

RESEARCH REPORT 2017



# Driving Private Label Growth through Collaboration

How Private Label Suppliers in Europe Experience the Relationship with their Retail Clients

# Introduction

The market for private label products continues to grow throughout Europe but at the same time we have seen the concentration of retail food market share move into a few hands, with the top 5 retailers controlling over 70% of the market in most European countries.

This has created a market where a few powerful buyers interface with many suppliers. In economic terms this is called a quasi-monopsony. With over capacity in manufacturing in many product categories this has created an environment where there is major downward pressure on pricing and margins for private label suppliers<sup>1</sup>. The process of retailer consolidation has had, and continues to have, a major impact on the manufacturing industry.

We have also seen the rise of the Discounter. What started as a German format has now spread across the whole of Europe through either the expansion of Aldi and Lidl into other European countries or new local discount formats.

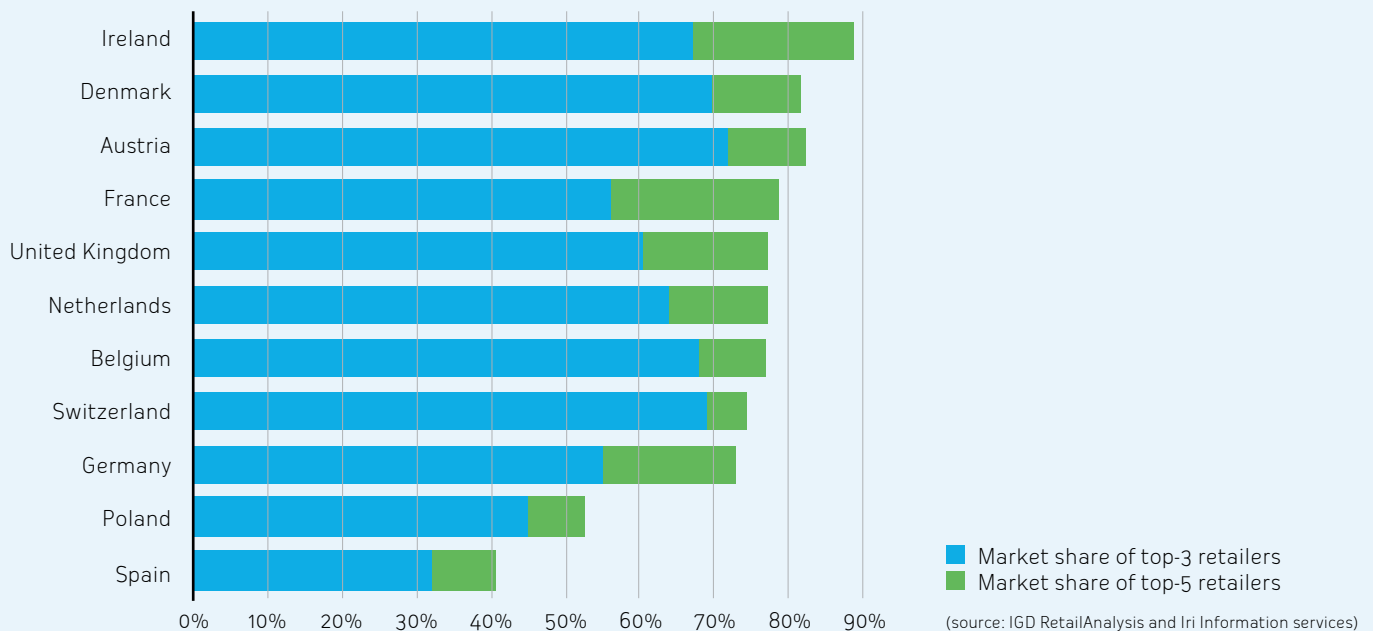
For a private label manufacturer, a contract to supply a retailer may represent a large proportion of their business, whilst one contract for a retailer will represent only a small fraction of their overall business, potentially creating a very one sided relationship<sup>2</sup>. From recent discussions with key manufacturing partners it became clear that many private label suppliers were reluctant to express their views on this imbalance and what this means on a day to day basis.

