

PRIVATE LABEL STRATEGIES

AN R3 CHINA CATEGORY REPORT

The private label market in China shows great potential for development. Though uptake has been slow in recent years compared to North America and Europe, Chinese consumers have warmed to the concept thanks to increased R&D by retailers, leading to more innovative products at highly competitive prices.

In 2019, private label brands accounted for 16.3% of FMCG sales globally and 1% in China. In 2020, China's private label market grew by 22.7%, exceeding that of the FMCG market by more than 12 times (the growth rate of the FMCG market in the same period was only 1.8%). With government intentions to boost domestic spending and promote reinforcement of domestic brands, private labels are expected to enjoy increased visibility.



EUROPE

70%

believe private labels are a good alternative to national brands

69%

believe they offer good value for money



USA

82%

say private brands are better value

55%

say private brands meet their needs better



CHINA

39%

of consumers have purchased private labels

94%

of consumers are willing to try private label brands

WHAT ARE PRIVATE LABEL BRANDS?

Private Label refers to products that are manufactured by a third-party, while still being under the name of the retailer's brand and sold through the retailers' own channels, such as retail stores, supermarkets, department stores, e-commerce platforms, and so on.

KEY TO GROWTH APPEAL TO MID TO HIGH EARNERS

The rise of private label brands in Europe and the United States can be attributed to strong demand for cost-effective products. In contrast, the top 10 retailers in China have developed category, product and marketing strategies around their private brands targeting more affluent consumers. In 2020, 60% of Chinese households with an annual income of more than 9,000 yuan (\$1,400) have purchased private brands. At least 40% of consumers in this group have purchased private brands in the past year.

Retailers have transformed and upgraded their private brand matrix and product portfolio to make them more in line with the lifestyle of middle and high-end groups.

Freshippo Workshop

Freshippo Workshop is a series of ready to cook, ready to heat, and ready to eat (3R) products that has been running for 3 years, and the first brand to lead China's domestic 3R industry. Freshippo Workshop accounts for nearly 40% of the total sales of Freshippo's private brands. This figure has exceeded 50% in Shanghai, making Freshippo Workshop the retailer's largest sub-brand.

Sam's Club

The advantage of Sam's Club is its mastery of the front end of the supply chain. The retailer provides popular products such as Australian grain-fed beef, imported mixed nuts from Vietnam, milk imported from Germany, and durian puff pastry; targeting high-value consumers with a single-product strategy.

YongHui Superstores

Established in 2020 in partnership with station A (acfun.cn), YongHui Superstores launches co-branded products and releases themed marketing activities; making it a retailer that resonates well with younger shoppers.



KEY TO GROWTH BUILD DIFFERENTIATION IN NEW CATEGORIES

China's private label brands have not only stopped imitating international brands, they have begun to form cross-category product portfolios focusing on lifestyle. Foreign retailers, on the other hand, are more inclined to associate their private brand items with other categories to increase the influence of star items.

For example, Sam's Club and Freshippo's private brands launched lactobacillus custard mooncakes and a zero additive series to cater to consumers' pursuit of a healthy lifestyle.

Walmart's private brand George and YongHui's private brand O'fresh have launched antibacterial home textiles and personal care products.



KEY TO GROWTH RE-CONSTRUCT THE CONSUMER JOURNEY THROUGH MULTIPLE TOUCHPOINTS

Online private brands are driving differentiation for retailers as innovations in online-to-offline (O2O) marketing have further unleashed consumer purchasing power through mobile phones. As a comparison, online FMCG channels increased 24% year-on-year in 2020, and though the trend was positive, the growth rate of private brands reached 88%.

Offline consumption scenarios continue to expand, and membership supermarkets, community stores, and “supermarket +” formats have become the main theme of offline retail.

MEMBERSHIP SUPERMARKETS



Membership supermarkets essentially provide consumers with products and services that are higher than ordinary formats. Customer relationship management through the membership system virtually enhances consumers’ enthusiasm for repurchase and service experience. Under the measured membership system, the key to paid membership is to create differentiation around members.

COMMUNITY SUPERMARKETS



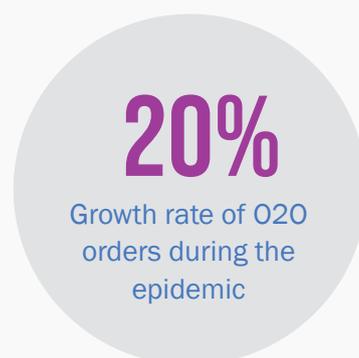
Merchants such as Ali, Meituan and Didi, as well as local supermarkets, are actively seeking to upgrade and increase the content of fresh food and other speciality products in high-density neighborhood areas.

SUPERMARKET+



The “Supermarket+” format is popular all over the world, and domestic retailers interpret it as “a boutique supermarket with cross-domain and multi-experience.” In addition to the selection and upgrading of the shopping environment and products, the structure of the business model also introduces different partitions such as stores-in-store, experience areas, and ready-made displays.

COMPREHENSIVE O2O PLATFORM	NEW RETAIL PLATFORM INTEGRATING ONLINE AND OFFLINE	O2O PLATFORM OPERATED BY TRADITIONAL RETAILERS



Successful retailers continue to explore new formats and expand their contact with consumers by extending and deepening the layout of private brands. Building an efficient private brand strategy, continuously providing a differentiated product portfolio, and quickly meeting consumer needs are always the keys to building a retailer’s differentiation and winning the retail market.

