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The coming age of store labels

One of the things I dislike intensely is buying groceries — I'm the kind of shopper who orders everything on the phone. I'm convinced it's a waste of time going through shelves and shelves of products and finally picking up exactly what you bought the last time. When it comes to milk, butter, detergent, toothpaste or *atta*, I'm quite content with the quality of the products though of course I wish they came a lot cheaper. It's not that I'm not aware that every retailer worth his salt has ventured into store labels for food as well as household products. But with the exception of Spencer's, none of the big retail chains have any stores in the neighbourhood where I live—no Big Bazaar, Star India Bazaar, Reliance Fresh or Hypercity. So, I've never really given private labels a thought, I never really believed they could be worth it.

Until the other day when I happened to walk into a *more.* store. Now I'm convinced that private labels in this country will make it big; it may take a while because ultimately whether it's a convenience store or a hypermarket there has to be one close to where you live. Otherwise the time and the effort aren't worth the lower prices. But once retailers get their act together and are able to set up a large enough chain of stores, big brands are going to have to fight for shelf space.



TAKE TWO
SHOBHANA SUBRAMANIAN

One reason why store labels will take off is, of course, because the Indian market, compared with the West, is relatively under-penetrated as far as brands are concerned. There are hardly three well-known national brands of *atta* and it's much the same for juices or noodles. With honey you have no choice whatsoever. But more than a fifth of the value of the food basket comprises staples, so any housewife would be grateful for some variety.

The other reason why FMCG companies could be in trouble a few years down the line is because Indian shoppers are always willing to try out new products, just as they're always ready to visit a new shop. Some attractive packaging and a decent price point, and they're willing to give it a shot. And if the quality turns out to be good,

you have them hooked. That explains the success of so many smaller brands; Priya Gold rubs shoulders with Britannia even in many upmarket stores. With big business houses venturing into retail, products that have an association with a Birla or Tata brand should easily find takers.

Private labels are already a hit in the apparel segment. Westside, owned by Trent, earns nearly 90 per cent of its revenues from its own labels. Westside is a success because the clothes are trendy and don't burn a hole in your pocket. Of course, it's much easier to make fashionable clothes than good food. But Westside has nevertheless done a great job of maintaining quality and not outpricing itself.

The strategy with household goods and foods should be no different except that quality is perhaps more important than the price. Of the twenty or so items that I picked up at *more.*, and distributed among friends, half turned out to be better than the branded products in those categories. Needless to add, they were all cheaper by about 10-15 per cent. From juices to *atta* and the noodles, the quality was at par with the national brands. And the dish cleaner was actually better because it melted less quickly.

The hard part for retailers is in getting the products right the first time. Once you sell a product that's not quite up to the mark, you've lost the customer. In fact, retailers may ac-

tually want to spend more on quality control in the initial stages, at the same time pricing their store brands more competitively so as to tempt buyers. The discount to a national brand could be as much as 25 per cent. That would mean a hit to the bottom line in the initial stages but it's probably a good loss-leader strategy.

For now convenience store chains will be hampered by the fact that they have limited shelf space and so can stock only that many stock keeping unit (SKUs). But if they get it right, their own brands may soon edge out the established ones. FMCG companies, for their part, are going to have to innovate much more and move up the value chain. Marico, for instance, has made a good start with the Saffola low cholesterol oil and more nutritious *atta*.

The good news for organised retailers is that even if they're operating on a relatively small scale currently, store brands do push up their gross margins by about 200-300 basis points. Of course, as the volumes go up, the impact on the margin will be far higher. Food Bazaar, for instance, generates around 22-24 per cent of its revenues from private labels while for *more.*, it's a relatively smaller 4 per cent. But *more.* isn't losing money on these products. Maybe with the money it makes from store brands, it can soon afford to start a home delivery service.

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