At IPLC we felt that the conditions that prevail in the market required better understanding from the manufacturer's point of view, specifically on the relationships that they have with their main customers across the key areas of:

- Collaboration
- Communication
- Innovation
- Quality
- The negotiation process
- Supply Chain

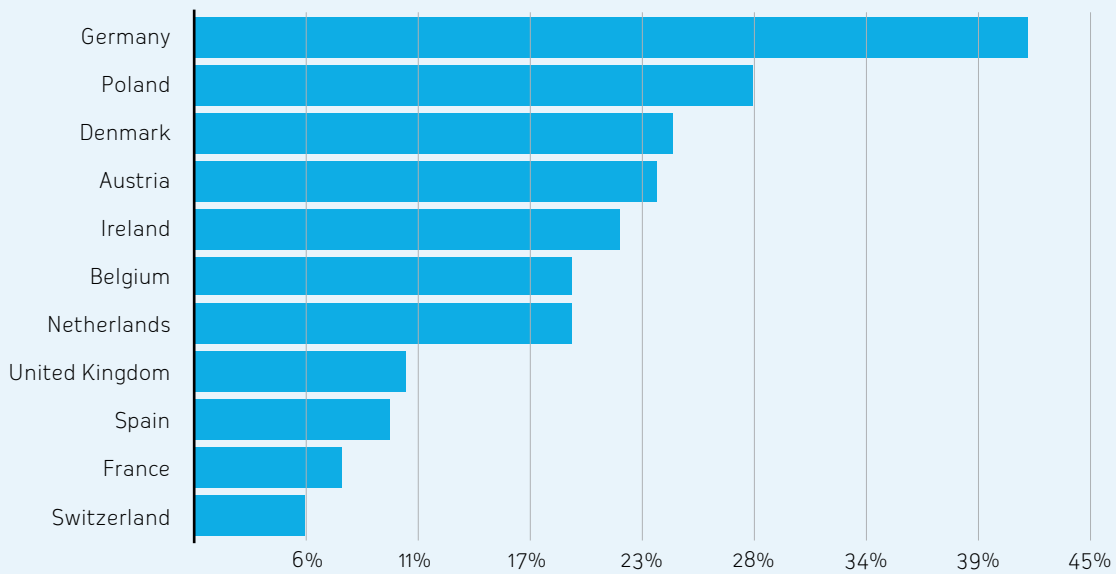
We also felt that it may provide a useful reference for retailers in understanding the issues from the manufacturer's point of view.

## Concentration in food retail





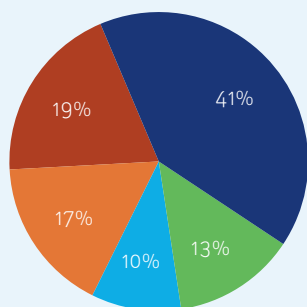
### Market share discount retail



(source: IPLC own research)

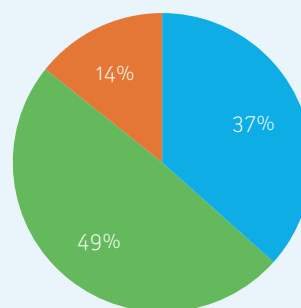


**Breakdown by product sector**



- Ambient
- Frozen
- Chilled
- Non Food
- Dairy

**Position in the company**



- Owner/CEO/Managing Director
- Commercial/Sales/Export/Private label Director
- KAM/Export/Private Label Manager

# About the research and definitions

In the first 2 months of 2017 IPLC consultants interviewed 113 senior managers from its network of private label manufacturers. The companies were also from a range of product sectors.

In addition to the spread of categories the respondents came from 16 different European countries.

Many interviews we conducted via telephone with a few face-to-face meetings, this approach was taken to ensure that the data was collated in a relatively short time frame. On average, each interview took 30 minutes although the face-to-face meetings took longer. IPLC created a standardised questionnaire to ensure a common approach by all consultants and to ensure a non-biased approach. We were keen to ensure we did not lead the responses but to obtain the views of the respondents. We also took the decision that all information, even the details of those taking part would remain confidential. This led to some very open and honest views being shared within the research.

In the research and final report, we have two clear categories of retail channel. The first is Discounters, this can be operators who are present in many countries like Aldi and Lidl, or local operators like Penny (Germany), Netto (Germany) and Biedronka (Poland). The second is Retailers like Tesco, Edeka, Delhaize, Carrefour or Albert Heijn.

The Discount format has seen major growth within the European food retail scene based upon a limited range of up to 1,600 Stock Keeping Units (SKUs), this compares quite starkly with Retailers who can operate ranges of up to 40,000 SKUs. We wanted to understand how this difference in the basic approach to retailing impacts on the ways of working and the relationship between Discounters and Retailers to their private label suppliers. We also wanted to understand what best in class looked like irrelevant which of the two channels were supplied.

At IPLC we believe this piece of research is unique in that it is the first time that the views of private label manufacturers have been presented in such a way and across so many companies and countries. Our client and contact base built up over 13 years, combined with the expertise of our consultant group gives us an authority in this sector that is unrivalled.

As you read through the report it reads quite negatively, however this was the feedback we received, we are thus obliged to report the results as it was given to us. Despite this negative feel to the report most respondents consider they have good working relationships with their Retail customers.

To let us have your comments on this research you can contact us on Private Label News on LinkedIn or any of the consultants directly as detailed at the back of this paper.

