

Private Label—A Growing Market?

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In today's challenging economic climate with an unemployment rate hovering around 10 percent, one would anticipate that private label or "store brands" are becoming a more important factor in consumers' purchase decisions. But is this really the case within the home improvement industry?

In its infancy, private label products were often viewed as inexpensive and of lower quality with their sales level tied to economic factors. We saw private label and "generics" (remember the black and white labels) inch their way up and down in the '70s and '80s, depending upon how the economy was doing.

As the quality of private label improved, so has the breadth and depth of its offer-

ings. It now plays a significant role in the U. S. and global retail landscapes, moving beyond the early grocery and drug store products into other mainstream products including those in the home improvement industry.

To better understand private label's size in this industry, Vista has reviewed its importance in 40 unique product categories from each of the major departments, e.g. Electrical, Hand & Power Tools, Hardware, Household Supplies, Lawn & Garden, Paint & Sundries, and Plumbing.

Private label's importance varies by individual category, ranging from 1 percent to over 50 percent and averages 19 percent as seen in the graph below.

Private label's aggregate sales from these 40 categories were \$1.1 billion

dollars annually. The aggregate annual share point change from a year ago of these 40 categories was +8.3 share points. (This was calculated by adding the actual share point change, both the positive and negative change, for each of the 40 categories.)

This 8.3 share point increase was driven by private label annual share increases in 23 individual categories. These increases ranged from half a share point to over 2 share points.

Of the remaining 17 categories, there were 12 categories in which private label's annual share loss was down minimally, i.e. half of a share point or less, and only 5 categories in which its loss was a share point or more.

While share penetration and share point change results vary by category, one can conclude that private label has been growing in the home improvement industry. This growth is due, in part, as consumers turn to less expensive product alternatives as they manage their expenditures during these challenging economic times.

Private label can be seen as an opportunity or a threat, depending upon your perspective. However viewed, it is crucial to understand private label's size, as well as trends in the product categories in which your company competes. It is equally important to understand not only the price gap between branded and private label products, but that it is a key profit driver and can be managed – especially in categories where retail prices are more elastic.

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