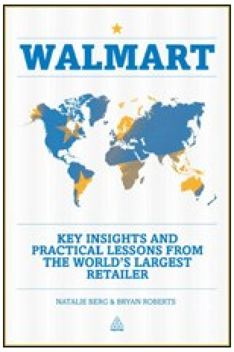

Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

by Bryan Roberts and Natalie Berg
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Chapter 3: House of (Walmart) Brands

Overview

Quality, name-brand merchandise offered at everyday low prices is the merchandising/pricing format around which we have constructed the Wal-Mart store. **(WALMART)**

Walmart's initial merchandising strategy was centred almost entirely on selling national brands. Harvard Business School Professor John A Quelch and Katherine E Jocz define a brand as:

> a promise, an assurance of consistent quality from one purchase to the next. Brands make decision-making easier for consumers; instead of inspecting myriad unbranded options at market stalls every time they shop for an item, consumers can conveniently buy the same trusted brand on each purchase occasion. They may pay a little more for the branded item, but the time saved and the peace of mind make the trade-off worthwhile.[1]

Brands therefore formed an integral part of Walmart's merchandising strategy. The idea was to give shoppers greater access to these brands in the form of lower prices, bearing in mind that Walmart got its start by opening in rural areas of the United States targeting lower-income shoppers. Many of these smaller towns had been abandoned in the 1960s as retailers followed the millions of – in retailers' eyes – more lucrative consumers who were moving to the suburbs in pursuit of the American dream. The suburbs soon witnessed the emergence of neon lights, big-box discounters such as Kmart, convenience stores and fast-food chains. Meanwhile, the smaller, more rural areas of America were left neglected as many retailers deemed them insignificant in comparison to the more profitable and densely populated suburbs. This is where Walmart came in.

In his book, Sam Walton describes how small-town commercial centres began to shrivel up:

> A lot of our customer base had moved on, and the ones who remained behind weren't stupid consumers. If they had something big to buy – say a riding lawnmower – they wouldn't hesitate to drive fifty miles to get it if they thought they could save $100... It was this kind of strong customer demand in the small towns that made it possible for Wal-Mart to get started in the first place, that enabled our stores to thrive immediately, and that eventually made it possible to spread the idea pretty much all over the country.[2]

[1]http://www.american.com/archive/2008/november-december- magazine/for-the-greater-goods/article_print

[2]Walton, S with Huey, J (1992) *Sam Walton: Made in America*, Doubleday, New York, p 224

Selling for less, buying for less

Low prices, a wide assortment of popular brands and to a certain degree limited competition were Walmart's initial recipe for success. In that respect, not a whole lot has changed over the past 50 years. Walmart eventually expanded beyond Northwest Arkansas to more established markets with fiercer competition. But that didn't prove to be a problem; in fact Walmart's winning formula of offering extreme value on popular brands resulted in a number of companies filing for bankruptcy protection or going out of business altogether, particularly when they began selling groceries, as we will discuss later in the chapter.

Its massive scale has enabled Walmart to shift the power successfully from the hands of manufacturers to the hands of consumers. It has become the advocate for the consumer in the form of offering low prices for nationally branded goods. And this is something that has been happening for quite some time:

> When we opened Wal-Mart No. 3 in Springdale, Sam wanted a red-hot price on anti-freeze. So he got two or three truckloads of Prestone and priced it as $1.00 a gallon. Then he priced Crest toothpaste at 27 cents a tube. Well, we had people come from as far as Tulsa to buy toothpaste and anti-freeze. The crowd was so big that the fire department made us open the doors for five minutes, then lock them until shoppers left. (Clarence Leis, one of Walmart's first store managers[3])

Walmart's former motto, 'We sell for less... always', would perhaps have been more accurate if it read: 'We sell for less because we buy for less... always'. Walmart was then and is now able to offer such deep discounts on national brands thanks to its ruthless efficiency and cost-cutting measures. Walmart has stripped out middlemen, eliminated redundancies,

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reduced packaging, invested in technology, consolidated buying and pressurized suppliers, all in the name of offering nationally branded items at a low price. These brands already stood for quality, so selling them cheaper than the competition allowed Walmart to gain market share as a discount retailer without the worry of its customers questioning product quality.

In his book, *The Wal-Mart Way*, Don Soderquist, former Senior Vice Chairman and Chief Operating officer (COO) at Walmart, writes:

> Wal-Mart has been, and most likely will remain, a retailer that supports national and international brand merchandise. In the minds of many consumers, brands are synonymous with quality. Therefore, our strategy was to offer primarily name brands at everyday low discount prices, thereby providing our customers with genuine value and with a direct comparison to our competitors.[4]

[3]Walton, p 64

[4]Soderquist, D (2005) *The Wal-Mart Way: The inside story of the success of the world's largest company*, Thomas Nelson, Nashville, TN, p 85

Brand dilution makes private label more attractive

Today, national brands remain a vital component of Walmart's merchandising strategy. However, the distinction held by these brands has become diluted in today's prolific retail environment. National brands can now be bought across a wide spectrum of retailers, channels and geographies and therefore they no longer drive loyalty to a particular bricks-and-mortar retailer. Well ahead of his time, Victor Lebow recognized the need for merchandising differentiation back in the 1950s, a time when national brands ruled the roost. In 1955, Lebow wrote:

> Quite a few studies have shown that a large proportion of shoppers, when questioned, cannot tell which of several competing variety chain stores, or supermarkets, they have just left. But this sameness of their merchandise, in stores that look like twins, provides the opportunity for different merchandise in stores that look different, individual, with a character of their own.[5]

Today, such brand dilution, in food categories particularly, is even more evident as alternative retailers look to cash in on selling grocery products. For example, leading US drugstore chains Walgreens, CVS and Rite Aid are all adding fresh foods to their assortment in a bid to cash in on their extensive geographic reach, a topic we will discuss in further detail later in this book. Meanwhile, Target is looking to replicate Walmart's success by transitioning away from being a pure mass discounter and adding perishable groceries to its mix. Its Pfresh format, which features a 50 to 200 per cent increase in food, is being rolled out across hundreds of stores nationwide. From a shopper's perspective, pricing of national brands is becoming ever more transparent and there is of course the convenience factor as shoppers no longer need to make a special trip to Kroger to pick up their Tropicana orange juice or Yoplait yogurt. From a retailer's perspective, such channel blurring in the food, drug and mass sector puts pressure on pricing and further commoditizes brands, reinforcing the need to differentiate through exclusive, private label items.[6]

This is not to say that consumers don't want brands. In fact, according to Interbrand's 2010 ranking of the most valuable global brands, nine out of the top ten are US-based, proof that brand affinity is still very much alive and well among US consumers.[7] The quickest way to confirm this is by taking those brands off your shelves. Walmart's attempt to rationalize its assortment, although clearly effective in terms of reducing inventory and labour costs, was by no means the smoothest of the company's initiatives. We will discuss this topic in further detail in the next chapter, but the general idea was to cull those secondary and tertiary brands that were collecting dust on the shelves and costing Walmart money in the process. In addition to improving profitability, rationalizing stock-keeping units (SKUs) would free up employee time to do more customer-facing tasks, as opposed to restocking shelves, create more visibility for private label (more on that to come) and simplify the shopping experience. Surely it must be a win–win, provided you're not that tertiary peanut butter brand.