## **Koen de Jong**

Managing Partner

International Private Label Consult

## Findings of the research

The objective of this report is to firstly describe and summarise the answers of the respondents in a factual way, then we attempt to offer some thoughts on the data we have collected.

Of the 113 companies that took part in the research the majority, 94%, are supplying both Discounters and Retailers. This same percentage, 94%, also exported to other European countries. Over half of the companies, 54%, were dedicated private label manufacturers. The balance being Dual Trackers supplying both private label and their own brand(s).

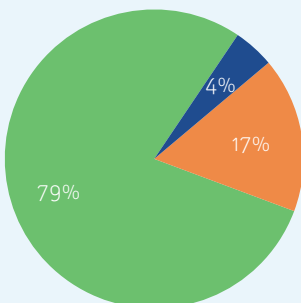
We also discovered that most companies, 79%, have more than 10 retail customers, rising to 96% who have 5 or more customers.

## Working with Customers

Most respondents consider working with Discounters as less complex and thus more efficient than working with Retailers. The main reason given was there is mostly only one point of contact. This results in quicker decision making which speeds up the process. Whilst Discounters are very demanding they are also considered more reliable, make and adhere to agreements plus, their forecasting and ordering process is better.

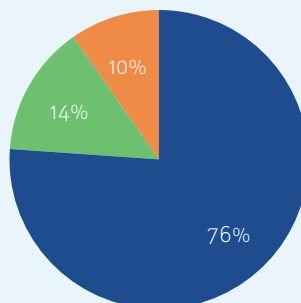
We also found that respondents used words like mutual trust, trust and loyalty when talking about their relationships with Discounters, this was noticeably used far less when talking about Retailers. The other striking difference is that product knowledge was considered more robust in Discounters with a greater focus on quality.

**Number of customers supplied**



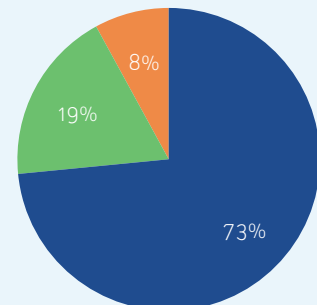
■ Less than 5 customers  
■ Supply 5 to 10 customers  
■ Supply more than 10 customers

**Is working with Retailers different from working with Discounters?**



■ Yes  
■ No  
■ Do not supply Discounters

**Do Discounters launch new products quicker?**



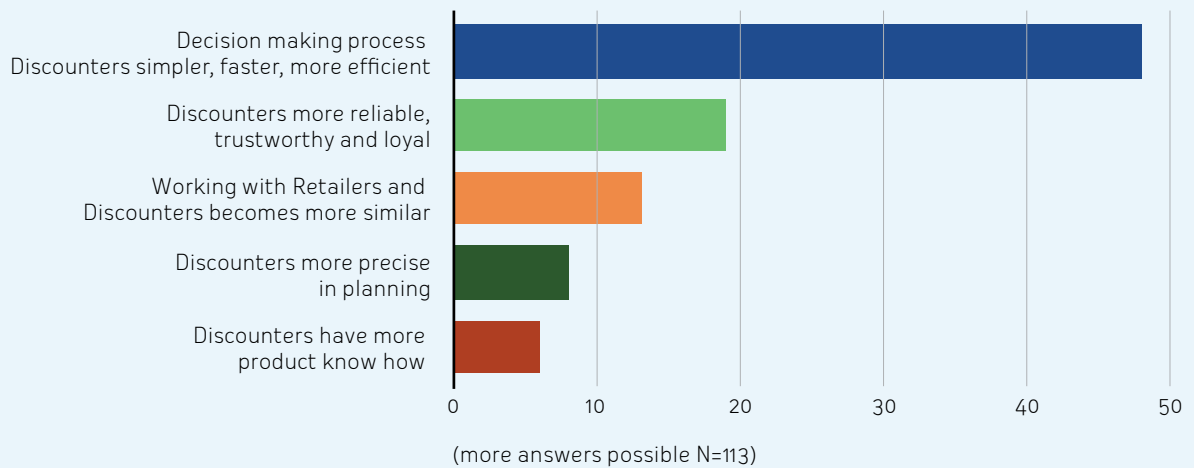
■ Yes  
■ No  
■ Other

To counter balance this Retailers were felt to have a greater focus and openness on innovation and category management through having more SKUs and multiple brands to work with. Our respondents also expressed the view that whilst Discounters remain quicker, the gap between the Discounters and Retailers is narrowing as Discounters expand their ranges.

