

Chain drug retailers zero in on private label

NEW YORK – Though drug chains have grappled with an uncertain retail sales environment, they've been certain about one strategy to spur business in the front end: Grow private label.

Chain drug retailers large and small are bolstering their private brand programs by expanding the selection of store brand items, mixing in new banners and fine-tuning their roster of private label names.

At Walgreen Co., private label will be a cornerstone of the retailer's merchandising and marketing efforts going forward, executives said recently at the 2011 Walgreens Vendor Summit. "Consumers expect us to provide private brands. They are a critical part of our business," Moe Alkemade, vice president of retail brands and global sourcing at Walgreens, told vendors at the summit.

In the coming years, store brands will play an even bigger role and become much more prominent, according to Alkemade, who said that in the next five to seven years Walgreens aims to double its current \$4 billion in private label sales.

The store brand push comes as consumers are becoming more comfortable with these products, Alkemade noted. A recent poll of shoppers found that 80% feel that store brands are as good as or better than national brands, whereas a decade ago that number stood at 70%, he said.

"Private brands are no longer the cheap option. They are the smart option," Alkemade said.

According to Walgreens executives, the company expects to scale back its number of store brand names, with such brands as W being discontinued and other brands being extended into new categories. They said the retailer will meld its store brands into three tiers: differentiated brands, price and value brands, and opening price point brands.

The differentiated brands will be unique to Walgreens and include such lines as Walgreens brand health care, Delish consumables and a host of as-yet-unnamed brands across such categories as household products and photo. Meanwhile, the price and value brands will consist of high-quality national brand equivalents and include such labels as Nice!, Studio Beauty and Patriot Candles.

To be offered in just a handful of categories, the opening price point brands will provide shoppers with a value option. These products thus far do not have a name; rather, Walgreens will distinguish them with what it is calling a "sunny smile" logo.

Walgreens executives said the company will invest significant marketing muscle behind its store brands and promote them heavily in its weekly circulars as well as on radio and television.

Another large pharmacy chain started the rollout of a major private brand program this month. Health Mart, the retail pharmacy franchise of McKesson Corp., is launching a store brand line of over-the-counter health products, beginning with diabetes care items.

The products bear the Health Mart brand, and the line will be expanded in the coming months. The company said more health care categories will be added regularly, including smoking cessation and analgesic products in January. Eventually, the brand will include such health care segments as upper respiratory, baby care, first aid, personal diagnostics, skin care, vitamins, incontinence, eye and ear care, and digestive health.

Health Mart pharmacies will be able to offer high-quality OTC health products at 20% to 40% less than the retail prices of their national-brand counterparts, according to McKesson.

While lower prices are what drew many consumers to a store brand in the first place, retailers' efforts to boost quality and selection and step up marketing for private label are swaying shoppers to continue buying these products. Sales of store brands saw gains of nearly 5% in drug chains last year, according to data from the Private Label Manufacturers Association and Nielsen Co. And although private label unit sales and unit share were flat at drug stores in 2010, store brands grew their dollar share by 0.5% to 14.7%.

In an earnings call earlier this year, Rite Aid Corp. president and chief executive officer John Standley told financial analysts that the chain expects consumers' favorable attitude toward private label to continue, even if the economy improves.

Over the past year, Rite Aid has rolled out hundreds of items with its new packaging design, as well as some brand refreshes to its Rite Aid Pharmacy health products, Renewal personal care and beauty line, Pantry food products and household goods, Tugaboos baby line and Simplify "price fighter" brand. Standley noted that Rite Aid has received a positive response from its customers and that the company is backing its store brands with strong promotional support, good price positioning and continued development of new items.

In the Miami area, Navarro Discount Pharmacy this summer began rolling out Vida Mia, its own private brand of Hispanic products. The line covers a wide range of categories, including over-the-counter, household, beauty, food, body and baby items. Believed to be the nation's first brand targeting Hispanics across all categories, Vida Mia (My Life) packaging is bilingual in English and Spanish.

Brand segments encompass Mi Casa (Home), including household and kitchen items, coffee cups and paper goods; Mi Cuerpo (Body), including soap, shampoo and lotions; Mi Salud (Health), including OTC health products and equipment; Mi Bebe (Baby), including diapers and other baby items; Mi Belleza (Beauty), including makeup, cosmetics and beauty accessories; and Mi Sabor (Taste), including coffee, plantain chips, cookies, rice, sugar and other foods.

Navarro's marketing campaign for the brand includes in-store product sampling plus coupon offers. The private label also will be made available on a wholesale basis and online. In addition, the company said it will offer Vida Mia via a licensing program to other retailers nationwide with a strong Hispanic customer base.

With 91 stores in New York and Vermont, Kinney Drugs has built up its private label SKUs with over 1,000 Premier Value items from the Chain Drug Consortium. Most of the private brand offerings are over-the-counter drugs, first aid products, vitamins, minerals and supplements, but the line also includes household products, some candy and some beauty products, according to vice president of retail merchandising Rick Cognetti Jr.

The lower wholesale prices resulting from the consortium's buying power have translated into low prices and strong sales at Kinney. Premier Value is doing so well, Cognetti said, that "our group has been challenged to expand in private label."

Industry leader CVS/pharmacy has responded to consumer demand for quality products at low prices with Just the Basics, a private brand line of value-priced essential household and health and beauty care items. The drug chain launched Just the Basics early this year with nearly 100 items in segments such as household, beauty care, baby care and personal care and said it will expand the line.

Just the Basics includes everyday home goods ranging from paper towels and sandwich bags to cleaners, laundry detergent and light bulbs, along with essentials like groceries, beverages and snacks. Baby care items include diapers and wipes, and personal care offerings span such areas as hair care, skin care, oral care, shaving and hosiery.

Backed by the CVS/pharmacy brand 100% satisfaction guarantee, Just the Basics provides "wallet-friendly alternatives to higher-priced national-brand products without the added bells and whistles many customers do not want or need," CVS stated.