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MDM Special Report:

Private Label in Wholesale Distribution

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The Evolving Role of Private Label

Part 1: Higher quality, shifting competition fuel growth of private label

About 40 percent of distributors in a recent MDM survey said they offer private label. This article examines the growth of private label in B-to-B markets, shifts in the private label landscape and what's driving distributors to offer private label brands to their customers.

By Lindsay Konzak

Distributors are increasingly looking to private label products as another weapon in their arsenals in a rapidly changing competitive landscape.

"I don't see distributors shifting to an entirely private label portfolio and essentially becoming manufacturers or brand-owners of contracted manufacturing product," says Guy Blissett of IBM, author of the National Association of Wholesaler-Distributors' *Facing the Forces of Change: Reimagining Distribution in a Connected World.*

"But I do see much more attention being paid to private label and the role that private label products can play in (distributors') value proposition, allowing customers to pick and choose the price point and quality and value proposition of product that they want to buy across different categories."

Large, national distributors have invested heavily in their own private label brands in recent years. Grainger has grown its exclusive brand SKU count by more than 200 percent since 2007. About 22 percent of MSC Industrial Supply's new SKUs in its September 2013 catalog were MSC private brands. And Fastenal's private label brand, focused on non-fastener product lines, now makes up 10 percent of its total sales.

But it's not just the nationals that are investing in private labels, also known as exclusive brands, own brands or store brands. More than 40 percent of distributors in a recent MDM survey said they offer private label brands.

Of the 59 percent that said they don't offer a private label, 13 percent said they had plans to offer one. About a third said they weren't sure.

Acceptance of private-label brands in B-to-C markets has bled into B-to-B, bringing with it both opportunity and tremendous challenges. The opportunity, when done right, can translate to margin expansion, a stronger distributor brand, increased customer loyalty and a better selection for end-users in an era of growing choice thanks in part to the Internet.

But distributors should also beware the side effects of private label, including the chance for channel conflict with national brand suppliers, the challenge in finding new skill sets to produce and market their own products, and an increased responsibility for product liability.

Growth of a Segment

Private label growth has been strong since the start of the recession in the U.S. JB Steenkamp, author of *Private Label Strategy: How to Meet the Store Brand Challenge*, says that as a share of the Consumer Packaged Goods market, for example, private label moved from about 17 percent of units to nearly 22 percent in the wake of the economic crisis; it now sits about 21 percent. Steenkamp is also a professor of marketing at the University of North Carolina's Kenan-Flagler Business School.

No figures were readily available in other segments, but distributors and manufacturers across sector lines say they've seen continued growth and interest in private label product lines.

Distributors have more options these days to add a private label to their product offerings. Some distributors develop their own product specifications, playing a big part in the design of a private label product either in-house or with a branded or contract manufacturer. Others put their names on what a contract manufacturer has already designed.

Some master distributors – selling only to distributors – offer white-label products, allowing distributors to brand or co-brand products in their local markets. Many distributor marketing groups offer private label branded products to their members, giving members a cost-effective way of offering a brand that competes effectively on a national scale, especially for national accounts that are looking for consistency across locations.

"We're seeing a pretty dramatic move to private label," says Beau Walter, sales and marketing manager for Athea Laboratories, which contract-manufactures more than 400 private label specialty chemicals and cleaning products for retailers and distributors. "I think largely because of what's happening on the consumer side, there's been a growing acceptance on the B-to-B side for private label."

Private brands have been a growth segment in the pharmacy channel for distributors like Cardinal Health, according to Shaun Young, Cardinal's vice president of consumer health.

"(The growth) has been in the high single digits for the last several years," Young says. "A lot of it is really driven by the value that the consumer is finding when they go to the shelf, and they find a national brand product. They see a private brand sitting next to it at a much better value for their dollar. One of the big pushes that retailers – our customers – have seen is the gross margin dollars are much greater on a private label product than on a national brand product. … Not to mention consumers' acceptance of these options has been at an all-time high."

Playing Defense

For many distributors offering their own brands in the MDM survey, private label was perceived as a margin opportunity, as well as an opportunity to offer a product at another price tier. In some cases, the goal was to recapture lost sales opportunities due to price.

But distributors cited more reasons than price and margin for diving in.

For some, it was a defensive move against new competitive forces in the market. "We know it brings higher margins and is less likely to be cross-referenced to Grainger or Amazon," said one distributor, who added that it plans for 25 percent of its product offerings to be private label in 2014.

