

P05 Private or National

E352 – Retail Logistics



SCHOOL OF
ENGINEERING

Fast Moving Consumer Goods (FMCG)



Fast Moving Consumer Goods (FMCG) are products that **sells quickly at relatively low cost**

- ▶ Consumables that people buy at regular intervals
- ▶ Small absolute profit, but generally sell in large quantities, so the cumulative profit on such products can be large
 - E.g. toiletries, soap, teeth cleaning products and detergents, as well as other non-durables such as glassware, light bulbs, batteries, paper products and plastic goods

Fast Moving Consumer Goods (FMCG)



- ▶ FMCG may also include pharmaceuticals, electronics, packaged food products and drinks
 - Also known as Fast Moving Consumer Electronics (FMCE)
 - E.g. Hand phones, MP3 players, digital cameras, GPS Systems
- ▶ Most FMCG products use **quick response** for high efficiency
- ▶ Companies – P&G, Coca-Cola, Nestlé et



Fast Moving Consumer Goods (FMCG)



- ▶ The retail market for FMCGs includes businesses in the following *International Standard Industrial Classification (ISIC)* categories
 - ISIC 5211 – retail sales in non-specialized stores
 - ISIC 5220 – retail sale of food, beverages and tobacco in specialized stores
 - ISIC 5231 – retail sale of pharmaceutical and medical goods, cosmetic and toilet articles
 - ISIC 5251 – retail sale via mail order houses
 - ISIC 5252 retail sale via stalls and markets
 - ISIC 5259 whole sale goods

National Brands



- ▶ As known as manufacturer's brands
 - Design, produced and market by a vendor
 - Producing consistent quality product
- ▶ Classification of brands
 - Umbrella brand – as known as family brand
 - ▶ Example
 - Kellogg's is the family brand, Frosted Flakes is the sub brand)
 - Nescafe is the family brand, they have Nescafe Gold, Nescafe Classic, etc
 - Individual brand – specific brand name are created for specific market segments and/or categories
 - ▶ Do not associate with the company
 - ▶ Do you know Ribena is from which company? This is an example of individual brand

National Brands



► Advantages

- National labels can help retailers build up their image and traffic flow.
- Less expense on marketing and promotion as this is done by the national vendor
- Customer that are loyal to the national brand will patronise shops that sells that brand



Private Label Concept



- ▶ Private label merchandise – when the retailer decides to sell products which is owned, controlled, distributed & sold by retailer's own store
- ▶ Private-label brands are also known as:
 - Store brand
 - House brand
 - Own brand



Private Label Concept



- ▶ Four categories of private brands:
 - Premium brands
 - ▶ Offer consumers a comparable or even superior quality product as compared to National brands
 - ▶ Eg, Gap and Victoria's Secret
 - Generic brands
 - ▶ No-frill products
 - ▶ Targets the price sensitive consumers
 - ▶ Eg, milk, eggs and even fashion wear



Private Label Concept



▶ Four categories of private brands (cont):

- Copycat brands
 - ▶ Imitate National brand's appearance and packaging
 - ▶ Generally perceived as lower quality
 - ▶ Offer at lower price
- Exclusive Co-Brands
 - ▶ Developed by a national vendor in conjunction with a retailer
 - ▶ Sold exclusively by the retailer
 - ▶ No price competition as no other retailer is selling this product.
 - ▶ Eg, Estee Lauder created American Beauty, and Flirt exclusively for Kohl (an American department store)

