

What's that Private Label You're Wearing?

Alexandria Sage, "Private Label Eclipsed by Brands in Retail Slump," *Reuters*, January 15, 2009.

Retailers love private-label clothing and keep adding new lines to boost margins, because margins on private-label merchandise are much higher than those on national brands. In a recession, private-label merchandise should be more popular with customers too, because it tends to sell at lower prices. But while consumers appear willing to trade down in their grocery shopping, private-label apparel remains something other than their first choice.

In this tough economy, many national brands have been heavily discounted, eliminating the price advantage of private-label brands. In some instances, retailers have invested marketing efforts to gain a loyal customer following, but unrecognizable private labels suffer the first sales decreases. Retailers that do not sell all of their national brands can push back to their vendors, asking them to return some of the merchandise that did not sell, but for private-label merchandise, the retailer is stuck with that mistake.

Some valuable private-label brands include Bloomingdale's Aqua or JCPenney's American Living. These brands have become so strong that customers do not consider them lower quality or a trade down. In fact, they may not even know that the labels are private. For retailers, this situation is ideal, because they can benefit from the higher margins derived from the consumer's belief that the brand is a national label. The Aqua brand offers very stylish clothing that is not inexpensive, similar to other national brands such as Alice & Olivia, Theory, and Marc by Marc Jacobs.

Consumers are definitely cutting back on their apparel spending, but it seems that doing so means that when they make a purchase, they want it to be worthwhile. Retailers must generate more excitement in their stores and greater value for their merchandise to get customers to share their wallets. For many customers, brands offer value, which may be the deciding factor. Successful retailers will give customers added reasons to shop at their stores. As customers' wallets have shrunk, so too have the shares of wallet they can contribute to each retailer. The environment thus has only gotten more competitive.