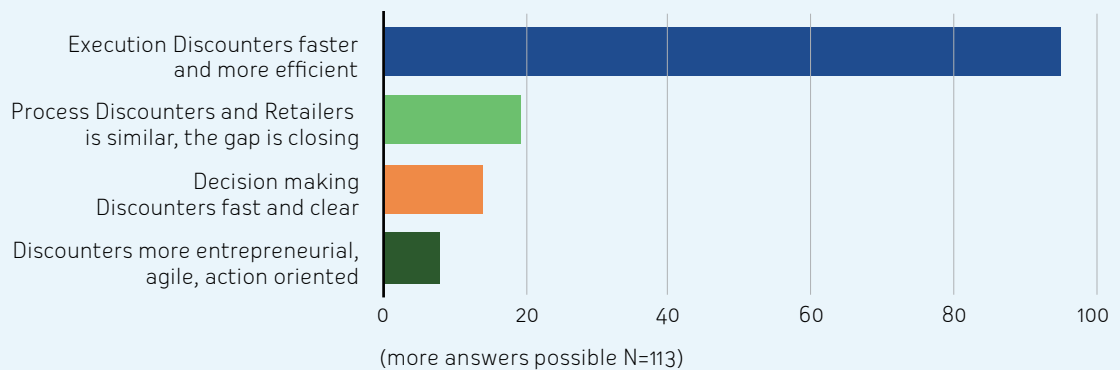
The respondents felt that whilst the processes of getting new products to market were similar between the two channels. Retailers were felt to have a more bureaucratic approach with many more people and departments being involved which slows down the process.

Whilst the Retailers are seen to support innovation we also found that Discounters have more product knowledge and will trial new products and ideas. They are seen as having both entrepreneurial spirit and act with more autonomy, which combined with a lean organisation structure allows them to operate at speed.

#### Top-5 differences in working with Discounters and Retailers



#### Top-4 differences in taking product to market



# Bottlenecks in collaboration

The companies we interviewed were quick to list a range of bottlenecks in the relationships with their customers and were equally open in suggesting where improvements could be made. Below we list the top-8 points raised, some of which are inter-related.

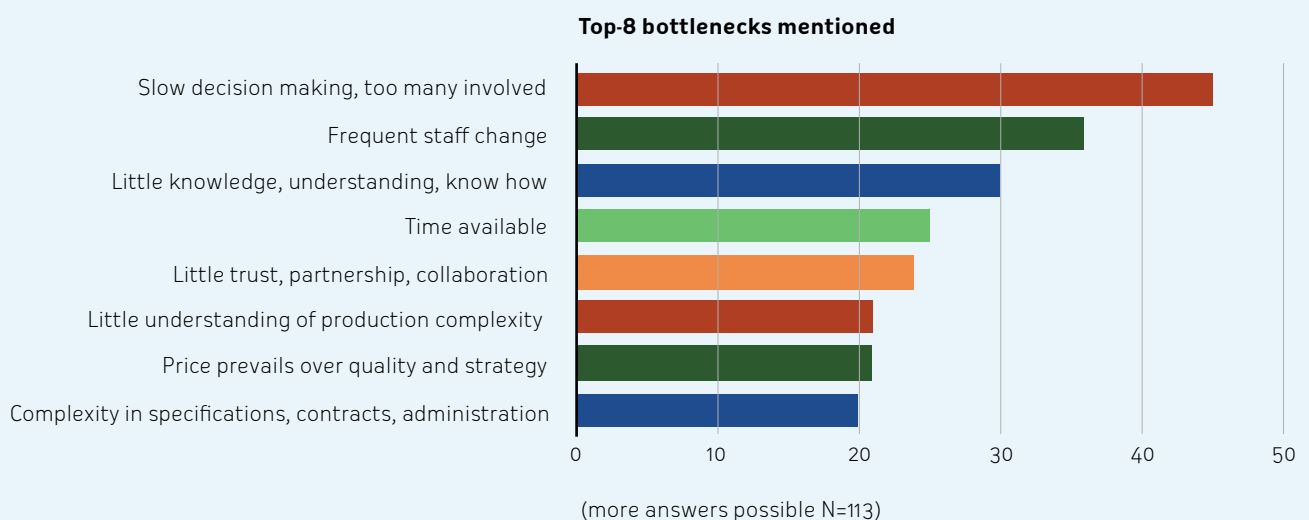
## TURNOVER OF CONTACTS

Many respondents cited the issue of frequent changes in buyers and category managers, this resulted in a loss of expertise and continuity in existing projects. It is also nearly impossible to build good working relationships. This combined with limited product, category or market knowledge results in “cold meetings” focused purely on numbers. Our respondents also commented on often dealing with inexperienced people who disregard quality and service, who do not listen and make short term decisions. The picture in Discounters was felt to be the reverse of this as the buyers remain in place for longer allowing them to build knowledge and an understanding of products and markets.