However, Walmart got it wrong here. They soon found out that even though Brand Y wasn't a top seller, it was still an important item to an important shopper. The result? Some of Walmart's most loyal and profitable customers took their entire shopping basket to competitors where they perhaps paid a little bit more, but at least they found what they were after. In financial terms, the elimination of a slow-moving $1 item could result in the loss of a shopping basket worth $60–80. Walmart has since added back nearly 9,000 of those items that were originally delisted. Its top two priorities are now restoring Everyday Low Prices (EDLP) and offering the 'broadest assortment possible'[8] – clearly quite a contrast to its original goal of range culling:

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> The running joke used to be if we didn't have it you didn't need it. And all too often what we were finding was people came with 20 items on their list and left with 16 in recent years and that's not who we are.'
>
> (Bill Simon)[9]

Despite initial setbacks, Walmart persevered with its SKU rationalization efforts in a bid to strip out inefficiencies and improve the shopping experience. Like the barcode scanner and various other industry-changing initiatives, Walmart looked to do business in a more efficient way, so much so in fact that others would follow suit, thereby improving the overall health of the industry.

In his book *The Wal-Mart Effect*, Charles Fishman describes a similar situation where Walmart's ruthless drive for efficiency resulted in improvements in the greater sector. In the early 1990s, deodorant was packaged in a cardboard box. Despite being the norm among consumers, Walmart saw this as an unnecessary cost. Fishman writes:

> [The box] added nothing to the customer's deodorant experience. The product already came in a can or a plastic container that was at least as tough as the box, if not tougher. The box took up shelf space. It wasted cardboard. Shipping the weight of the cardboard wasted fuel. The box itself cost money to design, to produce – it even cost money to put the deodorant inside the box, just so the customer could take it out.[10]

Needless to say, Walmart went back to its suppliers and asked that they begin selling deodorant without the box. Doing so, according to Fishman, saved about five cents for each product sold, which enabled Walmart to pass the savings on to manufacturers and, more importantly, customers. The move had a knock-on effect within the industry as suppliers and other retailers recognized the cost savings, and it soon became the normal way in which customers purchased deodorant.

Shifting away from national brands

As we have already touched on, brands today are struggling to retain their influence over shoppers. A combination of media fragmentation and retail consolidation has resulted in a shift in power away from the brand manufacturers. Gone are the glory days when a brand had a captive audience by advertising on one of the United States' three TV networks. Gone are the glory days when a new product launch was a guaranteed success. Today, consumers are savvy and empowered. Product and pricing information is at their fingertips, and in a time of economic uncertainty many have begun to question the premium paid for a branded product. At the same time, retailers have merged, expanded and evolved, resulting in greater buying power when dealing with their suppliers. Retailers have transitioned beyond the physical box that sells the goods, and are now viewed as the gatekeeper to shoppers. They decide what products make it onto their shelves, and which ones should be delisted. They control the messaging both in the store and increasingly out of the store through loyalty schemes and social media. But what is perhaps most worrying for brands in today's era of retailing is the fact that their retail customers are increasingly becoming the competition. Today, private label is a key strategic focus for virtually all US grocery retailers.

Walmart's endless strive for efficiency has enabled them to undercut rivals with national brands. The idea sounds so simple now, but it's important to remember that when Walmart began, retailing was a hugely inefficient industry and many companies included phenomenal mark-ups in their prices. Nevertheless, Walmart recognized that low prices resulted in volume. And volume made up for the margin investment. Of course, none of this would have happened if the right merchandise wasn't on the shelves, and this is an area to which Sam Walton dedicated his entire life. 'There hasn't been a day in my adult life when I haven't spent some time thinking about merchandising', he writes in his autobiography.[11]

Merchant roots

Walmart certainly gets a lot of media attention for being the world's largest retailer. For its cut-throat distribution, for embracing technology, squeezing suppliers and attempting to open stores from Brooklyn to Johannesburg. Where Walmart doesn't get enough credit is in its merchandising, particularly in the early days when Walton himself scoured the country looking for hot bargains which we knew would fly off the shelves. As David Glass said: '... your stores are full of items that can explode into big volume and big profits if you are just smart enough to identify them and take the trouble to promote them'.[12]

Today, Walmart's principle of retailing is still very much centred on offering those popular brands at the lowest possible price. Of course, there is one major difference today – Walmart's own private labels are now included in the mix. Despite a growing focus on private label over the past couple of decades, Walmart has vehemently defended itself as a 'house of brands'.

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> *The basis of our business is still built upon and will continue to be built on national brands. They will continue to be the base of all our operations. There's a danger of overemphasizing private label.*
>
> (1993, then Vice Chairman Don Soderquist)[13]
>
> *We are a brand-oriented company first. We became the largest retailer in the world by offering quality, well-known brands at everyday low prices. But we also use private labels to fill a value or pricing void that, for whatever reason, the brands have left behind.*
>
> (2000, Bob Connolly, then Executive Vice President (EVP) of Merchandising)[14]
>
> *We've always been a house of brands – it used to say 'brands for less' on the side of the building – and we believe selling national-branded product is a very important driver that communicates value to our customer.*
>
> (2009, Bill Simon)[15]

That may be so, but there is no denying that private label has become an essential ingredient in Walmart's merchandising strategy. In North America, Walmart's private label grocery items generate revenues in excess of $30 billion.[16] Sales of the Great Value line alone in the United States reached $12.5 billion in 2009, making it the country's largest food brand in terms of both sales and volume.[17] As a percentage of overall sales, food private label remains quite low at 16 per cent; however, if we factor in general merchandise, approximately 35–40 per cent of Walmart's sales come from private label products.[18] A house of brands Walmart may be, but only if we are including their own brands.

Don't spend a penny on marketing

When it came to developing private label, a senior Walmart executive confirmed that there was a fair degree of resistance from the top in the early days. 'Obviously, national brands spent a lot of money on marketing and innovation, and you always had to show your value relationship.' But back in the early 1980s, a significant change took place that would open Walmart's eyes to the lucrative world of private labelling.