"You really ensure that reorders are going to come to you," Walter says. "… Today many of the professional brands that our industries are used to selling and buying, those can be purchased at big-box stores now. That makes it particularly challenging for a given distributor to keep that business when the product that they might be selling can be purchased anywhere."

Ted Stark, president of janitorial and sanitary supplies distributor Dalco Enterprises, New Brighton, MN, says private label helps the distributor fight showrooming, when reps consult on products and services to the customer who then gets quotes from other distributors and outlets carrying the same products. "That becomes a motivator to sell the private-branded product because if we go out and do all the sales and marketing for a Dalco product, nobody else is going to come in and show the exact same product," Stark says.

Some distributors, including Dalco, are fighting converging channels, where their products are now being sold by a broader array of traditional distribution competitors.

"There really aren't any exclusive distribution arrangements anymore," Stark says. "And we've seen the national manufacturers increasing their distribution. We've seen them add not only additional independent jan-san distributors, but they're also adding on the big-box guys, and distributors from other industries are carrying our product."

Distributors are also using private label to fill holes in their lines or to provide custom parts to customers. One distributor wrote it has a private label offering "to protect our engineering efforts vs. the 'me too' … distributors. Essentially protect ourselves vs. those willing to drop price."

In some segments, distributors are introducing private label to compete against low-quality imported goods. "For us more than anything it is a defensive posture to respond to competitive distributors that import non-branded Chinese goods," says Michael Flink, president of ADI, a security and low-voltage products distributor with more than 200 branch locations.

He says customers want a "cost-effective" solution that they can trust. The distributor's private label products are positioned on the good end of the good-better-best spectrum, with national brands filling the better and best buckets.

Other reasons distributors said they offered private label included: avoiding geographic restrictions on branded products; responding to suppliers' "attempting to control the customer"; consolidating third-tier suppliers; and preventing the "excessive discounting of premier suppliers."

A Demand for Higher Quality

The demand for higher-quality private label is growing, providing more opportunity to add value for distributors.

"Years ago in the industry, private label was considered a low-end, low-cost solution," says Greg Polli, vice president of product management and global sourcing for MSC Industrial Supply, Melville, NY. "Customers' expectations have evolved, and they expect more. Our customers are counting on us to help them cut cost out of their operations, so presenting strong quality products at an effective price point is absolutely critical for our customers."

"Now you can go into a Target or a Kmart ... and they all have their own brands. It's packaged nicely, priced more competitively, and the bottom line is you take it home and you say, 'this stuff isn't bad,'" says Ed Rossi, president of janitorial and sanitary supplies distributor DawnChem, Cleveland, OH. "It has evolved over the years to where it's not frowned upon as a generic product."

Retailers and distributors recognize the importance of nicer-looking packaging, supporting literature and better marketing. The bottom line, according to distributors that offer private label, is that the product has to work as promised.

Vince Phelan, director of trade marketing for United Stationers, a master distributor of office supplies, agrees. "I think customers are savvy today – they know they have a lot of choices," Phelan says. "And that product experience is so important."

Close to 20 percent of Dalco Enterprises' chemical products sales are from private label; as the quality gap between private label and national brands began to close over the past two decades, Dalco has promoted the products more and customers have been more receptive.

And the recession provided an opening for many distributors, including Dalco, to offer a quality alternative at a lower price point.

Blissett says distributors need to view private label with an eye toward quality to remain relevant. "If distributors only view private label as a low-cost cheap alternative to the branded product, then I think there is a potential risk for a race to the bottom," he says. "But if they think more innovatively about private label as having the potential to build a whole new brand of high-end product under the distributor's own brand name, or a subset of that brand name, that's a different mindset, and it takes private label in a whole new direction."

Phelan says United Stationers is in tune with the need to raise the bar on private label products. "We try to manage our brand like their national brands," he says. "We try not to let it become too commoditized. I think our distributors are savvy enough to understand that it can be a quick race to the bottom if you're not careful."

The Value of a Distributor's Brand

As distributors add private label to their product portfolios, it begs the question: What is a distributor's brand worth? Historically a distributor's brand – depending on the sector – was largely dependent on the national brands it carried. That mindset has shifted.

"I see distributors being more assertive in terms of their own branding, and understanding the power of their brand and the importance of getting their brand out there in the marketplace," Blissett says.