**‘Retailers explain that young eager managers must be offered new positions regularly to keep them happy. Retailers expect suppliers to feed them with the right information and training’**

Some respondents however stated that the frequency of contact turnover was a help to them and offered them an opportunity. It allows them to educate and inform new contacts about products and markets. Some respondents stated this helped build trust and a good working relationship quite quickly. However, whilst it was clear that frequent staff changes can be beneficial if you are an existing supplier, for those trying to win a new customer it was a major barrier.

**‘We had 8 changes within 1.5 year. We have never had 2 meetings with one and the same person. It is disrespectful’**





## DECISION MAKING

Another major issue for our respondents was the process for making decisions in Retailers. They said it was too long with many departments being involved, with an added complication that the objectives of departments are not always aligned. This results in confused decisions even to the point that it is not clear who makes the final decision. Also, as in most large organisations internal politics add a further complication to an already confused position.

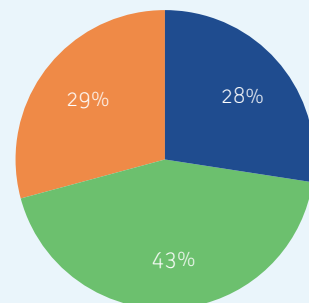
Our respondents felt that from the outside it appears that Retailers can find it difficult to manage their internal process with confusing internal communication. Whilst this leads to a lot of discussion it also appears that individuals often avoid taking responsibility which makes the outcomes unpredictable and inconsistent. Our respondents also report that they see the decision point becoming more senior within Retailers which adds to the bureaucratic process, further slowing down the whole process.

A final point made by several respondents was that the involvement of buying alliances add both to the internal politics and complexity of the process. Again, Discounters were felt to be far quicker and transparent in their decision-making process which is aided by the buyer having responsibility for the whole process and relationship with the supplier.

**‘Usually a lot of time is lost at the beginning of the project while discussing details due to complexity of formulations or recipes. This often results in enormous pressure nearing the launch date’**



**Who is the innovator in the category?**



- PL is the innovator
- Brands are the innovators
- Both drive innovation

## COMMUNICATION

A common theme from the respondents was that employees in Retailers seem to have consistently high workloads, to the point of being overstretched. This results in suppliers reporting difficulties in reaching their contacts even for day-to-day operational issues. Many stated that they felt this is where the imbalance of power in the relationship was most evident so that more information sharing and better communication would lead to a better outcome for both parties and resulting in a win-win situation.

We heard respondents say that they were required to give answers to often quite complicated issues with little time to consider the appropriate response, although when the manufacturer asks for a similar response time this is mostly ignored. Respondents also felt their Retailer partner generally lacks an understanding of the complexity of running private label production, this in turn can sometimes result in unrealistic expectations on what is possible.

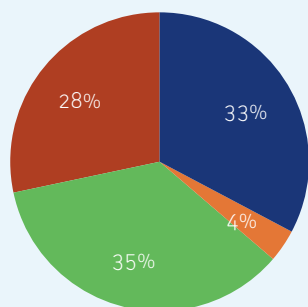
**'It is surprising Retailers can not launch faster as they demand detailed information during the tendering process. This should allow them to move fast once the deal is done'**

## COLLABORATION AND TRUST

Many suppliers stated that they must often deal with young inexperienced managers, focused on building their careers not their categories. A lack of knowledge or skill in developing a category is often matched by a lack of willingness to listen to advice or seek help from suppliers. Many felt this was a missed opportunity as they wanted the Retailer to succeed.

**'If we succeed in building a relation based on trust, it seems that everything goes much smoother. We then have a common goal. We once had a workshop with our retail-client to solve a major problem of trust. After this exercise our collaboration improved immensely and we now achieve a near 100% delivery rate'**

**If PL is the innovator, who initiates?**



- Mainly the manufacturer initiates
- Mainly the retailer initiates
- Result of a collaboration
- No answer

Yet again we heard that Discounters approach this in a different way taking a longer-term approach to collaboration to the mutual benefit of both Discounter and Supplier. The respondents felt they see suppliers as experts and treat them respectfully. The respondents felt that the main concern of Retailers is “have we bought at the lowest price” which prevails over building a category. Some also stated that this inhibits innovation.

Many of the respondents also state that Retailers often surprise them with additional costs relating to a range of added services from design costs, analysis, audits, reporting penalties for poor logistics performance and extended terms of payment. Many said the latest focus is fines for non-delivery, which some felt was just a method of raising money.

## QUALITY AND PRICE

When questioned about quality, many of the respondents felt that quality was seldom the lead concern of Retailers. Price seems to be the number one concern, especially when buying alliances are involved, but more about that later. It was also not just the quality of the product but also the quality of the added value that suppliers can bring in terms of category insight, innovation and other skills that is ignored. Spreadsheet buying excludes these added value elements down to the lowest common denominator of price, which many of those interviewed felt was at the detriment to category development and growth.

