

# 3 ways retailers like Walmart, Target, and Costco use private label to keep costs down, build brand loyalty

Article

Store brand (private label) sales rose 11.3% last year, nearly twice the growth of national brands, according to the Private Label Manufacturers Association.

Private label products cater to customers' desire for the best deal while also helping to foster brand loyalty and repeat purchases, a win-win for consumers and retailers. Here are three reasons to embrace private label products and which retailers are making the most of this strategy.

## 1. More pricing control

Despite inflation cooling, some manufacturers are increasing product prices, forcing retailers to either eat the costs or pass them on to the customers.

With private label brands, retailers have more control over the sourcing, manufacturing, and pricing, which helps to cut down on operational costs and can even help retailers offer items for lower costs than competitors.

Earlier this year, Walmart said it would begin marketing its private label products as less expensive **alternatives to name-brand goods**. In addition, CEO Doug McMillon said the retailer would **keep its private label brands priced low** in an effort to bring inflation down.

The strategy seems to be working:

- **Walmart US grew its private label penetration** within grocery by 110 basis points in Q1 2024 (the 13-week period ended April 28, 2023).
- Walmart Canada also grew its private label sales by 7% YoY.

“As customers want to buy discretionary items, we are in a position to be able to show them value through the rest of this year, [value] that they might not find elsewhere,” McMillon said in **an earnings call**.

## 2. Encourage product trial

In a challenging economic environment, it can be difficult to convince consumers to try new products. Retailers can use the low prices of private label brands to create a low-stakes opportunity for consumers to try something new.

Target has more than 45 private label brands across apparel, grocery, pet, and home furnishing.

Target's commitment to "newness" is one of the reasons why it's had such **success with its private label business**, Target's executive vice president and chief growth officer Christina Hennington told Store Brands.

- Target's own brands generated more than \$30 billion in sales last year and grew faster than overall sales, per The Seattle Times.
- **Brightroom, Target's home organization brand**, was ranked as No. 1 of the top 10 fastest-growing retail brands of 2022 by Numerator. Two other Target-owned brands, Mondo Llama and Favorite Day, also made the top 10 list.

In a move to **further boost trial of its private label products**, Target recently announced a year-long return policy for its own brands if customers are not satisfied.

### 3. Build brand loyalty

If you think private label can't compete with consumers' brand affinity for national brands, look no further than Kirkland Signature. The Costco private label brand has a devoted customer base who purchase everything from its **consumer packaged goods** to its **branded apparel**.

In 2021, sales of **Kirkland products totaled \$58 billion**, about a quarter of the company's total revenues, per CNN. No updated sales numbers for Kirkland have been released since, but Richard Galanti, director, executive vice president, and CFO at Costco, said that the **club retailer increased its private label sales penetration** by 120 basis points in the latest quarter.

Kirkland's recipe for success isn't a secret. In the **company's annual report**, it said it all boils down to consistency—in price, quality, and experience.

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