Take foodservice distributor Sysco, which recently partnered with the Food Network to promote its brand to the end-user through sponsorship of the television show Restaurant Impossible. Sysco has 40,000 Sysco-brand products, according to its Investor Fact Sheet. "This is the first time in the history of Sysco that we're going to formally introduce our brand and our company to the end-consumer," William Goetz, senior vice president of marketing for Sysco, said in February 2013 at the 2013 Consumer Analyst Group of New York Conference.

Steenkamp says distributors sometimes have market propositions over and above the national brands they may carry due to relationships in local markets or services they provide. Distributors often have a closer connection to the needs of end-users, giving them insights into products or customizations that will add value for customers. The presence of private label will likely continue to grow in distribution.

"I think there's definite upside for the market," MSC's Polli says. "Private brands will certainly not replace the stronger industry brands, but there could be some displacement of weak industry brands that aren't driving real value-add for their customers. I see us growing as a percentage of our revenue in the private brand area."

Jenel Stelton-Holtmeier and Angela Poulson contributed to this report.

Strategies for Private Label Success

Part 2: Distributors should consider branding, skillsets & liability

Creating a successful private label strategy requires more than just putting the distributor's name on the products. This article looks at key elements of building a private label strategy and the decisions distributors need to make to successfully implement that strategy.

By Jenel Stelton-Holtmeier

More distributors are either offering their own private brands or considering offering private brands. But doing private label well requires more than simply making a decision to do it.

"The first time we attempted it 15 years ago, it was a miserable experience because we didn't have all the right processes in place to ensure the quality and everything else," says Michael Flink, president of ADI, a security and low-voltage products distributor with more than 200 branch locations. "And we had to basically discontinue the whole brand. We stayed out of it for quite some time after that until we could put together the end-to-end quality-sales-support program."

Now ADI is seeing growth in its private label and planning for more going forward.

"Fundamentally, one of the main reasons why distributors get into private label is to improve margins over the branded products they sell," says Rob Tiberi, former brand manager for global lab supplies distributor VWR International who oversaw the distributor's private label portfolio. "… If you're trying to accomplish margin improvement, and that's your only starting point, then you may have to rethink your strategy.

"You have to ask: What do you want your products to represent? How do you want to position them in the marketplace? How do you communicate that? Getting those things clearly identified up front and clearly articulated throughout the organization is paramount to success."

To Brand or Not to Brand

For some distributors, having their name front and center on their private label products is a key part of the strategy because it creates that point of identification for customers. "If you're going to lead with a product, try to lead with your name first," says Ed Rossi, president of janitorial and sanitary supplies distributor DawnChem, Cleveland, OH.

That branding strategy is common, particularly among smaller or mid-sized distributors, because the brand name is tied to the brand identity built by the distributor, according to JB Steenkamp, author of *Private Label Strategy: How to Meet the Store Brand Challenge*. Steenkamp is also a professor of marketing at the University of North Carolina's Kenan-Flagler Business School.

"There's no reason to trust a brand if you have never heard of the brands," Steenkamp says. "Build equity, brand equity, for your distributor brand name."

But for larger distributors such as MSC Industrial Supply Co. or Grainger, separating the products from the distributor's brand is important. "We actually use the word Grainger only for the distribution brand. You don't actually see that on our private label brands," says Deb Oler, vice president and general manager of the Grainger Brand. "… We want our product brands to be about products." Grainger has more than 40,000 products that fall under its Exclusive Brands portfolio, which includes motors, hand tools, air compressors, cleaning supplies, safety products and more.

At MSC, the name MSC still shows up on some legacy products, but the company has been phasing out that particular private brand, according to Greg Polli, vice president of product management and global sourcing. MSC has built a strategic plan behind the positioning of eight private brands. An additional 15 or so, some of which came through acquisition and some of which are niche in particular product categories, are also in MSC's portfolio.

ADI also takes this approach. "They know it's our private label – but we don't put our name on it," Flink says. "We don't want to be in that level of competition with our branded suppliers."

"What does a brand mean to a consumer?" Steenkamp asks. "The moment when a strong brand can be defined, would my behavior and would my response to marketing activities of that brand be different?" And does it matter if the brand is tied closely to the company name?

"If I see the Kirkland brand," Steenkamp says, "I understand that is Costco's brand." But the company has invested in building that brand identity, he says.

Regardless of whether the brand name includes the distributor name, it “might fail if (the distributors) can’t articulate the value behind their private label brand,” says Beau Walter, sales and marketing manager for Athea Laboratories, which contract-manufactures more than 400 private label specialty chemicals and cleaning products for retailers and distributors.