At the time, the pet food sector was fragmented and lacked a national brand. Walmart saw this as an opportunity to launch its first major private label line. Named after Sam Walton's hunting dog, the Ol' Roy dog food line was designed to fill the gap for an opening price point, while still placing an emphasis on quality. So how could Walmart create a private label that was equal to, or better than, comparable national brands in terms of quality while undercutting them on price? The answer was simple: there would be no marketing budget, no television commercials, no circulars. All the marketing needed would take place at the shelf and, considering that there are quite a lot of Walmart shelves across the country, this wouldn't be an issue. Walmart's scale, combined with its focus on quality and price, enabled Ol' Roy to surpass Nestlé's Purina to become the number-one-selling dog food brand in the United States.

It's no surprise then to learn that the US operations of Doane Pet Care, the company which manufactured the Ol' Roy line for Walmart, were acquired by Mars in 2006. Mars, of course, is the parent company of Pedigree, a brand that competed with Ol' Roy since its launch in the early 1980s. At the time of acquisition, Bob Gamgort, former North American president for Mars, commented: 'The acquisition of Doane by Mars is an important part of our strategy to strengthen and grow our pet care business in North America.'[19] In other words, if you can't beat 'em, you might as well join 'em.

Driving loyalty with exclusive products

The success of Ol' Roy showed Walmart that shoppers would view private label as a brand in its own right, provided the quality was there. In fact, good-quality private label actually drives shopper loyalty and differentiates retailers from competitors. In its 2000 annual report, referring to its successful Equate health and beauty care line, Walmart notes that 'the products are so popular, in fact, that suppliers get letters from customers asking why they can't buy Equate [private label] products at other retail chains'.

Exclusivity is becoming more and more important in today's competitive retail market. However, that is not the only incentive for launching private label – in the majority of cases, stocking private label is far more profitable than stocking national brands. As mentioned, the lack of marketing expenditure allows for increased investment based either on price or on margin. For many grocery retailers, the investment is primarily based on profit margin. In other words, they price their products based on what the market will bear, whereas Walmart, owing to its focus on offering everyday low prices, aims to sell private label for as low as it possibly can. That is not to say that private label isn't profitable for Walmart. In fact, a

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senior Walmart executive confirmed that while private label is sometimes used as a loss leader among other grocery operators, at the very worst it is used to break even at Walmart and in many cases it is a profit-generating tool. For example, the Equate line is 40 per cent more profitable than national brands, while dry grocery private label items are between 10 and 15 per cent more profitable than leading national brands. Let's not forget that price/margin investment is always made up for in volume at Walmart. It all goes back to scale.

Sam's Choice: making a big play for food

By 1990, Walmart had surpassed Sears and Kmart to become the largest retailer in the United States.[20] Its discount store division had grown to nearly 1,600 outlets trading in 34 states.[21] But Walmart has never been one to rest on its laurels. The discount retail sector may have been close to saturation, but the grocery sector was still hugely fragmented. It was time for Walmart to shift its focus to a new avenue for growth: food retailing. Walmart had spent the previous decade growing not only its core discount store operation, but its Sam's Club business as well. By 1990, there were nearly 150 Sam's Club outlets, including several prototypes with fresh departments for produce, meat and bakery.[22] Walmart was also trading through a handful of Supercenters and Hypermarts (which would go on to be converted to Super-centers, Walmart's secret weapon that would eventually enable it to become the largest food retailer in the world).

It's important to remember that Walmart was under relatively new leadership at this time. David Glass took the helm in 1988.[23] Glass joined Walmart in the mid-1970s but he previously served as an executive with Consumers Market, a major Ozarks grocery chain. His food background was instrumental in shaping Walmart's strategy throughout the late 1980s and 90s. By the early 90s, under Glass's leadership, Walmart had acquired McLane, a large grocery distributor with over 26,000 retail customers,[24] and the lesser-known Phillips Companies, a 20-store grocery retailer also based in Bentonville.[25] Food retailing was beginning to take shape.

Around the same time, national brands were increasing their prices 'beyond levels [Walmart] believed to be reasonable', according to Soderquist.[26] After its profound success with Ol' Roy, Walmart decided it was time to give private label food a chance. Once again named after Mr Walton, the Sam's American Choice line hit the shelves in 1991.[27] At that time, a number of supermarket chains were already offering private label food items, often priced lower than the national brands. However, in many cases, little effort went into the quality or packaging of these items. In other words, they were cheap for a reason.

Walmart, however, aimed to change shoppers' perception of private label by placing a strong emphasis on quality while maintaining the low prices.

'This was a major departure from the historical practice of private label merchandise in retailing. The standard at that time for private label merchandise was definitely lower price, but also significantly lower quality sold in attractive packaging', said Don Soderquist.[28] Chocolate chip cookies from the Sam's American Choice range featured over 39 per cent chocolate chips while the packaging claimed that many competitors featured less than 20 per cent chocolate chips.[29] This premium line helped to dispel the myth that private label had to be of poor quality. It also aimed to tap into shoppers' patriotic side with its red, white and blue packaging and domestic sourcing claims.

It's interesting to look back on how the Sam's American Choice brand began. Inspiration for the line – as well as initial supplying – came from what is now one of Walmart's largest North American competitors: Canadian grocer Loblaw. Sam's American Choice was based on Loblaw's President's Choice range, which was launched in the mid-1980s and had grown to be a phenomenal success within just a few years. This was particularly true in Canada[30] where retail concentration is much higher than in the United States (today President's Choice is the largest consumer packaged goods (CPG) brand in Canada), but the brand also became a household name internationally as Loblaw licensed the brand to overseas retailers looking to differentiate with an exclusive line.

Walmart, however, wasn't looking to license the President's Choice brand. Instead, Dave Nichol, Loblaw President and the driving force behind the brand, helped Walmart to develop its own premium line. Nichol provided Walmart with the initial guidance and support needed for the Sam's American Choice line, and Loblaw even supplied some products within the range for the first couple of years. Loblaw also played a key role by introducing Walmart to some of its own private label producers such as the Toronto-based beverage manufacturer Cott Corporation. As with Doane Pet Care, Cott was a fairly small vendor at the time. Prior to the deal with Walmart, Cott had little luck in the United States as US supermarkets just weren't ready to go up against Pepsi and Coca-Cola with a private label line. The deal with Walmart was a breakthrough for Cott, as it spurred private label development across the entire grocery industry sector. Today, Cott produces 60 per cent of all private label carbonated soft drinks sold in North America and 56 per cent of those sold in the UK. However, the

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world's largest private label non-alcoholic beverage manufacturer is still heavily dependent on its retail customer in Bentonville. Walmart accounts for almost one-third of Cott's total revenues globally, including 39 per cent in North America, 17 per cent in the UK and 39 per cent in Mexico.[31]

The launch of Sam's American Choice was a real turning point for Walmart. Although today the range is overshadowed by the more successful Great Value and Equate lines, the launch of Sam's American Choice sent a very clear message to the industry – Walmart had its sights set on grocery and there would be no stopping them.