CASE STUDY: FRESHIPPO

Freshippo is a retail brand by Alibaba that incorporates four different retail formats: Freshippo, Freshippo Mall, Freshippo Mini and Freshippo F2. Each retail format addresses how consumers shop for food in supermarkets and from offices, during commutes and within communities. The Freshippo model comes from Alibaba’s desire to reconstruct traditional business frameworks to enhance the shopping experience and improve business efficiency.

Entry Strategy

Freshippo’s strategy shies away from the traditional private label approach of large packaging, big brands, and high cost performance to focus on small (but refined) segments and highlighting unique product features.

Classification and Market Positioning

- **Basic Products:** Basic daily necessities that meet everyday needs (Freshippo Blue Label, Freshippo Workshop, Daily Fresh)
- **Specialty Products:** Focuses on the segmented market (Freshippo Emperor Fresh, Freshippo Gold Label, Freshippo Organic Fresh)
- **Star Products:** Top products with scarcity found by Freshippo buyers around the world (Freshippo Black Label)



Source: Alizila



BEST PRACTICE

- Quickly gain insight into consumer needs using a large amount of real-time data, and moving these insights into rapid development. Freshippo Wuchang Rice took six months to get to market, while traditional brands usually take 18 to 24 months.
- Reconstruct the supply chain and establish multiple supply chain networks. At present, Freshippo has 3 cold chain warehouses, 6 fresh temporary storage warehouses on sales sites, 44 normal temperature and cold chain warehouses on sales sites, and 16 sales sites with processing centers.
- Collaborate closely with suppliers. Freshippo adopts the “buyer system,” that is, the buyer decides what to sell in the store, and then the quality of the selected products is assessed by various operating data. This allows suppliers to devote more energy and funds to developing new products, find market gaps with Freshippo, and create differentiated products that match consumer needs.



NEXT STEPS

BENCHMARK PRODUCT PORTFOLIO PERFORMANCE

Closely track and evaluate the market, industry environment, consumer behavior patterns, and the status quo of competitor private brands.

INVEST IN PRIVATE LABEL INTELLIGENCE

Obtain insights on industry trends, competitors, and best practice across private label brands to inform planning and decision-making.

UNDERSTAND YOUR CONSUMER MARKET

Deep-drive into consumer preferences. Focus on mid-to-high-end consumer groups when planning and invest in research to inform product development.

IDENTIFY THE RIGHT PARTNERS

Ensure your agency model serves cross-functional needs, especially across data and marketing automation.

ABOUT R3

In a word, we are about transformation. R3 was established in 2002 in response to an increasing need from marketers to enhance their return on marketing, media and agency investments, and to improve efficiency and effectiveness. We want to help CMOs make marketing accountable.

We've worked with more than one hundred companies on global, regional and local assignments to drive efficiency and effectiveness. We have talent based in the US, Asia Pacific and Europe and partners in LATAM and Africa. Through global work for Unilever, Samsung, Colgate-Palmolive, and others, we have developed robust benchmarks and process targets for more than 70 countries.

Sources:

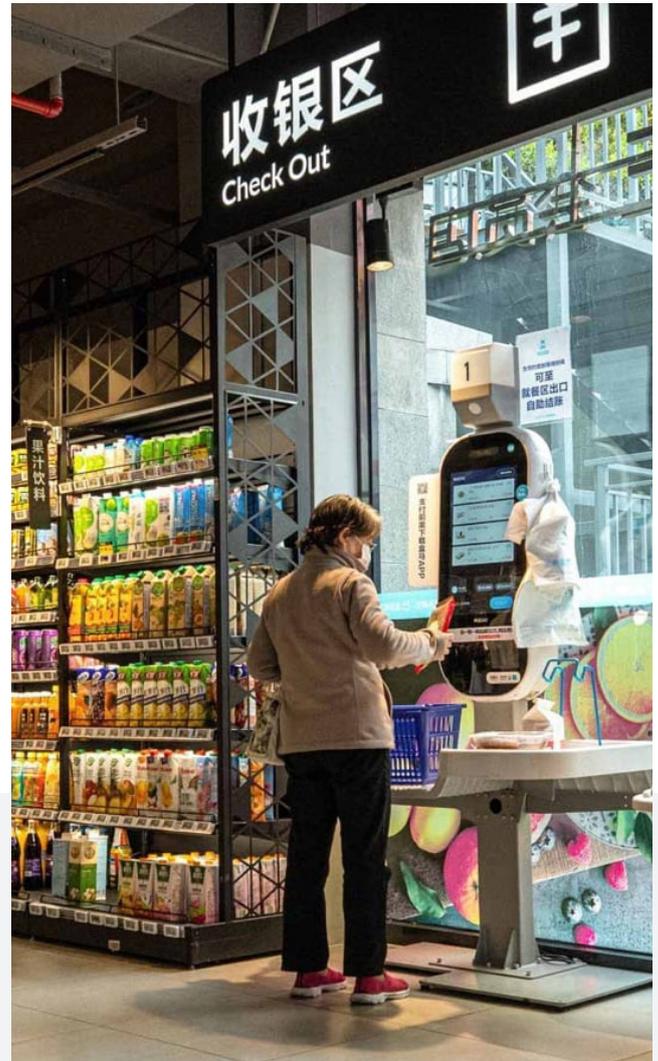
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