

Making private label work for industrial manufacturers

It is time for industrial manufacturers to accept the reality: Industrial distribution channels are consolidating and power is shifting from the manufacturer to the large distribution players closest to the end-user. The shift that happened in consumer products with players like WalMart, Target and Best Buy is going to happen in industrial products. It is inevitable. What is also inevitable is that private label brands will become more pervasive. Distribution players have always wanted private label brands, but manufacturers have resisted. As the power shifts, it will become increasingly difficult for manufacturer to say “no” if they want to play.

The key for industrial manufacturers is not so much deciding *whether* to play in private label, but *how* to play. Making this decision is a function of the manufacturer’s core competency and value proposition.

Manufacturers with solutions-oriented, highly differentiated offerings have to be very careful with how they approach private label. Private labeling commoditizes manufacturers’ value propositions. Who is going to be willing to pay premium prices for the manufacturer’s brand when they find out that they can get the same thing cheaper with a private label product? And they always find out.

Manufacturers that focus on commodities, on the other hand, are perfectly suited to supply private label. Their core competency is manufacturing products with limited differentiation as cheaply as possible. If it can be done profitably at a large scale, they should.

Unfortunately, many manufacturers have both high-end and low-end products under the same brand. This typically happens because technology that starts off as innovative moves through the product lifecycle and eventually becomes commodity. So that is the dilemma: How you play in private label when you’re in both ends of the market?

The goal in this situation is to focus on maintaining the integrity of the brand and value proposition. Private label is only valuable for these manufacturers when it opens up doors to sell high-end offerings without compromising integrity. Typically this means agreeing to supply commodity product for private label that cannot be traced to the manufacturer in exchange for the channel partner’s agreeing to sell the high-end branded product. Agreements like this require purchase level ratios (e.g., channel partner must buy at least a dollar of high-end branded product for every dollar of commodity product it will buy for private label). If used correctly, private label can be powerful leverage with channel partners. Some manufacturers even use private label to encourage channel partners to focus on high-end products that are not selling particularly well. But the key is that the high-end manufacturer supplying commodity product must get something in exchange for supplying the product besides just the sale of commodity product.

Private label is only going to grow. Manufacturers need to figure out how to play to optimize their outcomes.