Positioning

Historically, private label brands were often perceived as lower quality products at a lower price point, a common example being the black-and-white generic products found at grocery stores. But over the past 20 years, companies have been working to change that perception.

Much of that perception is based on the segment of the market targeted by the companies. ADI, for example, primarily has products at the “good” level in the good-better-best paradigm. They made that choice because for a lot of branded manufacturers “their least favorite place to be is the lower price point,” Flink says.

MSC Industrial Supply’s private brands often fall into the “good” to “better” range, according to Polli, with the focus being on how to meet customer needs that aren’t already being met in the marketplace.

“We’re really developing brand positions in the marketplace for value-add products, not just simply slapping a label on non-value-added product,” he says.

Regardless of the quality of the product, distributors have to provide consistency if they plan to have success with their private label strategies, “delivering what you’re promising you will deliver every time,” Tiberi says. To do that, distributors must understand what it is they’re trying to accomplish with their brands and position those products within their portfolios effectively.

“One of the things for distributors to appreciate is the added complexity that having a private label portfolio of products or even a handful of products brings into your business, because you know have to think more expansively about marketing and your value proposition and where those private label products fit in that value proposition,” says Guy Blissett, author of the National Association of Wholesaler-Distributors’ *Facing the Forces of Change: Reimagining Distribution in a Connected World*. “Basically, things like: How are they going to be positioned if a customer comes onto your e-commerce site and is searching in a particular category? Where do the private label products fit from a prioritizing perspective?”

“It really starts with the category strategy, and the category strategy starts with our value proposition to our customers,” Polli says. “… It’s really not a separate decision of what we do with private brands; it’s a decision of how we can bring the best value to our customers within a category portfolio.”

Because of their depth of knowledge about the market, distributors have the ability to clearly understand what their customers need and want. “At the end of the day, it’s about what the consumer needs and shops for,” says Shaun Young, vice president of consumer health at Cardinal Health, Dublin, OH. Cardinal is seeing two distinct segments emerge in the medical products market – one is brand-loyal, the other is price-conscious.

Balancing national brands and private brands can be challenging, says Ted Stark, president of janitorial and sanitary supplies distributor Dalco Enterprises, New Brighton, MN. “It really comes down to what’s the best situation for the end-user,” he says, and managing private brands as part of a complete portfolio.

Bridging Skill Gaps

“When you own the product it’s a whole different ballgame,” says Vince Phelan, director of trade marketing for United Stationers, a master distributor of office supplies. “And (distributors) don’t always have those skillsets in house.”

Distributors understand the products and the market, but they might not have the depth of knowledge about product development that manufacturers have developed over years. But it’s critical to a successful private label strategy. “For private label products, a distributor must think like a manufacturer,” Tiberi says.

MSC’s Polli agrees: “In a nutshell, probably the biggest challenge when you think about private branding is you as the distributor are now taking on much of the role that the manufacturer had. … Many of those costs and those responsibilities now fall to the distributor.”

The support function usually provided by manufacturers now becomes the responsibility of the distributor. “Our sales team will only sell product that they’re supported with in the marketplace. And if there’s not that good relationship and support base, these folks will become very hesitant of leading with these products,” DawnChem's Rossi says.

The contract manufacturer that DawnChem works with to produce its line of private label products helps to provide that support, including product literature. Rossi recommends seeking out manufacturing partners that can add value to the production relationship.

And with a private label line, product quality issues become an even bigger concern for the distributor. If you're not attentive to the quality of your brand, "you could very quickly damage the perception of your brand," Flink says. It's your brand on the line if your name is on it, not the company actually manufacturing it.

At a minimum, distributors have to ensure that they're partnering with a reliable and established manufacturer. Some distributors take it a step further, making sure they have their own quality control team on the floor of the factory, yet another skill set that distributors may have to develop.

Control vs. Liability

The more involved a distributor is in the development of its private label products, the more they open themselves to legal risks associated with those products. It's a balancing act to determine how much product control to have versus that question of liability.

"It's not a decision to be taken lightly, and I think you really need to have a deep understanding going in as to what you're trying to do with these private label products," Blissett says.

"When the private label distributor has a lot of input and oversight on the manufacturing of that product, I would consider it a positive," says Daryle E. Stafford, president & CEO of Veracity Insurance Solutions, Pleasant Grove, UT. "It's probably going to help on the liability side for them, just from the fact that they're making sure that this plant is meeting certain specifications, that the product quality is meeting the specifications that they have set and obviously making sure that the final product meets the company's expectations for a quality product."