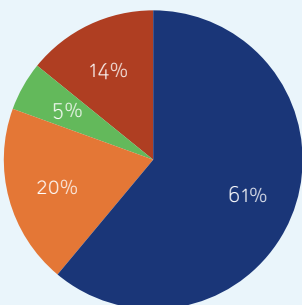
The one area many suppliers have seen proliferation in is food safety using certification bodies by Retailers. Whilst supporting the concept behind food safety many felt that the use of so many bodies only added cost and complexity without any material advancement in food safety. As many of them said “only price wins in the end”

**‘Quality is compromised in favor of low price. If I would have known this at the start I just would have offered a lower quality product in the first place’**

## SUPPLY CHAIN MANAGEMENT

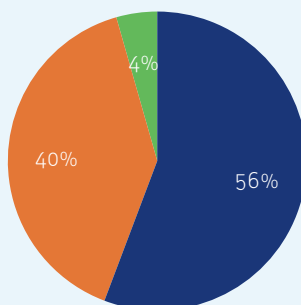
Many of the respondents felt that there could be improvements in this area for forecasting, planning and promotions with a large percentage saying this was currently poorly managed. This results in high levels of inefficiency in production with last minute orders being produced at high cost (recall the fines for non-delivery). Suppliers build this into their systems leading to lost efficiency. Many of the respondents recognise this area as one they must focus on and several talked about the need to build strong relationships with the Retailers supply chain teams to collaboratively plan the supply chain more effectively.

**Do retailers check the quality of PL well enough**



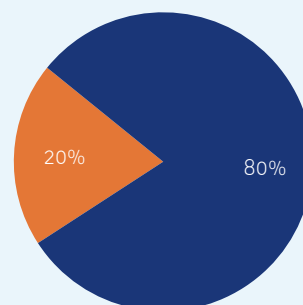
- Yes
- No
- Discounter better than Retailers
- Varies or do not know

**Is Discounters' PL quality better than Retailers'?**



- Quality is same
- Quality Discounters better than Retailers
- I do not know

**Quality PL vs. brand in the category**



- Quality PL is equal or better than brand
- Quality brand better than PL

# Experience with the tender process

Our interview group considers the use of tenders as just part of the process and something they must live with. In fact, 57% of respondents generate over 50% of their business through tenders. However, they do consider it something of a “blunt tool” with the value-added elements of category insight, innovation and other skills excluded.

**‘R&D is a bottleneck in our category and we only make it available for those clients who are serious, have the right volumes and have the potential to grow. We invest where the business is. Those who commit to long term contracts get the best possible conditions’**

The use of buying alliances also further removes the process from any contact with the category, reducing the exercise to just a spreadsheet.

Entrepreneurial flair at the retail end is diminished as the spreadsheet is used to benchmark the incumbent supplier. Many of the respondents felt that whilst the managers in their customers running

this process are highly skilled in process management, but have poor product, category and market knowledge. This starts at the initial stage with the tender brief which lacks the right detail, leading to the inability to judge quality attributes accurately. Very low price expectations lead to quality erosion to the detriment of the category.

**‘It puzzles me why retailers are so anxious to launch low quality products as they take huge risks and it destroys the market’**

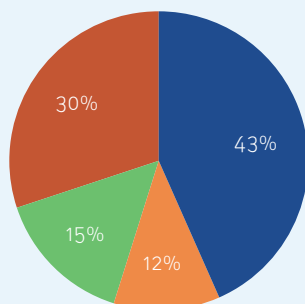
**‘We made a full plan based upon a ground-breaking vision on the category for one of our major retail clients. They thanked us and took it to tender’**

The process was also felt to be very impersonal, sometimes lacks structure and can be poorly managed. Quite often we were advised the contact running the process was not known by the supplier making the process even more remote. Time scales for samples and extensive supporting paperwork are often unrealistic. As a result, the outcome is not always as good as it could have been. Respondents said this quite often benefits the incumbent supplier which may not be to the benefit of the Retailer.

There was also the feeling that the process lacks transparency with no real feedback should the contract not be won. We did also hear that where the process was more open with continual dialogue the outcome was felt to be better for all parties involved, with suppliers making every effort for a longer-term agreement.

**‘We see that where we have a real trustful relation with our retail clients we both do a better job, gain more market share and have less stress in all fields’**

**How the tender process is experienced**



- Mostly negative
- Mostly positive
- Postitive and negative
- Neutral: is part of routine

# Observations and recommendations

Although some suggestions made by our respondents may be wishful thinking and not realistic in view of challenging market conditions, we did register some interesting feedback which was consistent across most interviews.

