



WHITE PAPER

# 10 Private Label Pitfalls for Distributors, and How to Avoid Them

Private label is one of the best vectors for distributors to grow top and bottom line while creating sustainable competitive advantage. The problem: Building a successful private label offering is complex with many challenges to navigate.

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# 10 Private Label Pitfalls for Distributors

Private Label is having a moment—and distributors are enjoying the ride.

Private store brands in the retail sector are reaching all-time highs in unit and dollar share. [Total dollar sales](#) in the US of private brands increased 6% in 2023 to \$217 billion (25.5% of the total market) while private brand units increased about 1%, gaining share from national brands.

Consumer demand in retail is being propelled by [Gen Z seeking alternatives](#) to big national brands, and more broadly consumers seeking out value options across categories.

It's no wonder that distributors also increasingly consider private label (PL) critical to their competitive strategy, with 13 of 15 of the largest publicly traded distributors by revenue citing private brands as a strategic priority or a priority lever for improved financial performance<sup>1</sup>.

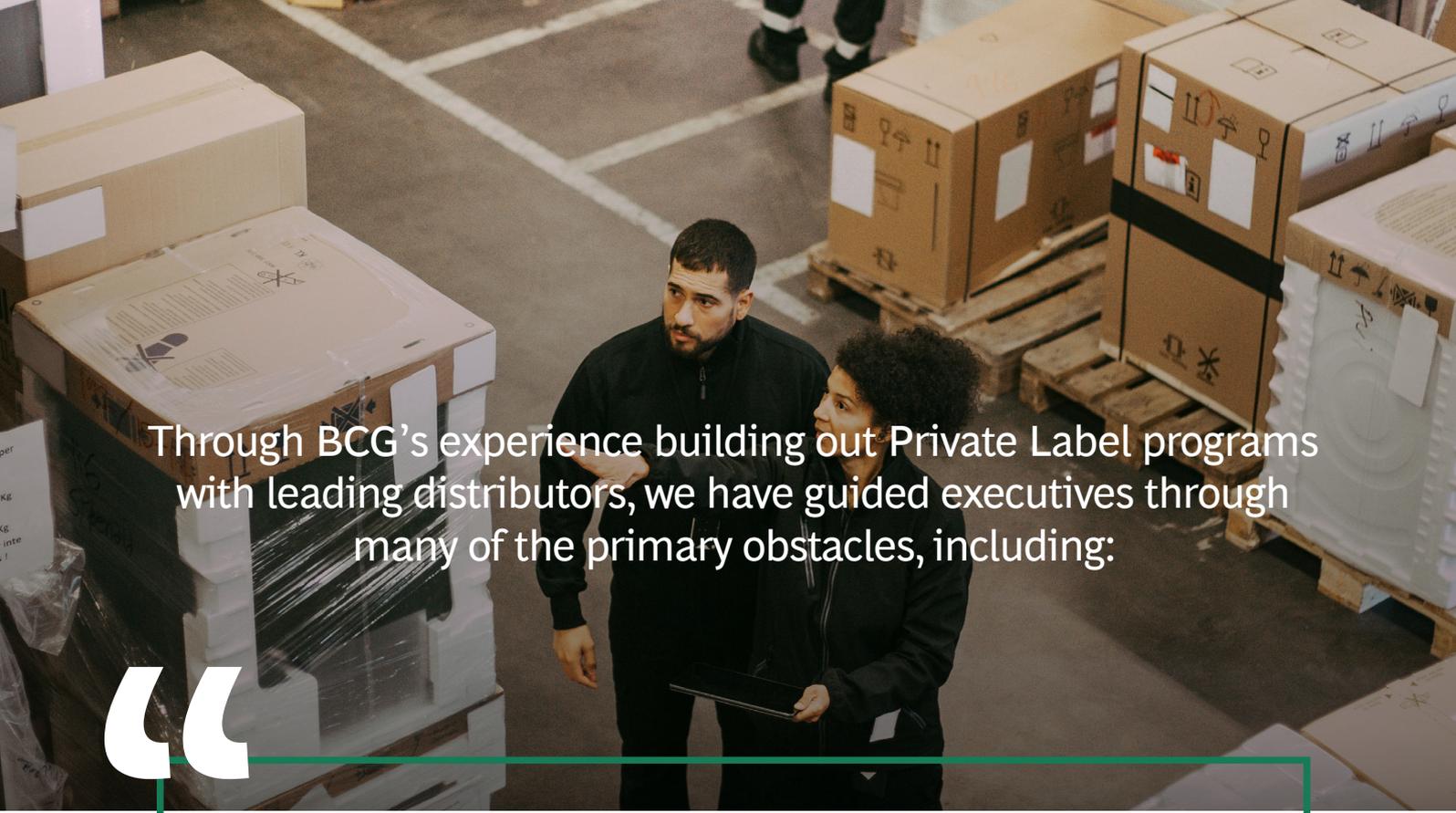
And private label is no longer just low-priced alternatives to national brands. Today's PL products are highly differentiated and capable of generating serious demand, and many top distributors are investing to take their PL capabilities to the next level.

