

PRIVATE BRANDS & OVERCOMING SUPPLY CHAIN CHALLENGES

Produced by
Daymon

The pandemic exposed the vulnerability of global supply chains, forcing retailers to re-evaluate the interdependency of the many aspects of supply chain management and rethink their broader strategies in an industry grappling with challenges.

Labour shortages, shuttered factories, transportation bottlenecks and rising commodity costs as well as external factors such as climate change and recent geopolitical conflicts have plagued industries throughout the retail sector. So poignantly illustrated earlier this year, where Ukrainian farmers were unable to distribute 20 million tonnes of grain to international markets¹. The knock-on effect around price increases has severely impacted consumers, with the BBC reporting how Eurozone food and beverage producers have increased their prices by an average of 14% since early 2021².

Feeling the impact, retailers have had to shift their focus to find solutions for these immediate issues to proactively manage supply chains and areas affected across Private Brand programs - with several critical levers at

play, namely supplier networks, better pricing strategies, and marketing³.

SUPPLIER NETWORKS

Retailers and suppliers, at a transformative crossroads as the supply chain evolves are seeing the value of building strategic partnerships instead of operating through the lens of cost-driven, singular transactions. Instead, looking at ways to establish more long-term partnerships that will support the growth of the Private Brand program.

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By creating a more collaborative environment, mutually beneficial innovative opportunities can be explored. Take for example German retailer Kaufland who is expanding its cooperation with farmers by committing to locally sourcing all its Private Brand milk brands. All fresh milk as well as UHT milk

and related milk products, will now support local dairy farmers⁴. These partnerships offer a double win for retailers, on the one hand answering to consumers who want to buy local products plus support sustainability and ESG initiatives and on the other – helping overcome transport and shipping difficulties to contribute to supply chain success.

Furthermore, diversifying supplier networks to support broader business strategies see retailers weighting the benefits of expansion - illustrated closer to home in the UAE as leading Irish retail, wholesale and foodservice business, Musgrave, announced a supply partnership with Choithrams, a leading UAE retailer with over 40 stores. The agreement will see Musgrave supply Choithrams with more than 500 products from its SuperValu Private Brand range alongside other Irish brands and products from their Food Academy programme⁵.

inflationary climate, but also the effect on the current supply chain ecosystem, are considering how their purchasing strategies mitigate some of these increases. One option is to take advantage of current pricing. For this reason, wholesalers across the UK are ramping up their stock levels to mitigate the impact of cost price increase requests from suppliers. One leading source said many foodservice and grocery wholesalers were looking to buy more product at current prices, knowing they are likely to rise further⁶.

However, this is by no means a perfect solution. Retailers also need to be mindful and refrain from panic buying to avoid ending up with large stock volumes and high storage costs and the negative impact this would have on availability, stocks, and market price. It ultimately comes down to ensuring that supply chain planning is managed strategically from the get-go.

PRICING STRATEGIES

It's been reported by the World Bank that the Ukraine conflict will result in food becoming more expensive for the next three years, while World Vision found that more than 276 million people across 53 countries are currently at risk of severe food insecurity. Retailers, mindful not only of the domino effect on consumers in this

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Alongside this, in South Africa 87% of consumers describe their current economic situation as stretched with household budgets remaining constrained. As a result, 32% of shoppers in South Africa report substituting branded products with cheaper alternatives, such as more affordable brands or Private Brands⁷. Similarly in the UAE, approximately 46% of value-conscious consumers always opt for Private Brands especially in food and beverage categories⁸.

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and weather future crises together. Retailers should also consider diversifying their network to feed a broader business strategy that goes beyond the current status quo.

Consumers are dealing with soaring inflation and as costs continue to rise, retailers should update pricing and supply strategies to mitigate some of these increases to control input costs and deciding if any consumer-facing price changes are necessary.

MARKETING

In these trying times retailers are seeing the value about communicating current challenges to consumers to create transparency be it around issues of items out-of-stock or pricing – building a clearer path around loyalty and trust. A good example is global beauty product company Deciem explaining on Instagram why they were raising prices – “As we continue to grow and bring you good products, we need to ensure that our business is sustainable. Although we have kept increases to a minimum, we wanted to share news of this change with you before it happens.” So too, South Africa’s largest food manufacturer, Tiger Brands warned ahead of time that prices of basic groceries will “go through the roof” with inflation for bread, maize meal and baking flour expected to rise between 15-20%.

MOVING FORWARD

There is no “one-size-fits-all” solution for overcoming supply chain challenges, but there are key learnings both retailers and manufacturers can take to be proactive in managing their supply chains, leading to stronger Private Brand programs in the long term.

Building strong partnerships with supplier networks will become crucial for retailer and supplier alike to enhance their collective ability to support the Private Brand program to create mutually beneficial scenarios

It is crucial that retailers are proactive and transparent when it comes to marketing to consumers to navigate the impact of all these challenges. With an imminent recession, consumers will have greater reason to purchase Private Brands and transparency will be a way to create trust and build stronger long-term relationships.

Sources: ¹ BBC, ² www.foodingredientsfirst.co, ³ Daymon Private Brand Intelligence Report 2022, ⁴ European Supermarket Magazine (ESM) June 2022; ⁵ www.musgravegroup.com, ⁶ The Grocer July 2022, ⁷ McKinsey Survey March 2022, ⁸ Bain February 2022, ⁹ @theordinary

About Daymon

With 50 years of experience building successful private brand programs around the world, Daymon is the only solution provider that influences all aspects of private brand development, from strategy to execution to consumer engagement. Daymon’s unique approach helps retailers and brands set themselves apart through a full suite of best-in-class private brand development services, including: strategy, analytics and insights, product development, supplier development and management, account management, and design and packaging management.

Daymon drives brand innovation, differentiation and results.

For more insights and recommendations for driving your brand, contact fdc@daymon.com.