US private label market still lags behind ROW

Sam's American Choice was instrumental in igniting a change in shopper perception of private label. It began very slowly to transition from commodity to a brand in its own right. In the 1990s, some industry observers[32] believed that Walmart's foray into the sector would result in US private label penetration reaching 40 per cent by the year 2000. But here we are in 2012 and private label penetration is still less than 25 per cent of the overall market. So why, despite the United States being the largest and one of the most sophisticated grocery markets in the world, does it lag behind the rest of the world when it comes to private labelling?

There are a few explanations for this. Firstly, despite bouts of consolidation over the past few decades (think Safeway and Kroger), the grocery sector is still very regional in structure. Ahold is one of the leading chains in the Northeast while Publix continues to hold the title of Florida's largest grocery retailer. Walmart itself only accounts for 15 per cent of the entire US grocery market, a statistic that continues to shock even the most experienced of observers. In contrast, Tesco controls approximately one-third of the UK grocery sector and in Switzerland, where private label penetration is highest, there are essentially two retailers – Migros and Coop – controlling the market.

Secondly, in relation to the previous point, the United States is a vast and sparsely populated country, making it difficult to achieve economies of scale through private label production. It is generally more efficient to rely on branded manufacturers, although some retailers such as Kroger have built a strong private label programme owing to its vertically integrated structure. Kroger has 40 manufacturing plants that produce 40 per cent of its private label items.[33] As a result, the retailer has one of the highest private label shares in the country, with own brands accounting for more than one-third of units sold.[34] However, very few grocery retailers – Walmart included – have gone down the route of vertical integration, which has inhibited the greater sector from growing private label share to Kroger levels.

Thirdly, the lack of a major hard-discounter presence means that there was traditionally little incentive for the supermarkets to launch private label. In contrast, when Aldi and Lidl entered the UK in the early 1990s, Tesco immediately launched its Value line, which today is the second-largest food brand in the country.[35] Similarly, in Germany, the birthplace of the hard discounters, private label penetration is among the highest in the world. Outside Europe, the Aldi effect has also impacted the Australian grocery market, which, despite Australia being a vast and sparsely populated country, is dominated by just two grocery chains: Coles and Woolworths. In 2000, prior to Aldi's entry, private label accounted for 10 per cent of supermarket revenues. By 2010, that figure had jumped to 23 per cent as Aldi's presence sparked private label investment by the country's domestic retailers.[36]

Meanwhile, in the United States, Aldi is beginning to gather momentum having opened over 1,000 stores, but it has yet to have a major impact on the grocery sector, mainly owing to its secondary locations which do not place it in direct competition with the supermarkets.[37] That said, Aldi – like the dollar stores – tends to do very well when located within close proximity of a Walmart as they benefit from the traffic of a similar shopper demographic. In the future, a combination of better sites and increased shopper acceptance of European-style discounting could spur further private label development.

Finally, private label growth has been stunted in the United States because, relative to other markets, there is still a strong shopper affinity for national brands. This goes back to the fact that the consumer packaged goods industry is still more consolidated than the grocery retail sector, thereby limiting retailers' influence over consumers.

Historically, such affinity for national brands quickly softened during times of economic uncertainty. Retailers have used past recessions as an opportunity to tap into the consumer's newfound, and often temporary, quest for value. As such, there has always been a very strong correlation between recessions and private label growth; and, in the past, at the first sign of an upturn, shoppers quickly abandoned private labels and returned to national brands.

However, things are different today. Retailers have come a long way over the past decade, improving the quality and brand attributes of their own brands, which has resulted in annual private label sales increasing by 40 per cent at supermarkets and by 96 per cent in drugstores.[38] By the time the most recent recession struck in 2008, retailers were extremely well

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positioned – not to provide shoppers temporarily with better value but to showcase their own brands in a bid to drive long-term loyalty to both the brand and retailer. Private label is sticking today.

Looking ahead, brands will have a much harder time competing for share of wallet owing to a number of factors: the continued rise of a savvier shopper, fragmentation of media, mergers and acquisitions (M&A) in the retail sector, ongoing improvements in private label quality and innovation, SKU rationalization efforts which have created more visibility for private labels, and the emergence of alternative formats such as Tesco's Fresh & Easy or Sobeys' FreshCo which place private label at the heart of their strategy.

Great values

Private label exists when national brands fail to fill the void for the customer in terms of quality, price and innovation.

(BOB ANDERSON, FORMER WALMART VICE PRESIDENT RESPONSIBLE FOR THE LAUNCH OF GREAT VALUE)

On 2 April 1993 – a day that is now known as Marlboro Friday – tobacco company Phillip Morris finally succumbed to the pressures of private label cigarettes which were continuing to eat into its market share. Phillip Morris slashed the price of its Marlboro branded cigarettes by 20 per cent, causing its stock price to decline by a similar figure.[39] This led to a ripple effect among other consumer packaged goods companies that relied heavily on advertising their products, and the shares of Coca-Cola, P&G and many others suffered. Rather poetically, within one week of Marlboro Friday, Walmart announced plans for a new private label food line called Great Value – the range would eventually go on to become the largest food brand in the United States.[40]

At that time, some Walmart executives felt that its existing Sam's Choice line was becoming too stretched. It was sold across categories ranging from soft drinks to batteries, and Walmart rightfully felt that it needed to maintain its premium positioning. The Great Value line was the answer. Unlike Sam's Choice which was designed always to be superior to the national brand, Great Value was intended to be equal to, or better than, the national brand, thereby creating a clear distinction between the two lines. It's interesting to note here that while most US supermarkets' foray into private label was through cheap, copycat versions, Walmart recognized that sustained success with private label required quality and innovation.[41] 'Walmart has skipped that stage – that stupid process – and gone to a premium private label', Loblaw's Dave Nichol said back in the 1990s. And this was no different when it came to the Great Value launch.

Great Value was originally designed to compete with other supermarkets' private labels, or generics as they were known as then. For a short time, Walmart tested about 50 generic SKUs as it looked to reduce its dependence on Fleming, the food wholesaler that was supplying private label for them at the time. When they saw that the products were met with limited acceptability among shoppers, they knew it was time to cut ties with Fleming and go it alone. But Walmart's aim for this new line would be for it to become a quality brand in itself rather than the generic alternative to the brand. 'In my mind, all generics did was reinforce that you knew how to cut quality', Anderson said.

Led by Anderson, the Great Value line initially comprised 350 product lines, primarily in dry grocery categories such as coffee, cereals and potato chips. Walmart originally relied on the 'vital few', maintaining a focus on the 20 per cent of products that made up 80 per cent of sales. The first group of '80/20' items were those that were high volume, although not necessarily the most profitable as a result. The second and third groups of products consequently saw more profitability but less volume, and in the end Walmart was left with a private label SKU base that was substantially smaller than the average supermarket. The idea was to supplement – rather than replace – national brands while being able to compete with other supermarkets' private labels.