On the other hand, flaws in design or production could become your responsibility, he says. "It's not that distributors shouldn't get involved in the design; it's just that they will assume the liability. So they have to understand that once they start altering the design and putting input on that, they are starting to become the manufacturer."

If you source internationally, chances are that the liability will fall on your shoulders regardless of the level of input because of lack of jurisdiction, Stafford says.

Distributors should make sure the company manufacturing their private label products is a reputable company, and if they are domestic, make sure they have insurance and get named on the policy.

Never agree to a contract manufacturer who asks the distributor to name the manufacturer on the distributor's insurance policy, Stafford says. "If you run across a manufacturer that's asking for that, that's not normal and it shouldn't be acceptable." It would be like agreeing to hold an automobile manufacturer harmless for damages caused by a vehicle with defects.

"Liability is a real concern for many distributors, particularly for those who may have never done a private label before," Athea's Walter says. "We need to articulate that we're an established company and therefore the products are established. We want them to be comfortable that they're marketing a product that's proven in the marketplace, that we're not cutting corners.

"It's important for a customer to be comfortable with whom they're buying from."

Private Label & Channel Conflict

Part 3: Distributors work to balance national, private brands

While the margin and branding benefits of selling private label products may be attractive to distributors, such a move can create tension in the channel. This article examines the potential challenges and how distributors and manufacturers may be able to mitigate them. MDM also analyzes how distributors are balancing private label and manufacturer brands in their portfolios, and looks at why some manufacturers choose to produce private label for distributors and why others avoid it.

By Jenel Stelton-Holtmeier and Lindsay Konzak

When distributors introduce their own private label brands, they may also introduce "friction" between themselves and their manufacturer partners, says Brent Grover, managing partner at Evergreen Consulting.

The tension springs from many potential flashpoints, including:

- The ongoing pressure on distributor-manufacturer relationships due to shifts in the competitive landscape
- The perception that distributors are "ripping off" manufacturer innovations for their own private brands
- The belief that distributors are giving the manufacturer brands less attention as a result of having their own brands
- The feeling that distributors don't have the skillsets or the capacity to successfully implement a private label strategy
- Inefficiencies and additional cost that may result from retooling production lines to rebrand manufacturer products for a distributor

Whether the above are all true – and it certainly depends on the sector and the distributors or manufacturers involved – the resulting relationships can be uneasy. Introducing a private label product into the mix requires a balancing act for distributors with an eye toward strategic positioning and important decisions on where to dedicate sales resources and support.

"Private label items can be an effective tool if used properly, and manufacturers are generally not opposed to this if they are used in the right way," says Chester Collier, senior vice president, global distribution for manufacturer Walter Surface Technologies in Montreal.

A Balancing Act

But if the private label is designed to replace a manufacturer brand or does not have a clear position within a distributor's suite of offerings, it may strain the relationship.

Even when distributors say the purpose of their private brand products is to fill holes in product offerings or in the market, balancing the interests of each party in the channel can be difficult. Many distributors don't balance private label and national brands well, Grover says.

"The obvious slippery slope is when does your partner become too much of a competitor?" asks a manufacturer in the recent quarterly MDM-Baird Distribution Survey, in which MDM asked about manufacturer involvement in and opinion on private label production.

"The tension is that manufacturers often think that distributors unfairly rip off their innovations," says JB Steenkamp, author of *Private Label Strategy: How to Meet the Store Brand Challenge.* "… The manufacturers feel that they take all the risk and that the distributors essentially piggyback on the risk-taking behavior of the manufacturers."

Resentment also exists on the distributor side, says David Gordon of Channel Marketing Group. Gordon has conducted research on private label in the electrical distribution sector. "Some of them actually found that they got less support from manufacturers and reps on the branded items," he says. "They'd want to go and do private labeling on A and B items and rely on the manufacturers for the Cs and Ds.

"As sales go down, would a rep really want to support that distributor as much?"

Building Sourcing Partnerships

Distributors use a mix of suppliers to produce private label products, including importing from overseas, contracting with manufacturers that only produce private label products and working with existing branded manufacturers that allocate excess capacity for the task. Manufacturers aren't making money when their machines aren't producing, Gordon says.

Working with existing suppliers can also provide an opportunity for manufacturers to supply product at a tier they are unwilling to position premium brands in. "In some cases we're building partnerships with existing suppliers where they have the volume base to provide the product," says Michael Flink, president of ADI, a security and low-voltage products distributor with more than 200 branch locations.