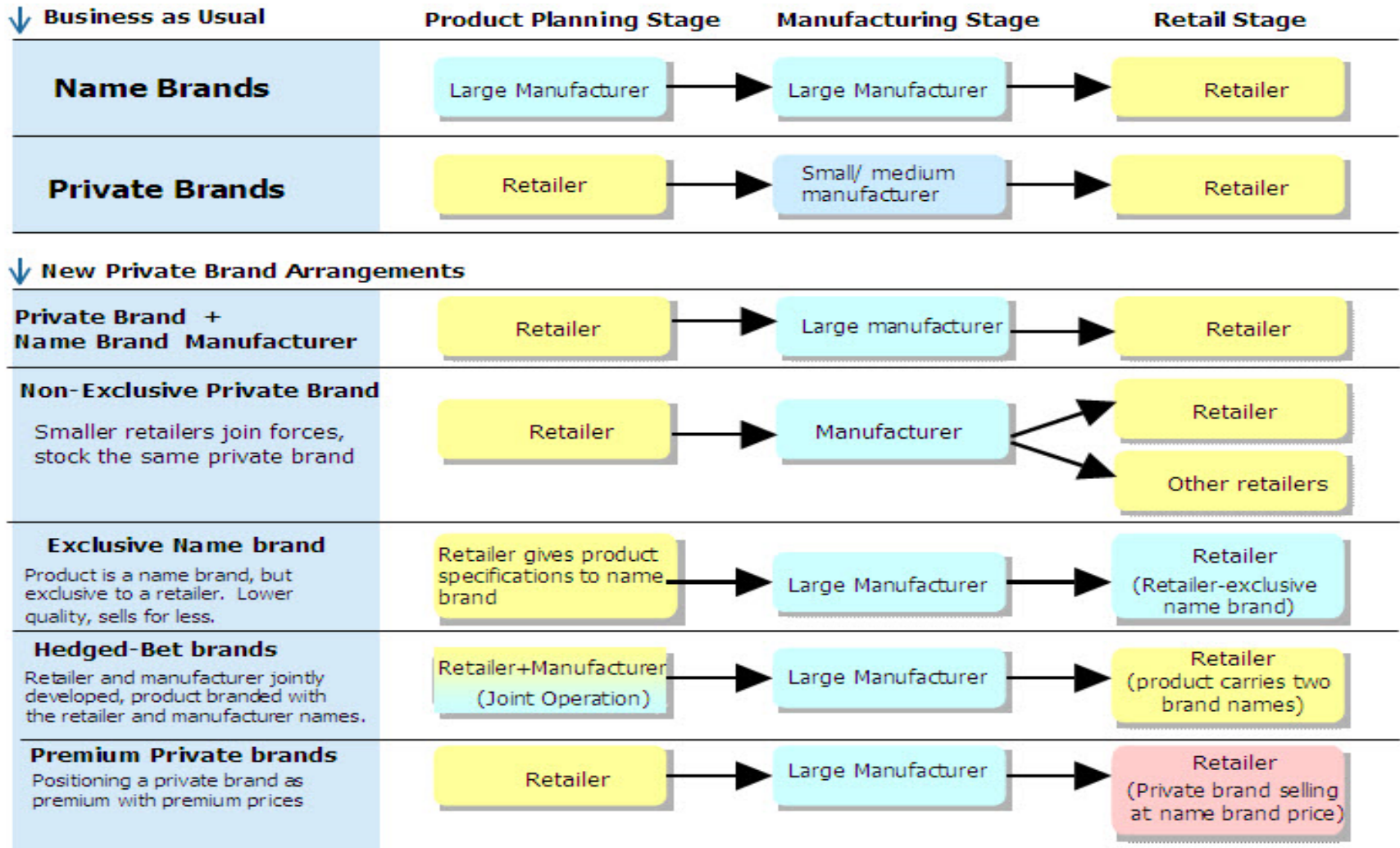


Private Label Concept – Advantages



- ▶ The main advantage of private label is to fill in the gap that may exist in the market place
 - Retailer is able to offer another option to the consumer
 - Offer unique product or differentiated product according to region or market of consumers
 - ▶ Response faster to the change of consumer
 - Higher product margin than national brand
 - ▶ Vertical integration – cost is under the retailer's control
 - ▶ Own designing, merchandising, sourcing & distribution
 - ▶ Promotion done in-store – lower cost of production
- ▶ Most private label are produced with vertical integration to reduce cost & better control of the processes