Recession revamp

The Great Value line was overhauled in 2009 in a bid to capture more bargain-hunting shoppers in the midst of a recession. Products were repackaged and recipes re-engineered in the timely and well-executed re-launch. In the end, Walmart tested more than 5,000 products to ensure that the quality was equal to, or better than, national brands, conducted more than 2,700 consumer tests to compare flavour, aroma, texture, colour and appearance of Great Value versus the national brand, and changed the formulas of 750 items, including cereals, yogurt, laundry detergent and paper towels, in a bid to improve quality. And at a time when brand suppliers were reining in new product development (NPD) owing to a combination of SKU rationalization and general austerity measures, Walmart introduced more than 80 new Great Value items, including organic cage-free eggs and fat-free caramel swirl ice cream.[42] Walmart has always been known for low prices; this re-launch was about establishing a quality perception at a time when consumers were shunning brands in favour of lower-priced private label items. However, Walmart doesn't always like to admit this:

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> For Great Value, many people misinterpreted the package redesign of Great Value as a shift in focus towards a private brand strategy that some of our competitors follow. We are a house of brands. We prefer to sell national brands because that's how we can differentiate ourselves in price better. When we sell Oreos and our competitor sells Oreos, and our Oreos are cheaper than their Oreos, the customer knows that we have a better price. When we sell cream-filled chocolate sandwich cookies and they sell cream-filled chocolate sandwich cookies, and you're not sure whether the quality is the same, the size is the same, it's very hard to differentiate yourself. We like to sell national brands. The Great Value program for us has been a program designed to bring a more uniform look to the product and to provide alternatives to the customers who were buying those in other places.
>
> (Bill Simon)[43]

Today the Great Value brand is larger than the likes of Coca-Cola, Heinz, Campbell's and Kelloggs. These national brands have spent more than a century in some cases building up strong equity amongst consumers, yet Walmart's Great Value brand has pushed them from their leading spots in a short space of a couple decades. Walmart achieved this not because Great Value is necessarily the best-tasting or the cheapest product on the market, but once again because of Walmart's scale. Today, Great Value is found not only in Walmart's 4,000+ North American stores but also internationally in Asia and Latin America, where it has had particular success in Mexico ($30+ million in sales) and Chile ($7 million in sales).[44] It is sold in every Walmart market except for the UK. It's important to mention here that the Great Value line today spans over 100 product categories ranging from oatmeal to light bulbs.[45] This is more than any national brand portfolio.

Private label allows for supplier leverage

This is another example of how the power shift has transitioned from the hands of manufacturers and into the hands of retailers. Manufacturers have spent the past two decades rationalizing their brand portfolios in order to create a leaner structure from which to trade with the retailers. For example,

Unilever went from owning 1,600 brands in the mid-1990s to just 200 in 2003.[46] And this is a process that continues today as retailers – Walmart in particular – embark on SKU rationalization programmes, which have a knock-on effect among the supplier community. If Walmart is reducing shelf space, then it's far more efficient for manufacturers to cull their tail brands in order to free up financial resources to plough into those power brands.

That is, of course, unless Walmart decides to purchase one of those tail brands and turn it into one of its own. That is exactly what it did in the 1990s when P&G discontinued its White Cloud brand, then the leading two-ply bath tissue brand.[47] P&G wanted to focus its efforts on its more promising single-ply Charmin brand, which was a wise move at the time, given the increased pressure suppliers were beginning to feel from retailers. Little did they know that several years on Walmart would buy and register the trademark to turn it into a private label. White Cloud continues to sit on Walmart shelves today.

Private label has enabled Walmart to gain better leverage and control over their suppliers, and not only through the sheer battle for shelf space. For example, food price inflation has been an ongoing source of contention between retailers and suppliers in recent years. In today's competitive marketplace, retailers will do anything to avoid passing the cost on to their shoppers. However, given that margins in the grocery sector are razor thin and the fact that retailers often have the upper hand, nine times out of ten it is the supplier who is left to absorb the cost. So where does private label come in? 'We know the formulas of our private labels so when a national brand manufacturer comes to us and says "hey, Walmart, the price we pay for sugar has gone up so we'll need to raise our prices", well then we have something to benchmark them against', a Walmart executive told the authors.

Driving innovation

Despite the many challenges that manufacturers continue to face with private label, there is a silver lining to every cloud. 'I made sure we didn't become a piñata brand', said Bob Anderson, having been interviewed exclusively for this book, referring to the fact that private label wasn't designed to bully national brands but to act as an alternative for shoppers. Private labels have helped to nudge brands away from complacency, and the Great Value line in particular helped to bring quality to the industry. Quality assurance was a major focus for Great Value, and Bob Anderson confessed that product recalls were the one thing that kept him awake at night. Great Value has a presence in more product categories than any national brand, which means that Walmart deals with hundreds of suppliers at one time. It's no surprise that Anderson became obsessed with quality and it was for this reason that Walmart avoided high-risk categories such as eggs (where product traceab ility was difficult to manage) or baby formula (where one product recall could have ruined Walmart's entire reputation).

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However, when we talk about private label innovation in the United States, it is typically retailers like Kroger, Safeway, Publix and Whole Foods that spring to mind. Walmart often gets overlooked in this regard, despite some fantastic achievements. It was the first major US retailer to feature bilingual packaging on private label products, catering to a fast-growing Hispanic population. It launched the industry's first-ever fat-free coffee creamer, now a staple product in the dairy section, and was among the first to identify which products were gluten-free, which were Kosher and which featured 100 calories or fewer.

Supplier metamorphosis

Although the company can boast about such innovations, it's important to remember that any additional costs always had to be justified. Bob Anderson recalls a time when ketchup packaging began to transition from the old opaque milk-carton-style packs to the clear bottles that we find on supermarket shelves today. At the time, the clear bottles cost five cents more than the traditional packs, yet this particular ketchup supplier was keen on the transition owing to rising consumer demand for the new pack. Walmart, although aware of the fact that the clear bottle was an improvement aesthetically, was still unconvinced that its shoppers would pay more for new packaging without any improvements to the product itself. During a meeting with this particular ketchup supplier, Mr Anderson went out into the hallway and called in a few passing members of the sales team:

> I stopped them and said: 'Which bottle do you like better?' 99 per cent of them chose the clear bottle. So then I asked: 'Now if I charged you a nickel more, would you still buy it?' They all said no. 'Would you pay anything more for it?' They all said no.

What happened next was no great surprise. Walmart went back into that meeting in their Bentonville headquarters and told the manufacturer that although they appreciated the improved design, the product would not make it onto shelves until it was cost-effective to do so. 'We went through quite a big metamorphosis of educating our manufacturers', said Mr Anderson.