It allows suppliers to build volume in their manufacturing plants without having to reposition their own products.

MSC Industrial Supply, Melville, NY, sources its private brands domestically and internationally. In its early private branding years, the MRO and metalworking supplies distributor bought from the biggest manufacturers, purchasing their "third shifts," a cost-effective approach. But more large manufacturers have shied away from private branding over time, according to Greg Polli, vice president of product management and global sourcing for MSC.

"We still use some of the big manufacturers, but we have found that those with high-volume capacity and strong quality that are not necessarily tier one players seem to be the best partners," Polli says. The distributor sets multi-year agreements with its suppliers.

"One of the keys in our private branding, well with any brand, is consistency, so the more we can lock in with a high-quality effective-cost manufacturer, we do so, and we try to do so for many years to keep that consistency," Polli says. "Those that work effectively with us, we want to continue a long and mutually healthy relationship."

The Decision to Supply Private Label

Many branded manufacturers say they feel obligated to provide contract manufacturing services for distributors' private brands. In the MDM-Baird Distribution Survey, 59 percent of manufacturer respondents said they provided contract manufacturing for distributor private brands. Several said they do so because distributor customers require it.

In some distribution sectors, including paper products and janitorial supplies, branded manufacturers have long worked with distributors to produce their private label products. While in some cases those products are different, in others, distributors ask manufacturers to put their distributor brands on the same products. For example, a distributor may want its name on individually wrapped toilet paper rolls, as well as the boxes they are delivered in.

This may disrupt branded manufacturer processes and decrease efficiency for potentially not a lot in return for the suppliers, according to Grover, because distributors may not sell more of the product after private-branding it than they did before. While many manufacturers tolerate that, it does add to tension in the channel.

Some manufacturers' fear of losing business drives them to provide contract manufacture services. "There is a growing private label market," one manufacturer survey respondent wrote. "Unless we participate, we will lose that share of the revenue and possibly see share erosion."

"If they don't bid, someone else will, and there goes that business," Gordon says.

On the other hand, agreeing to manufacture private brands can help "get our branded products placed, as well," wrote one survey respondent. "(It's) not as profitable as other parts of our business but helps to deepen relationships with distributor partners," another respondent said.

Another wrote that providing that service to distributors provides "immediate access to markets we would otherwise not support well." For another, "It is an opportunity to participate in a bigger share of the overall business."

The most cited reason in the survey for manufacturers not getting involved in contract manufacturing is lack of desire to compete with their own products. "Brand recognition is an important part of our success," one survey respondent wrote.

Others said they don't make money on contract business. "We used to, but as distributors gain more knowledge, they tend to take the business direct and then drop us as a private label supplier," one manufacturer wrote. "Low margins are also an issue, as well as branding issues."

Brand Strategies

The general perception is that a distributor's gain with private label is the manufacturer's loss. But distributors and manufacturers should not think of private label brands and national brands as a zero-sum game, Steenkamp says. It's not always one brand over the other.

"In some categories – in growing categories – it can be that the distributor brand can help grow the category by adding more price-sensitive people on-board," Steenkamp says.

"Manufacturers realize that not every customer wants or needs their brand," Collier says. "… If the private label brand is designed to help the distributor acquire or keep a customer, then it is acceptable as a viable alternative." But there has to be an understanding that the manufacturer will also have access to that customer to try and upsell his product.

"In this fashion, the partnership actually can become stronger, as the increase in the private label sales to new customers provides a steady stream of new opportunities for the manufacturer," he says.

The goal should be one of long-term mutual benefit, Gordon says.

"It can be a challenge," says Ted Stark of janitorial supplies distributor Dalco Enterprises. "I think it really comes down to what is the best solution for the end-user?" In some cases, including national contracts, distributors are bound to provide a branded solution, driven by large purchasing organizations or a large customer's desire to have consistent product nationwide.

For Dalco, the trick is not going into an account with a "predetermined preference," Stark says. "We do try to go in and determine the customer's need and take an unbiased approach of what will be best for them," he says. "We believe we've got a good quality product in our private brand, and it's less expensive than most of the national brands, but it won't work for every customer situation."

For some distributors, private brands have evolved not just based on the features in individual products but how they are sold. That changes the role that private label plays in the distributor's portfolio. Chicago-based Grainger, which has more than 40,000 products that fall under its Exclusive Brands portfolio, found that smaller customers did not want a particular brand that was packaged with more than 100 to a box.