**‘We supply retailers in many countries and know so much of what works and what does not. If they only would listen. Discounter X is different: they allow us to make a test to prove our right’**

**‘There is no level playing field. We find competitors whose factory standards are below ours, yet they are accredited. We are also sure their submission samples are a higher quality than they finally supply yet they remain suppliers. It is unbelievable’**

The main theme was that currently the business relationship is very one-sided in the favour of Retailers, although with the Discount channel there does seem to be more balance. Another key theme that arose was that strategies in most Retailers seem very short term which does not support long term collaboration.

When asked what they would have on their wish list to provide for an improved trading relationship the following were the top points:

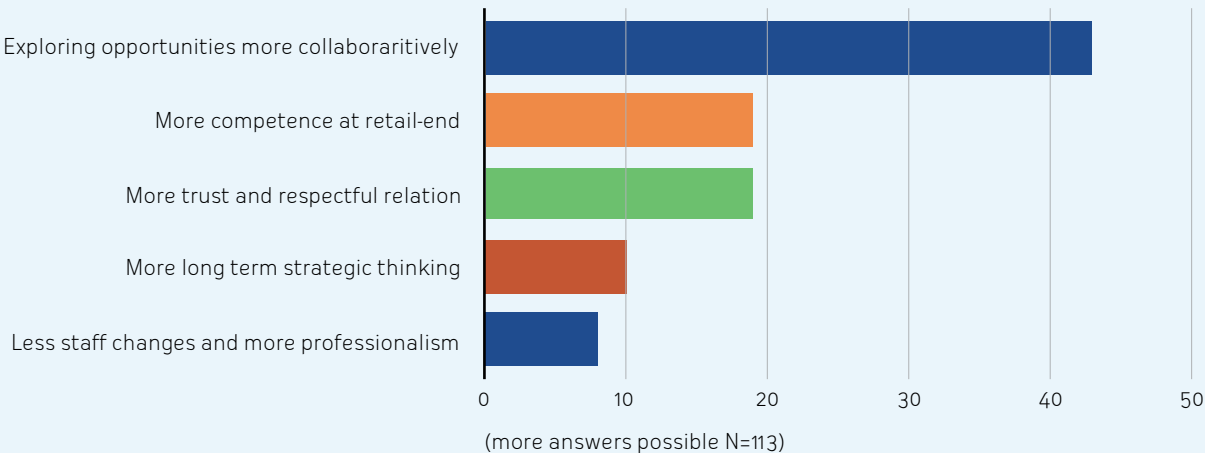
- Improved understanding on the issues facing suppliers
- More openness to build trust and partnerships
- Information sharing
- Greater transparency especially around timings on NPD and product launches
- More involvement in innovation and the product development process.

Where we found good practice, it was underpinned by an open trading relationship that focused on building categories in a collaborative way. This in turn resulted in a willingness by suppliers to invest for the long term, moving away from tendering and spreadsheet buying.

Respondents also asked for more involvement at the design stage of packaging. Many felt that sometimes packaging design was poor when viewed on a category basis and would welcome the opportunity to provide advice and guidance at an early stage.

A concern that was expressed several times was in the costs associated with regular changes of personnel in Retailers. This leads to cost consequences for both the Retailer and supplier, where long running projects were cancelled or where inexperienced buyers made expensive mistakes. Some Retailers were identified as being better in this respect than others, however the Discounters were constantly rated ahead of Retailers.

**Top-5 what would you like to see changing in the relationship**



## Threats for private label

Although the private label market continues to grow across Europe we asked our respondents what they believe could jeopardise further growth in the future.

Their biggest concern was that the price gap between brands and private label is narrowed with brands accepting lower margins to defend market share. This could be either through lower every day price or an increase in promotion activity which could mean consumers have less reason to buy private label. A few respondents also felt that if brands entered the price-entry or budget private label area this would have a major impact on private label, although at IPLC we question whether this would be supported by Retailers.

A few respondents also highlighted that if Discounters extend the number of brands they stock this could have major implications, firstly by splitting the sales in the Discounter channel and secondly lowering the branded retail prices in the rest of the market. This has been seen recently in the German market when Aldi Süd and Nord added more brands to their ranges.

Another recent trend is for customers to request raw materials from specific countries of origin, this adds complexity to the supply chain and is viewed by some respondents as quite restrictive.

Some respondents expressed a concern that if the quality of private label was eroded over time due to cost pressures and if this remains undetected by the Retailer, then consumers would lose confidence in a Retailers brand<sup>3</sup>. Comprehensive quality control systems must safeguard product integrity which then creates a level playing field for all suppliers. Therefore, many of the suppliers who took part in the survey see that maintaining or indeed lifting the quality of private label was important. However improved quality and innovation must be accompanied by an increase in cost rather than just the erosion of the supplier's margin. If manufacturers are not allowed to add value for which they are properly compensated, it may ultimately reduce the resources to invest. It should be understood that innovation has a price and that it must be paid for.