The globalization of private label

As discussed in the last chapter, private label opportunities are often more lucrative in international markets. Walmart has consequently adapted its business model in markets such as the UK, where half of its Asda division's sales come through private label, and emerging economies where private label allows Walmart to deliver on its core promise of saving people money so that they can live better.[48]

International, as we will discuss later in the book, will be a key component to Walmart's future growth. It is already a substantial business; in fact, if it were a standalone company, Walmart International would currently be the one of the largest retailers in the world with sales in excess of $100 billion.[49]

Walmart's acquisitive market entry mode into many countries and its desire to preserve local brand equity have seen it hang onto many local private brands around the world. Walmart has, however, deployed a number of its flagship global private label brands in a variety of its operating markets in categories including non-food, food and drink, apparel, and health and beauty. In Table 3.1 we provide an international matrix and overview of some of these flagship brands.

A key challenge for Walmart with regard to its global private label strategy, and broader format strategy as we discuss in the multi-channel chapter, is balancing scale with customization. On the one hand, leveraging a particular brand such as Great Value internationally enables Walmart to achieve greater economies of scale, which results in lower prices at the shelf. However, one size doesn't always fit all, and Walmart must be able to sacrifice scale and offer local brands where necessary. For example, in Brazil the Great Value line was phased out almost in its entirety in 2010 and replaced with a new line called Bom Preço (Good Price in Portuguese), which has far greater resonance with local shoppers. Similarly, in India, the retailer balances global brands such as Great Value and George with local lines such as Astitva which is used solely for Indian ethnic products.

Table 3.1: Walmart: global private brand portfolio by market, 2011

Brand/country	AR	BR	CA	CL	CN	CEN	IN	JP	MX	PR	UK
725 Originals	X	X			X	X				X	
Athletic Works	X	X	X		X	X	X		X	X	
Bakers & Chefs		X			X				X	X	
Durabrand	X	X	X		X	X				X	

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Equate	X	X	X	X	X	X			X	X	
Extra Special			X					X	X		X
Faded Glory	X	X					X		X	X	
George	X	X	X				X	X	X	X	X
Great Value	X	X	X	X	X	X	X	X	X	X	
Kid Connection	X	X	X		X	X	X	X	X	X	X
Mainstays			X		X	X	X	X	X	X	
Member's Mark		X			X				X	X	
Ol' Roy	X	X	X		X	X			X	X	
Select Edition	X	X	X		X	X		X	X	X	
Simply Basic	X	X	X		X	X	X	X	X	X	

SOURCE: Walmart, Authors

Global brands

The George range was the product of a partnership between Asda and Next founder George Davies which saw the introduction of George clothing into 65 Asda stores in February 1989. George is now a global brand stocked in more than 3,000 stores in eight different countries. Walmart Canada recently stripped out Walmart brands such as 725 Originals and Faded Glory, replacing them with an expanded and overhauled range of George clothing.

Equate is a brand used for health and beauty items, such as shaving cream, skin lotion, over-the-counter medications, and pregnancy tests. In mid-2010, the brand underwent a logo redesign, as well as packaging changes similar to the Great Value brand. It is so far limited to Walmart's operations in the Americas.

Simply Basic was previously a brand used for health and beauty items, but is now used primarily for sleepwear and underwear.

Mainstays products include curtains, bedding, some small home furnishings, and various other products, including office supplies and kitchen utensils.

Member's Mark and Bakers & Chefs are brands designed for commercial clients through the Sam's Club chain.

Kid Connection is a global brand for toys used throughout Walmart's operations.

Recent moves have seen Asda's Extra Special range introduced to Canada, Japan & Mexico. Extra Special wine is a best seller in Japan, while Extra Special groceries are sold in Walmart Canada and through the Superama chain in Mexico.

Alongside these global brands, Walmart has retained pre-existing local private label ranges in a good number of its overseas operations.

Mexico and the Caribbean

In Mexico, the company markets over 1,000 own labels under banners such as ATVIO, Extra Special, Equate, Great Value, Aurrera, Marca Libre, Sam's Choice, Color Place and Vips. It imports some own label products from Walmart USA and Walmart Canada, and is looking to introduce generic pharmaceutical products at a cost 40 per cent cheaper than leading brands. In the Suburbia clothing stores, over 35 per cent of sales come from own label clothing.

Walmart Mexico's private label sales have been growing at a higher rate than total sales for many years, and have accelerated over recent years. This expansion also varies quite a lot depending on the product category, as customers are more loyal to leading brands in certain categories. As of 2010, share of private label sales is still fairly low (less than 5 per cent of turnover), although, for certain categories, own-brand share has reached 10 per cent and is growing. At the Superama chain, Extra Special, a 105-strong line of Asda private label products, is sold. Among the list of categories introduced in 2008 are varieties of tea, olive oil, European bread, canned fish and seafood, and gourmet sauces. As of 2010, Wal-Mart Mexico works with more than 180 suppliers of private labels, of which 120 are domestic and most are medium-sized enterprises.

In Puerto Rico, Walmart sells the usual range of Walmart and Sam's Club private labels, augmented by the Amigo brand for that chain.

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The UK

In the UK, private label products, which represent around 50 per cent of total sales and 45 per cent of food sales, have traditionally been used by Asda in the UK as a means of offering low-priced alternatives to national brands, acting as a strategic weapon to counter competitive price offensives and as a way of breaking restrictive pricing practices, such as on over-the-counter medicines. The company notes in its accounts that 'essential to the company's success is the delivery of fresh, innovative, good value products, which are unique to Asda. Our buying teams, food technologists and marketeers are continually searching to improve the quality of the company's products and to develop new ideas, many of which are sold under the Asda, SmartPrice, Extra Special and George labels.'

Asda attempts to shift consumers away from brands and towards its private label ranges, given that these tend to be more profitable and of higher quality than manufacturers' brands. Recently, the company has placed more emphasis on developing higher-quality ranges (Extra Special, Fresh, Go Cook and Good for You!), pushing up average basket size and helping the chain to capture a broader market. These new lines are designed to move the chain away from price promotional activity to constant low prices.

Asda's private label food range comprises the following main lines:

- SmartPrice – food and general merchandise essentials, from baked beans and potatoes through to dishcloths and tea towels, all offered at opening prices point with no compromise on quality.
- Asda Chosen By You – the Asda food and drink range was re-launched in 2010 as Asda Chosen By You. The range has sales of between £8 and £9 billion and was redesigned, reformulated and re-launched after extensive customer testing.
- Extra Special – premium food and drink brand that 'offers the best food delivered through authentic ingredients, provenance and the way the product is made. For customers wishing to treat themselves, Extra Special allows them to do this at affordable prices.'
- Asda Organics – a range of 'affordable, accessible' organic food and drink.
- Good for you! – meals and foods with a lower fat content than the standard Asda brand.
- Asda Great stuff – a healthy range of kids' favourite meals, snacks and drinks.