"Spending money on something where they got 120 of something was not a good use of their money," says Deb Oler, vice president and general manager of the Grainger Brand. "Our private label was about how many was in the box. … Sometimes the innovation is not about the actual development of the product." But while Grainger's line of Exclusive Brands is extensive, it also recognizes that there are places where its own brand is not needed; what is already available in the market is enough.

"If you figure out what the market needs, and you have the right offer that fits the needs of your market, you actually end up selling more of those products," Oler says. "There haven't been many times that we have added private label and the entire segment hasn't gone up.

"The challenge and the opportunity is teaching your sales force and your customers what means what."

She says that when done well, private label and manufacturer brands can co-exist. "We think private label and national branded products should sit hand-in-hand with each other, and they are part of our total solution for market."

The Changing Channel

The reality is that if distributors want to pursue a private label strategy, they will do it with or without the support of their existing manufacturing relationships, Gordon says.

And private label is only one of the factors at play straining channel relationships.

The end-user arguably has more power than ever before, and competition for the end-user's attention is coming from more directions. "The channel is more blurred in certain product categories now as manufacturers seek other channels to market," Gordon says. Distributors are building different identities through online platforms. "E-distributors," such as AmazonSupply.com, are also complicating the path to market.

This means distributors and manufacturers have to re-evaluate how they approach the market. Traditional volume discount models and other structures may not fully address today's market dynamics.

Some distributors would argue that manufacturers have increasingly become brand-brokers themselves, shifting their focus from manufacturing to marketing and product development.

Distributors will continue to look for ways to maintain customer mindshare, and private label is one of those ways.

A lot of challenges come with pursuing a private label strategy, and Grover says that market factors will likely continue to drive private label's growth in the industry. "As distributors consolidate and become bigger and bigger, I think the temptation to have their own brands is only growing," he says.

Guy Blissett, author of the National Association of Wholesaler-Distributors' book *Facing the Forces of Change: Reimagining Distribution in a Connected World*, encourages distributors to think of all potential impacts of private label, including relationships with existing suppliers.

"I think you really need to have a deep understanding going in as to what you're trying to do with these private label products, who's going to buy them and how your suppliers might react to you making that decision."

Angela Poulson also contributed to this report.

Distributor Groups Offer Own Brands

Part 4: Marketing groups, cooperatives promote private labels

Some buying and marketing groups and distributor cooperatives have developed private brands to help members compete more effectively in a competitive landscape that includes more aggressive private brand marketing among larger distributors.

By Lindsay Konzak

Private label programs require a significant investment of time and money, something not all distributors are willing or able to commit on their own. As a result, some are turning to distributor cooperatives or buying and marketing groups that produce brands that only their members or owners can sell.

Not all buying and marketing groups or cooperatives invest in a private label for their members. A private label may not fit their strategies or positions in the markets they serve. An article from Affiliated Distributors in AD Today 2013, The Independent Distributor's Role: Building and Defending Brands, highlighted the importance of supporting national brands and competing with a combination of product knowledge and services. The article is available on the marketing group's website.

Those organizations that have developed a private label say that it is another tool for members to compete. Here's a closer look at how three organizations in different sectors have approached their private label programs.

National Distribution & Contracting Inc. (Health care)

Laura Reline serves as the brand development director for health care distribution buying group National Distribution & Contracting Inc. (NDC). Her role is focused primarily on NDC's Exclusive Brands, ProAdvantage and Koala.

Reline says members don't typically have the resources or volume to develop their own private labels. "The majority of (distributors) will just end up supporting our program because it's already there; it's easy for them to access," she says. She says that the program is "pre-packaged," including ready-to-use marketing materials, promotions, catalogs for members to add their logos to and electronic images for websites.

ProAdvantage, she says, is positioned as a "value-based alternative." But NDC does not push its members to support its private brand to the exclusion of manufacturer brands.

"If you already have the business today, and we're just going in and substituting the private label, that doesn't do anyone any good," she says. "The manufacturer that we're working with is not going to be happy because they're selling their brand right now successfully. ... And it doesn't really do NDC any good because we already enjoy the business today."

NDC's goal is balance, she says. "What I want to do is really to put our members on an even playing field with the competition out there. That's really what the program is designed to do."