Process of Private Brand



Private Label Concept – Creation

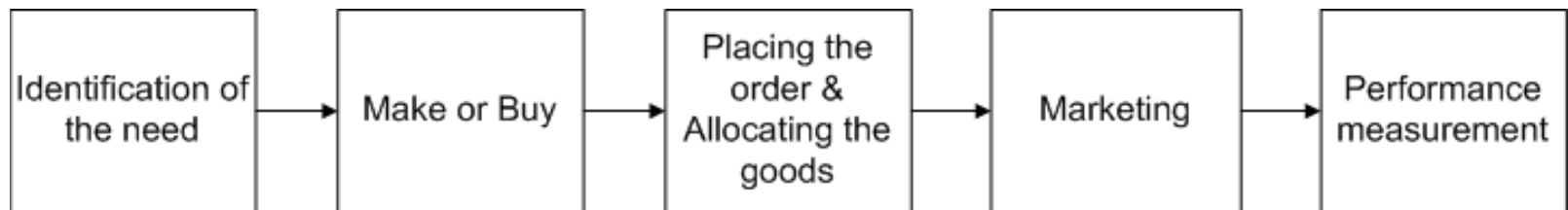


- ▶ Stage 1 – Defining the objectives
 - Create competitive differentiation
 - Offer wider/unique product range to increase margin
 - Build customer royalty
- ▶ Stage 2 – Define the gap in market
 - Understand market segment, price, level of experimentation & brand royalty
 - Identify supply chain efficiencies
 - Define product specification, quality & estimated volumes
- ▶ Stage 3 – Decision on Make, Buy or Sourcing
 - Check the availability of supplier to provide product within time frame

Private Label Concept – Creation

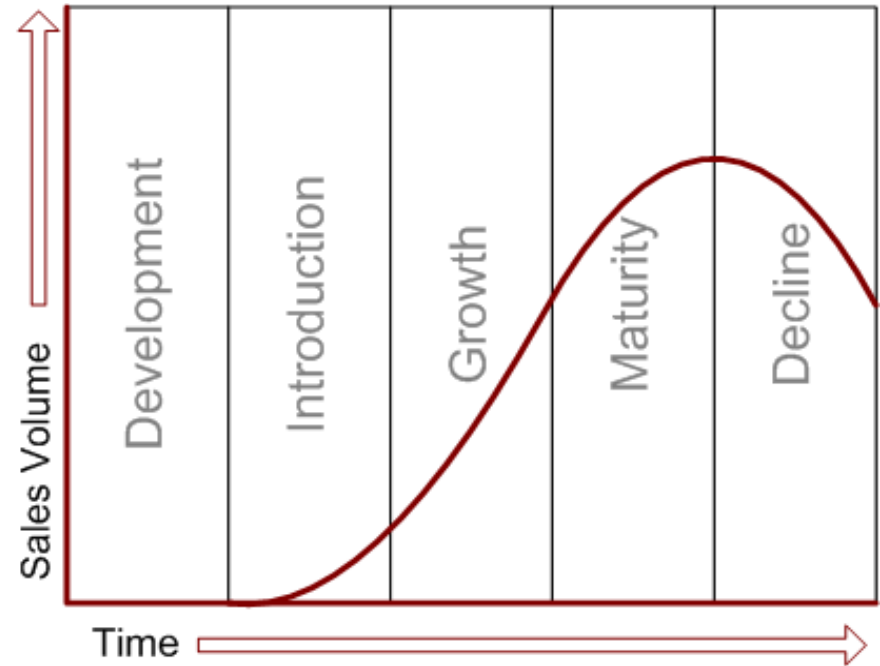


- Design & style of product different from other retailers & brands
- ▶ Stage 4 – Determine the marketing & sales strategy
 - Helps to create brand image and communication with the consumer
- ▶ Stage 5 – Determine the measures of the performance
 - Tracking & monitoring of the private label program performance & recommendations for refinement & improvement



Retail Product Life Cycle

- ▶ Product life cycle can be classified in to 5 stages
 - ▶ Development
 - ▶ Inception (Introduction)
 - ▶ Growth
 - ▶ Maturity
 - ▶ Decline