Central and South America

Regarding the recently acquired business in Chile, D&S's private label pro-gramme was launched in 1992. D&S has revealed in 2010 that it had rolled out over 600 new and reformulated private label products, including the debut of Walmart's Great Value private label range. According to D&S, the Walmart private label range is imported 'in order to have a better range of products at a great price' in the food and household categories. D&S states that its private label penetration in consumer products (including health and beauty care (HBC) and food) reached 14.5 per cent, well above the Chilean supermarket industry average of only 2.2 per cent. The D&S private label portfolio now encompasses nearly 2,000 SKUs, comprising Líder (around 1,200), Body+ (20), BGOOD (180), Acuenta (250), Selección (100) and Great Value (120). Walmart's Equate range is also sold in Chile.

In Brazil – where Walmart bulked up through two multi-chain acquisitions – it is little surprise that there is an extremely fragmented assortment of private label ranges. Although many banners sell common global Walmart brands such as Equate, Durabrand, Kid Connection, George, Ol' Roy and Great Value, there are a number of banner-specific PL ranges, including Big, Bom Preço, Mercadorama and Nacional. In addition, there are company-wide private label ranges unique to Brazil, such as Bom Preço (the 150-strong range was made available in the Walmart, BIG, Mercadorama, National and Bompreço chains in 2010, and comprises food and cleaning items). The lines – many of which feature sustainable packaging – are priced at between 10 and 30 per cent lower than manufacturers' brands and include Sentir Bem (a healthy-eating range launched in July 2009), Mais por Menos (an economy range of household and HBC items) and +ekonimico (an economy range exclusive to its Todo Dia discount stores). As usual, Sam's Club in Brazil sells the Member's Mark and Chefs & Bakers ranges.

A similar situation prevails in Central America. While we might expect to see greater alignment in private label terms with Walmart Mexico going forward, for the time being Walmart Centroamérica's private label offer comprises pre-existing lines with a sprinkling of Walmart global brands. Private label ranges are produced by Desarrolladora Comercial Inter-nacional (DCI), with the products being distributed throughout Walmart Centroamérica's stores in Guatemala, Honduras, El Salvador, Costa Rica and Nicaragua. The three main brands are: Sabemás (food and drink); SuperMax (household and

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drugstore); and Suli (economy ranges). Together, the three main brands account for over 500 SKUs. Walmart's Equate, Simply Basic and Great Value brands are also available in certain chains.

Asia

In Asia, private label is showing signs of traction in general (private label penetration has historically been at much lower levels in Asia than it is in Europe and even in North America owing to consumer concerns over food safety and traceability in the supply chain), and Walmart is no exception to this overall trend.

In India, 2009 saw Bharti Retail introduce eight Walmart private labels, including Great Value (flour, dry fruits, spices, cereal and tea) and George (clothing) in its supermarket chain Easyday and in its cash & carry wholesale store. Other Walmart private labels introduced in India include Home Trends (home furnishing), Mainstays (plastic containers, kitchen accessories), Kid Connection (toys), Faded Glory (footwear) and Athletic Works (athletic shoes, equipment).

In China, a comprehensive range of Walmart global private labels are available, although these are often manufactured locally and heavily tailored to meet local tastes.

Seiyu in Japan has a mix of Walmart and brands and legacy Seiyu private labels. Private label development is one of Seiyu's core merchandising strategies, and it has been enhanced since Seiyu announced plans to revamp its private label offering in 2005. Despite recent efforts, the private label penetration rate in 2011 is thought to have remained at slightly over 10 per cent. The effort to drive up private label sales is likely to be bolstered by Walmart initiatives such as its partnership with Li & Fung and the development of Global Merchandise Centers.

A number of Walmart private label ranges from around the world have been introduced to Seiyu since the retailer first took a stake in the Japanese company. In August 2004, Seiyu launched a modified version of the George brand developed by Asda. Other ranges introduced have included Great Value for groceries, Simply Basic clothing ranges and Kid Connection as a key strength in the toy category. Extra Special cookies were introduced in 2008, with wine introduced in 2009. Both ranges are sourced from Asda in the UK and the Extra Special wine range has become a phenomenal success in the Japanese market.

However, from late 2005, Seiyu has modified Great Value to be better suited to Japanese tastes. Currently some 100 Great Value products are sold, but these are mostly Japanese traditional food items and produced in Japan. Great Value lines are at the core of Seiyu's private label strategy and therefore they replaced the legacy range Seiyu Fine Select. Similarly, George product specifications and materials are customized for the Japanese market, while Asda's influence remains only as a design source.

Besides the above, there are several private label brands that Seiyu developed before becoming a part of Walmart. The Shoku-no-Sachi range (the name translates as Food Delights) was launched to 'meet the demands of consumers concerned about food safety'. The company states that 'this house brand is based on the concept of providing safe, delicious foods from the best producing regions and producers, using methods that bring out the best in the ingredients'. The range is sourced directly from suppliers (which enables higher quality control) and is to be expanded from the current ranges of fruit and vegetable produce, meat and seafood to include categories such as processed foods, dairy products and prepared foods. Other Seiyu private label ranges include Clothing everyday fashion lines and Kankyo Yusen environmentally friendly health and beauty and stationery products.

The brands behind the private labels

Up until now, we've generally been focusing on the growth of private label at the expense of national brands. However, it's important that we take a step back to examine the increasingly complex relationship between the two. While both are very much competing for a share of the shopper's wallet, increasingly it's the national brand manufacturers who are supplying the very same private labels that they compete with at the shelf. This explains why today we hear more and more consumers recommending private label – 'oh, that store brand is just as good as the name brand – and it's cheaper!' – and also why retailers are becoming ever more confident in the quality of their private labels, often offering consumers a money-back guarantee and in some cases giving away their private label product when shoppers buy a comparable national brand.

So who is doing it? Many people would be surprised at some of the big names behind the retailers' brands. ConAgra, for example, produces Walmart's Great Value frozen potatoes from its Lamb Wesson facility and also supplies the company with private label granola bars.[50] Kimberly-Clark, Del Monte and Sara Lee also contribute to the behind-the-scenes production of Great Value foods. Ralcorp, the maker of Post cereals, also produces Great Value breakfast cereals while Kelloggs makes Walmart's frozen pie shells. McCormick, Hormel and McCain also dabble with private label, and it's not

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only Walmart they are producing for. '[ConAgra's] Chef Boyardee packs our canned pasta products. They wouldn't want you to know that', said Bill Moran, founder and former CEO of SuperValu's Save-A-Lot chain, back in 2003. The company looks to private label for 85 per cent of its assortment.[51]

So why would a large consumer packaged goods company help to create a private label product, only to find themselves competing with that very item once it reaches the shelf?