Ultimately it is also about the investment by the Retailer in their overall brand image that is the corner stone to build loyalty and trust with consumers.

A final concern expressed was intervention by Governments or local legislation that may have negative impacts on product or raw materials. This also extended to protectionist policies to protect local suppliers.



# Conclusion

When we reviewed all the results of the interviews we realised that the clear majority of comments were negative, however when asked how they rated their relationships with their customer base most answered as “good”

Firstly, we decided to report the findings in a true and honest way, secondly, we concluded that most of the comments were given in an open way on how to improve the current situation for all parties involved.

The private label market is one in which tough negotiations prevail, that is the way of business and this will not change. However, if the system fails to get the best product at the best cost to the end consumer then there is something wrong in the process. This research would suggest there are several inefficiencies in the current process. Some of this comes from too much power on the buying side of the equation, so that the quasi monopsony works to the benefit of the big retailers.

Our analysis of the data shows that the single biggest issue is the constant change of contacts which in turn leads to a lack of product and category knowledge. This is followed by a real concern that if only price is the deciding factor that over time quality will be eroded to the detriment of the private label market.

It was interesting to note that the suppliers’ answers showed that only 61% of their customers had what our respondents considered to be adequate controls in place to monitor product quality on a consistent basis. This means not all suppliers are operating on a level playing-field so a true and fair comparison on quality may not be possible. This view is supported by the results in our research that in 20% of the categories, they consider the branded quality to be better than private label.

One other aspect that stood out was that respondents felt that the Discount channel was viewed more positively for many elements of the trading relationship out-performing Retailers for:

- Product and category knowledge.
- Speed and efficiency in processes.
- Planning.
- Trust and loyalty.
- Focus on quality.

At IPLC we have already highlighted the way Retailers can adapt their ranges to meet shopper needs<sup>3</sup> perhaps they should also look at the Discounter channel approach to working with suppliers. We appreciate Retailers have much wider and deeper ranges to work on which brings added complexity, but lessons could be learnt.

The opportunity to build long term relationships would be to the benefit to all parties. We heard recently of one supplier creating 5 to 10 year contracts supported with investment in new production capacity, so it is possible. This would however mean less tendering and more genuine collaboration to drive category development and growth. Closer working on innovation and the product development process would be a prerequisite ensuring customers could tap into the wealth of knowledge that is in the manufacturing base of private label companies.

On a final note, a more balanced collaboration based upon mutual respect does not necessarily result in a weaker outcome. As one major Retailer once said to us “Hard on the content but soft on the relationship” seems to encapsulate an approach that could build sustainable relationships whilst maintaining competitive conditions.

#### **Disclaimer**

Data were gathered by means of personal interviews by IPLC consultants of in total 113 senior managers of private label manufacturers in 16 EU countries. The research and analysis was conducted with great care and we believe that conclusions from our research can be considered representative.

#### **About IPLC**

IPLC is a boutique consulting firm specialised in strategic consultancy services and project management support to suppliers and retailers. With a critical understanding of the European private label industry we help our clients with a pragmatic and action-oriented approach. Founded in 2003, IPLC has been involved in many international assignments of manufacturers, retailers and the supply industry. We operate from our offices in the Netherlands, Germany, United Kingdom, France and Belgium.

#### **The Netherlands:**

Koen de Jong, Managing Partner  
kdejong@iplc-europe.com  
André Michel,  
Partner amichel@iplc-europe.com

#### **Germany:**

Hermann Sievers,  
Partner hsievers@iplc-europe.com

#### **United Kingdom:**

Richard Harrow,  
Partner rharrow@iplc-europe.com

#### **France:**

Remy Medina,  
Partner rmedina@iplc-europe.com

#### **Belgium:**

Nele Geerardyn,  
Partner ngeerardyn@iplc-europe.com

[www.iplc-europe.com](http://www.iplc-europe.com)

#### **Copyright®**

No part of this publication may be reproduced or transmitted in any form without referring to the source: International Private Label Consult BV (IPLC) April 2017

#### **References:**

- 1 Buyer Power, Private Labels and the Welfare Consequences of Quality Erosion (European Competition Law Review, Vol. 33: issue 5, 2012), A. Ezrachi and K.A.M. de Jong
- 2 Managing Private Labels, sharing knowledge from research and practice (2015), K.A.M. de Jong, H. Sievers and L. Limpens
- 3 How to discourage the drain-away of shoppers to discount retailers, how mainstream retailers in the EU respond to discount retailers (2016), IPLC Consultants