- ▶ This becomes complicated when there are many different products in the chain that is at different stages

Retail Product Life Cycle Classification



- ▶ Product can be classified into 4 types
 - *Fad (innovative products)* – a one shot wonder with a very short life cycle, perhaps one season
 - ▶ E.g. iPad 2
 - *Fashion (innovative products)* – a multi-season product with many individual products & SKUs during its life cycle
 - ▶ E.g. Handbags, clothes
 - *Staple (functional products)* – a basic product that achieves considerable longevity but eventually goes into decline
 - ▶ E.g. Bread, butter, Milk
 - Seasonal – a product whose sale fluctuate over the course of a year
 - ▶ May include both fashion and staple item

Retail Product Life Cycle Classification



	Functional Products (Staples)	Innovative Products (Fads, Fashions)
Length of product life cycle	Long	Short
Profitability per unit	Low	High
Forecast errors	Low	High
Stock out rates	Low risk	High risk
Mark down	Unlikely	Likely for excess merchandise
Lead time	Set up by economics / competition	Set by supply chain flexibility

Category Management



- ▶ Category management – the distributor/supplier process of managing categories as strategic business unit, producing enhanced business results by focusing on delivering consumer value
(The Joint Industry Project on ECR, Partnering Group)
- ▶ One of the key success factor in category management is to have close collaboration with suppliers

Product Category



- ▶ Within retail, items are often classified as “category” rather than “individual products”
 - Basic unit of analysis for making merchandising decisions
 - There are a lot of products under each category, and even more SKUs
 - ▶ Woman’s shoes – running shoes, boots, heels, sandals
 - ▶ Jewelry – rings, diamonds, necklace, earrings
- ▶ Whereas classification by Department is too broad and less strategic
 - 150-300 categories vs. 15-20 departments

Category Management



- ▶ Reasons for applying Category Management
 - To optimize the used on the store space
 - To meet the ever changing requirements of Consumer
 - Keep customers excited with variations
 - Improve assortment of products on sale
 - Reduce out of stocks
 - Increase the ease of shopping for customers
 - Increase customer's satisfaction
 - Promote loyalty to the shop.



Problem Analysis



Redefining the problem:

1. Existing product is in its decline stage of Life Cycle
2. Ravi has good quality spices. There is value in establishing a private brand.
3. In order to better manage the different varieties of products, category management is introduced.



Suggested Solution



- ▶ Introduce branding for current products in the form of private brand (house branding). Maybe can using Muthu's or Ravi's name
 - Give identity to the product
 - ▶ E.g. Muthu's curry paste or Ravi's Spices
 - ▶ Having a brand, you will be able create and differentiate the grades that they are selling and also give identity to the product.
 - Packaging to attract customers and also create awareness.
 - Loyal customer will be able to relate better to the product
 - Creation of other concoction using the private brand, e.g. Muthu's curry fish head paste. This will help to attract customers who wants to try cooking.

Suggested Solution



- ▶ Ravi can also explore taking in some national brands.
 - Give customers a wider variety of choices
 - National brands are usually advertised by the manufacturer, thus Ravi do not need to worry about the marketing portion for the national brand products
 - More exposure to his private brands
 - ▶ Can introduce his products to customers coming in to buy the national brands.

Suggested Solution



- ▶ Perform category management to better group the products together for easy management
 - Example, grouping of cooking utensils, pots, pans and other related accessories into one category. Snacks and other food stuff can be under another category.
 - Ease of procurement management: buying by category
 - Ease of vendor management: can group vendors by the category of product they supply. Better relationship with vendors
 - Ease of promotion management: promotion based on categories since profit is based on category and not on individual items
 - ▶ E.g. bundling of products
 - ▶ Discount on related products if certain products are bought

Learning Outcomes



- ▶ Explain FMCG and its features
- ▶ Describe what are Private and National Brand
- ▶ State the differences between the 2 type of brandings
- ▶ Explain Product Life Cycle and how it relates to a Retail Business
- ▶ Explain Category Management and its uses