IDC-USA (Industrial/Power Transmission/ Bearing)

In 2000, IDC-USA, a cooperative of industrial and power transmission/bearing distributors, launched IDC Select, a private label positioned on the value end of the brand spectrum. "A real reason for creating it was to allow our distributors to give their end-user customers choices," says Jack Bailey, president and CEO of IDC-USA.

IDC takes care of sourcing, testing, warehousing and marketing for the IDC Select brand. Half of IDC Select products are sourced in the U.S., and half are sourced globally, including Europe and Asia. The cooperative also outsources lab testing to ensure the IDC Select-branded products meet or exceed specifications of tier one supplier products.

"It's not just a matter of importing some products and slapping your name on it," Bailey says. "There are a lot of responsibilities and obligations that go with putting your name on a brand."

IDC has not experienced the cannibalization of name brands as a result of IDC Select. "What we have found – and it's hard for a lot of people to believe this – anytime we have introduced an IDC Select product line, the sales of our main product line have increased," he says.

He says that IDC Select makes up about 20 percent of IDC's total sales, and national brands make up 80 percent. While the organization's revenues have continued to grow at a double-digit pace in recent years, Bailey says the proportion of IDC Select to national brand sales has remained consistent.

Bailey says the IDC Select brand helps IDC's independent distributor members compete more effectively against national distributors. "It gives them the protection of the market that they create" with those brands, he says.

Pro-Link (Janitorial Supplies)

Pro-Link is a national janitorial supply organization with more than 90 distributor members. While it provides negotiated purchases and rebates, its primary focus is its own Pro-Link brand, training for members and supply chain support.

"What Pro-Link can do is help the member verticalize in the supply chain," says Brian Slack, president and CEO. "It can do lots of things that an individual member probably can't do alone, but as a group we can do."

The organization limits membership geographically so that the Pro-Link brand "has value in the marketplace," Slack says. It also partners with manufacturers to develop proprietary platforms that may discourage competitors from "me-too" selling, he says. For example, a Pro-Link distributor might sell a product in a dispenser designed for the organization, limiting who could service it.

In many cases, the organization works with branded manufacturers to develop its private label products, something that is more common in janitorial supplies and paper products segments.

For Pro-Link, a strong brand means its members can compete more effectively. "The people we compete with today are different than the people we competed with five years ago," Slack says. The janitorial supplies sector has seen encroachment from distributors in other sectors looking to grow spend with existing customers; larger competitors such as Grainger and Staples are also pursuing market share more aggressively in this segment.

But while Pro-Link has a robust sales and marketing plan around its brand, its primary focus is on providing customers with the best product for their needs, whether it's the Pro-Link brand or a national brand, Slack says.

"At the end of the day I'm trying to satisfy that customer, that his places regardless of where they're at have the same look, cleanliness, feel and process in the way that they're cleaned."

Angela Poulson contributed to this report.

Master Distributors & Private Label

Many master distributors – also known as wholesalers or redistributors in some sectors – offer a private label alongside national brands in their portfolios.

London-based Bunzl, a redistributor of jan-san and paper products, has been expanding its suite of private label products.

"Our domestically sourced, environmentally friendly and imported private label lines give customers the opportunity to substitute quality private label alternatives to increase their gross margins and profits," Bunzl reported in its 2013 Annual Report.

Industrial master distributor ORS Nasco, Tulsa, OK, offers a line of welding, safety, industrial and oilfield supplies under its Anchor brand. It also acquired a number of private labels when it bought O.K.I. Supply Co. in the second half of 2012.

ORS Nasco has positioned its private label products as "commodity fighters." "We truly plan on selling branded first," says Larry Davis, president. "If someone's not covering the opening price point in a category, especially a commodity category, we'll step in with a private label strategy to make sure that we can cover that section of the market adequately."

Davis says the master distributor's private label offering can help support independent distributors to position against other distributors that are aggressively pushing a private label strategy.

ORS Nasco's parent company, United Stationers, sells office supplies under the United Stationers name. That business, serving office products dealers, offers its own private labels, including Universal, Alera, Innovera and Boardwalk.

It also offers Brand by U!, a program that allows office supplies dealers to add their logos to printer paper cartons and reams.

"They used it as an extension of their marketing efforts so they could put their dealers' brands in front of customers on a daily basis as they loaded their printers," says Vince Phelan, director of trade marketing for United Stationers. The program is a partnership between International Paper and United Stationers and includes training for dealers.

"One of the main values that United Stationers brings is an entire marketing engine they can tap into," Phelan says.

-Lindsay Konzak