There are a few reasons. Initially, many national brand manufacturers viewed supplying private label as an opportunity to make use of surplus plant capacity, thereby improving operational efficiencies. In that sense, supplying private label was more of an afterthought than a strategic imperative. However, in the United States today, sales growth of private label has outpaced that of national brands in recent years, a reflection of increased retail investment and consumer acceptance of these items, particularly in a down economy, as discussed previously. In dollar terms, private label grew 2.9 per cent in 2009, compared to the 0.1 per cent growth achieved by national brands. The gap in unit terms is even more staggering: private label grew by 6.4 per cent while national brands declined −1.7 per cent.[52] This, of course, is a reflection of the fact that low-priced, high-velocity items such as milk and bread are increasingly being bought as private label. National brands have since fought back, slashing prices and running temporary promotions in a bid to regain some ground. As a result, the following year, in 2010, national brands in supermarkets gained 1 per cent while private labels were essentially flat.[53] However, it's important to point out that ongoing price-cutting by brands is not a sustainable strategy – private labels will continue to gain momentum and national brand manufacturers can no longer ignore them.

Therefore, for many, producing private label is necessary to regain some of that share lost to those very items. If you can't beat 'em, you might as well join 'em. Consumers will continue to buy private label and therefore the national brands are now acknowledging and capitalizing on this trend. If they don't, surely one of their competitors will.

CASE STUDY

In the past several years, we have even seen the emergence of new consumer packaged goods companies built to address this very trend. Sun Products, for example, was formed in 2008 through the merger of Huish Detergents – the leading manufacturer of private label laundry and dish products – and Unilever's North American fabric care business. Unilever was losing share to competitors such as Procter & Gamble in this category and, like many other suppliers, looking to divest non-core assets. Meanwhile, Huish had a 90 per cent share of the private label detergent category with customers that included Walmart, Costco and Aldi. The combined company is now able to continue servicing those legacy retail customers from a private label perspective while also offering well-known brands such as all, Snuggle, Wisk and Surf. At the time of the merger, the CEO of Sun Products Neil DeFeo said: 'We're taking a business out of Unilever without its overhead structure, without a sales organization, without back-office operations and putting it right on top, selling to the same buyers, in the same category, buying the same raw materials, talking about the same issues with the trade as we had always done.' Further consolidation on the CPG side is likely as these companies look for more efficient ways to service their retail customers' changing needs.

In the case of Walmart, scale is always an enticing factor for suppliers to engage in private label production – let's not forget that Great Value is the largest food brand in the United States so there is a clear revenue opportunity. Yet, supplying private label is also beneficial from a buying perspective. 'I am sure our volume helps [our suppliers] be more efficient in leveraging purchases', a senior Walmart executive told us. The scale associated with supplying Walmart's private label has almost certainly provided the likes of ConAgra, Ralcorp and Del Monte with the ability to leverage better terms with their own producers. Once again, this is a classic example of how Walmart drives efficiencies throughout the value chain, whether intentional or not. However, the flip side for these companies is further dependence on the retail giant – producing Walmart's private label cereal means that Ralcorp relies on the retailer for nearly 20 per cent of its annual revenues.[54]

Therefore, not everyone is ready to pack it in and become a private label supplier. While it makes sense for secondary and tertiary brands – particularly those that may face the cut as part of a SKU rationalization process – many leading brands find it far more valuable to focus on their core. For example, Procter & Gamble's portfolio consists of leading brands in low private label share categories so there is little incentive to help retailers develop private label. (It's important to point out here that P&G has also been one of the more aggressive CPGs when it comes to filing patent infringement lawsuits against private label.) Nestlé and PepsiCo have also done well to strengthen their brands, with both focusing on innovation and PepsiCo on NPD as a means of defending market share. Meanwhile, some leading brands have dabbled in private label only soon to recognize that it's far more powerful to focus on the national brand. Birds Eye, for example, used to be a leading supplier in the private label frozen vegetable category; however, the company exited that business in 2006. At the time, the fragmented nature of this category – there were over 15 competing producers – made it unattractive for a leading

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brand such as Birds Eye to turn to private label production. Profit margins and return on invested capital were low. According to Brian Ratzan, a managing director at Vestar Capital Partners which invested in Birds Eye at the time, the private label business required $100 million of working capital, which only generated $1–2 million of earnings before interest, taxes, depreciation and amortization (EBITDA). Once the company divested the business, its SKU count was reduced from a whopping 4,500 to 480, enabling Birds Eye to refocus its efforts as number-one branded frozen vegetable manufacturer in the United States.[55]

While these leading brands often have the clout to reject private label production, it is a very different story for the number two and three brands. As part of its SKU rationalization programme, Walmart removed the Hefty and Glad brands from its food storage category at the beginning of 2010. The end result was a shelf reminiscent of that of a warehouse club – one leading national brand (SC Johnson's Ziploc) and, you guessed it, Walmart's Great Value brand.[56] The idea was to reduce clutter and make the decision-making process at the shelf easier for shoppers, not a terrible idea for a proliferated and not particularly brand-loyal category such as food storage bags. Doing so would also lower inventory and labour costs while giving greater visibility to the private label product. All in all, it made sense for Walmart from both a shopper satisfaction and financial perspective. But for the brand being delisted, it was catastrophic: Walmart accounts for 21 per cent of Hefty parent company Pactiv's annual revenues.[57] Are you sensing a pattern here?

Pactiv CEO Richard Wambold commented at the time: 'At the end of the day, we think that's not a real good decision for [Walmart]. And we think that [they're] going to find that that category performs very poorly without Hefty OneZip which is the leading brand.'[58]

Pactiv also supplies Walmart in the waste bag category, where it managed to retain a presence on the shelf despite that category also undergoing a brand consolidation process. Hefty's assortment was reduced in the waste bag category but they were still present nonetheless. Surely, it's no coincidence that, while this was taking place, Pactiv signed a multi-year agreement with Walmart to become its sole supplier of private label waste bags under the Great Value brand, going on to become Walmart's Supplier of the Year. Could Hefty have preserved its position by succumbing to private label production?

After four months, Hefty slider bags were added back to the food storage category.[59] Sure, it could have been down to the fact that there was genuine consumer demand for the item (Hefty claims they have 65 per cent share in category). In fact, Walmart made several hundred so-called 'corrections' almost immediately after removing brands that turned out to be quite important for their shoppers. However, we can't help but wonder whether Pactiv's sudden importance as a private label supplier has helped them to get back on the shelves and avoid further culling.

In any case, the Hefty example brings us on to a much broader topic. For a company that prides itself on its roots as a merchant, the removal of thousands of well-known products from its shelves certainly raised a lot of eyebrows. Now let's explore the motives behind what has been one of the largest-ever merchandising blunders in Walmart's history – SKU rationalization.

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