Benefits of private label include:

- **Higher margins.** PL on average operate with 15–30 pp higher gross margins than national brands.
- **More control over assortment.** Distributors increase their ability to capitalize on trends.
- **More control over the supply chain.** Greater capability to deliver high customer service levels.
- **Higher customer retention.** Differentiated offerings help win new business and satisfy customers already in place.
- **Growth of internal capabilities.** Organizations improve the internal skills needed to manage private label portfolios including category management and brand management.

While the size of the prize of PL is significant, achieving maximum benefits can be difficult. For distributors, executing a private brand strategy requires more sophisticated business and operations models than they have used before. It becomes paramount to deeply understand customer trends, have supply chain dexterity, and embed robust quality management to ensure compliance with relevant regulations (safety, environmental, legal, etc.). And perhaps most of all, distributors must avoid alienating big brand partners even as they become significant competitors with them.

1. As noted in FY2024 quarterly earning calls, or FY2023 Annual Reports.



Through BCG's experience building out Private Label programs with leading distributors, we have guided executives through many of the primary obstacles, including:

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**We fell on our faces launching paper towels three times because we didn't understand the specs that really mattered to customers.**

*—VP of Brand & Product management*

**We put labels on things without a value proposition... it deteriorated the program and created a portfolio of 30 brands that sales didn't understand.**

*—VP Product Excellence*

**There was no channel that we couldn't go into. All the friction was internal...like splitting the P&L and sharing the profit.**

*—Former SVP Worldwide Private Label*

## 10 common pitfalls

We typically see 10 common pitfalls for distributors when building out and managing private label portfolios. None alone will stall private label progress entirely, but a combination of several could crimp competitiveness in a contested market.

Below, we provide ways to anticipate, mitigate, and avoid these pitfalls altogether.

### Pitfall #1: Not establishing a private label “North Star”

Distributors should define a role for private label offerings that aligns with the unique value the company delivers to customers in the context of its market. Importantly, the role that private label plays for the distributor may vary by category or even product type.

Lacking an overarching private label North Star as a starting point can lead to several downstream issues including sales teams not being able to articulate a value proposition; conflicting private label strategies across categories within the same brand; and over-spec'd products positioned as premium offerings without sufficient brand equity to drive demand.

#### THE SOLUTION:

How do you define your private label role? Begin with a question: Ask, what product attributes can we bring to the market that the customer will value? You can't be everything to everyone so decide which customer segments and product categories to prioritize that you can deliver to.

For instance, in the medical distribution sector, clinical efficacy is vital in many categories, so flooding the market with low-cost alternatives may not be the best idea. Alternatively, in food service, there are many commoditized categories, such as trash can liners, where customers use price as the primary purchasing factor. In this scenario, if a minimum threshold of quality is met, the distributor has the right to win—so a low-cost value role for PL in meaningful categories will likely be a winning strategy.

### Pitfall #2: Confusing customers with overlapping and undifferentiated brands

Another step of the private label journey where it is critical to intimately understand customer preferences is brand management. Given that many distributors grow through acquisitions, it is common to hold a portfolio of brands with no cohesive architecture.

#### THE SOLUTION:

Distributors need to understand the brand equity and customers' perceptions of their existing brands, determine where there is overlap or gaps in their brand lineup, and streamline or reposition as needed.

Distributors can gain customer insight into their brand experience (e.g., quality and price comparisons to competition) by asking their sales force or their customers directly. This foundational research should underpin branding decisions such as how many brands are needed, selecting the most effective brand for each category, and crafting a compelling value proposition that hooks customers.

