up from the R43bn, or the 20%, it contributed in 2017. Consumers are no longer seeing private labels as cheap alternatives to branded products because retailers have made strides in getting them to see real value in in-house brands, the report says.

R49bn or 21.1% of total retail sales in SA were from private labels or 'no-name brands' in 2018

"This is driven by a greater focus from retailers to develop value for money offerings resulting in increased innovation and differentiation within this space," Nielsen said.

This innovation can be seen in the partnership consumer goods manufacturer and distributor Libstar has struck up with retail chains such as Shoprite, Woolworths, Spar and Pick n Pay to develop private label brands. These partnerships have seen it launch 387 new products in the year to end-December.

Besides wanting quality products at a reasonable price, consumers are also open to trying something new, Libstar CEO Andries van Rensburg said.

The change in focus to in-house brands can also be seen in clothing retailer TFG, which has linked its two clothing factories to its IT systems which monitor store activity. TFG chief information officer Brent Curry says this integration has allowed it to quickly increase production if a product sells well.

A commitment to in-house brands saw TGF spend R75m on a revamp of its factory in Caledon in 2017. This investment enabled "quick response manufacturing" to increase production from 2.4-million units in 2017 to 3.6-million in 2018.

Clark says by international trends there is still a lot of room for retailers to grow in-house brands in SA. In markets such as the US and in the EU, such brands account for about 30% of all sales. He says SA is on track to match this figure in the next few years. Although getting consumers to switch to "no-name brands" is hard work, it will pay off handsomely for retailers, he says. "At the end of the day, it's going to work."

claasenl@businesslive.co.za