Once brand architecture decisions are in place, distributors should close the loop internally by establishing brand swim lanes. These ensure separation for internal decisions around marketing, quality, price, and assortment that create a consistent experience for customers.

### **Pitfall #3: Missing product coverage on key customer needs**

Distributors often default to private label product specs and assortment breadth that national brand suppliers offer rather than tailoring the assortment to align to emerging demands and trends. This is often because accepting defaults is the fastest and often easiest way to enter the market. As one of our clients told us, “It is tempting to take the easy route to call up a manufacturer and ask them to simply put their product in your box, but that can deteriorate your brand and your story.”

#### **THE SOLUTION:**

The most successful distributors develop sophisticated category management capabilities to deeply understand four key areas:

- The market landscape, including competitive trends and innovation.
- Customer shopping behavior to identify specific opportunities or market gaps.
- The category role in the distributor’s assortment – for instances a value vs innovative offering.
- The “right to win” and advantage over competitors.

With that knowledge, category managers can identify opportunities for new product launches, know how to best market and price their products, and have a blueprint to differentiate against competitors.

### **Pitfall #4: Over-reliance on national brand suppliers**

Early in the private label journey, distributors tend to default to buying from national brand suppliers to source their private label offerings, a nod to optimizing for speed to market. However, this is not a long-term solution. Overreliance on national brand suppliers can lead to:

- An inability to switch vendors.
- Not always getting the most competitive pricing from suppliers.
- Underwhelming sales or low fill rates as the national brand prioritizes their own needs over the distributor’s private label needs during times of supply constraint.
- Lack of internal capability-building around category management, sales and other functions.

#### **THE SOLUTION:**

Rather than defaulting to national brand suppliers, distributors should implement a strategic sourcing capability to run competitive RFPs that invite as many suppliers as possible to the table to create a competitive environment. Distributors should be prepared to work with international suppliers (either directly or through brokers), which typically leads to better economics and a more diverse supplier base.

## **Pitfall #5: Lack of coordination between private brand and national brand supplier teams**

Launching PL products creates natural tension with national brand suppliers because it introduces a competitor into the market. Given that national brand suppliers are critical partners for any distributor, this tension can cause misalignment internally between private label and national brand strategies.

For example, a distributor may have a strategy to launch private label products for certain commoditized product types where they have a right to win. However, in the same category, another product type may require more specialized or customized specs—which leads the distributor to rely more heavily on national brands. Without internal coordination of these moves, distributors can create incongruent strategies within a category that limit their go to market effectiveness, reduce negotiation leverage, and put important national brand supplier partnerships at risk.

### **THE SOLUTION:**

Develop a cohesive category strategy that balances both private label and national brand objectives to promote more intentional actions related to national brand suppliers. For example, decide whether to go all-in through a preferred-supplier program with a national brand or instead use negotiation “sticks” such as seeking alternative sources of supply to ultimately win better contract terms.

When done right, distributors can have their private label cake and eat it too—executing strategies that benefit them without risking critical supplier relationships. One client, a VP of product excellence for a leading distributor, described their strategy to coordinate the two sides. “We had one supplier team with the same point of contact for the national brand and private label. This allowed for the ability to look across the portfolio and find the right way to market each of our products.”

## **Pitfall #6: Setting prices without market data or guardrails for the field**

Building out a sophisticated pricing engine for PL is challenging. It requires utilizing market intelligence as well as designing a streamlined pricing process that isn’t resource- or time-intensive.

On market intelligence, distributors often will simply discount against the national brand’s pricing without full visibility into how competitors are pricing functionally equivalent products on the market. This either leaves margin on the table (if priced too low) or limits growth potential (if priced too high).

On the process side, distributors often don’t give enough autonomy to sales reps to make customer-level pricing decisions needed to convert business to private label. This can lead to sales reps either giving away too much margin by using pricing as the only lever to close deals, or not closing the deal at all given manual, burdensome pricing-approval processes.

### **THE SOLUTION:**

By using robust market intelligence and streamlining the pricing process by providing some flexibility within a defined set of guardrails for sales teams, distributors can capitalize on a higher rate of customer-switching from national brands to private label. And distributors will do so with a more engaged and motivated sales force.

## Pitfall #7: Failing to build sales and category management connectivity

As distributors increase private label breadth, they must rely more on their sales force; they can no longer lean on national brands exclusively as their pseudo-commercial arm. Distributors' sales teams often need to ramp up to a new level of familiarity with the product attributes and customer preferences to effectively convert them away from established national brands.

However, the burden can't only be on the sales organization—they need support from product experts too.

### THE SOLUTION:

The playbook for developing an effective commercial activation process includes:

- Set support standards for sales such as developing collateral and assisting on sales pitches.
- Ensure incentives tie to PL goals, such as margin realization bonuses versus revenue.
- Establish a product-sales feedback loop such as private label pipeline reviews.
- Develop a commercial calendar to help align sales and product priorities.
- Leverage digital marketing channels to drive private brands such as user recommendations on e-commerce, direct-to-consumer marketing, and customer profiling.

## Pitfall #8: Insufficient private label inventory at launch

The cardinal sin in PL is investing significant resources to develop, launch, and sell new PL products—only to lack enough inventory when the customer places an order. This erodes customer trust and leads to a frustrated sales force.

On the flip side, the risk of having too much inventory of a previously untested product and negatively impacting working capital is a real business tension.

### THE SOLUTION:

In advance of a PL launch, it is important to be sensitive to unforeseen market dynamics of a new product. While a robust demand planning process that enables reasonable forecasting of required inventory levels should be routine for any product, the nature of a new product requires additional considerations:

- How sensitive is the customer to a stockout?
- What are the costs of holding excess inventory?
- Can we position inventory in central locations around major markets to allow for an agile response to market dynamics?

Answers to the above questions will be important inputs into determining how much to increase (if at all) safety stocks for new product launches.

Next, it's important to install a cross-functional feedback loop between Operations, Product, and Sales to stay on top of near-term demand trends. This should include robust monitoring of service levels through inventory dashboards, establishing escalation pathways with Operations to ensure adequate supply, and being aware of how much customer inventory you need to deplete before switching over to PL.

You only get one chance to make a first impression. Don't let backorder frustration stymie your PL product launch.

## Pitfall #9: Poor data quality from multiple ERPs

Distributors that grow rapidly (often through acquisitions) can find themselves with fragmented, disconnected ERP systems that produce inconsistent data classification, formatting, and data quality across the company. Inconsistent data limits a team's ability to conduct even baseline analytics, such as trying to understand category market shares or sales trends, conducting dead net profitability comparisons across vendors, or building an RFP to source a category.

### THE SOLUTION:

To avoid these pitfalls, distributors should seek to:

- Build out a single profit model to aggregate all product datasets and to serve as a single source of truth—ideally incorporating cost to serve buckets to get visibility into true profitability.
- Adopt and embed next-gen digital and AI tools in private label management.

Here's one example of how distributors are using next-gen tools to unlock value. BCG has developed generative AI tools that distributors can use to cross-reference their own private label assortment with those of competitors. This can help rapidly identify substitution or conversion opportunities. In the past, this was a highly manual, time-intensive task, but technological advancements are giving competitive advantage to those willing to build the capability.

## Pitfall #10: Not giving private label teams a seat at the table

As distributors scale a private label program, one challenge often encountered is determining how to best structure the organization and functions around it.

One key decision is whether to have private label-specific roles and whether that is a standalone function or embedded into the existing structure. There is a rationale for either approach:

- Embedding the private label function into category management teams enables PL strategy to be tailored to category-specific dynamics; one team is responsible for category P&L.
- Managing a distinct private label team makes it easier to adopt a holistic approach to private brand creation. The team looks across categories to create a consistent brand image and value proposition. It also centralizes private label-specific capabilities around product development, sourcing, and quality.

### THE SOLUTION:

In either case, the role and decision rights of the private-label function need to be extremely well defined to avoid misaligned strategies across the business.

## The Path Ahead: Investing in your future Private Label Success

Private label remains one of the best vectors for distributors to grow their top and bottom line. Whether a distributor has an established private label assortment or is just beginning, the path to success remains the same.

But, that path to success can be arduous without the right roadmap. Distributors that avoid the 10 common pitfalls and strategically invest in building the right capabilities will accelerate the value that private label can generate, and leapfrog competitors in the process.

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