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ANNOUNCEMENT

Department stores' Private Labels are navigating between successful strategies boosted by the Covid-19 pandemic, and supply chain woes

The Private Label business has been part of the department store business model since its inception. Once a year, the IADS takes stock on its members' Private Labels to understand the issues they are facing and review their strategic evolutions.

On average, the IADS members' Private Labels increased their turnover share from 9% of the company's total business in 2019 to 11% in 2021. This is due to a combination of several factors:

- They benefited from the Covid-19 pandemic consequences, with newly price-conscious consumers switching from international or national brands to private labels,
- They also reaped the fruits of strategies launched in the previous years to make this part of the business more profitable and efficient.

Strategies initiated in the pre-Covid era are proving successful in boosting the Private Label business

The first step consisted of the brand portfolio clean-up to bring clarity to the offer. It often came with the cancellation of labels, as some department stores now operate one category per brand, such as **Beco**, or even several product categories under one umbrella brand, such as **Manor** or **Magasin du Nord**. In addition to clarifying the product proposal, this approach contributes to generating scale economies by leveraging investments on one brand name instead of several like it could happen in the past.

The realization that private labels could offer an opportunity to enhance the store name itself also led department stores to see them as a branding asset, rather than a low price point proposal completing their national brands' assortments. Such an approach is key now that, for some IADS members, up to 50% of their Private Labels customers are a member of their loyalty programmes. This is why, whether it's towards fashion & sustainability (**Galeries Lafayette**), high quality (**Breuninger**) or targeting a specific customer group (luxury customers in the case of **El Palacio de Hierro**), members defined clear brand values to position their Private Labels, in accordance with their corporate brand strategy.

As a consequence, organisations have been reviewed and optimized towards more agility, for instance separating the collection structuration (merchandising) from its commercial display in stores. As a consequence, while private labels used to be developed and displayed by the same siloed teams in the past, now they are presented to the department stores' buying teams, equal to international and national brands.

The next steps: increase the distribution efficiency, pursue sustainability efforts and attract younger customers

The variety of strategies observed within IADS members suggests that there is no one-size-fits-all solution or strategy. Three problematics were identified as common among all respondents.

First, collections, with their new and clear positioning, now have to be sold in a desirable manner in adequate stores. The store design and visual merchandising are instrumental to enhancing and elevating the brand message but they require important financial investments, potentially coming as a conflict at a moment when department stores also need to focus on digital growth, including for their Private Label business, and finance it.

Second, even though they are not standing at the same level, all IADS members have strong ambitions when it comes to sustainability and progress has been quite fast. But on top of the cost of sustainable materials and sourcing issues, conveying the message is difficult as certifications can represent an issue: they are confusing for customers and they might not be relevant in the long haul. In that perspective, own-store certification labelling (such as **Go for Good** in **Galeries Lafayette**) seems to be an efficient and worthy investment to convey a simple and impactful message.

Finally, the average age of Private Label customers (usually around 50 years old) is higher than the average department store customer, even though for some members they are rejuvenating (2 years younger in 2021 compared to 2019). A more fashionable positioning has proven to be successful in lowering the customer's average age, in complement to launching online-only category-specific products, such as **Falabella**, with specific maternity, occasion wear, +size and niche fashion items developed specifically for the digital channels. This also implies communicating in new ways: adapted ways of communicating about Private Labels are implemented by members, such as including them in social media, newsletter programmes, ad campaigns, and working with influencers. In short, Private Labels are increasingly treated as brands per se, and not category commodities like they used to be.

The most urgent challenge: the supply chain

The current supply chain disruptions imply a fast rethink of the planning and sourcing with adjustments in organisations: earlier product developments coming with a new buying calendar, nearshoring sourcing to balance the rise of transportation costs, pre-booking of materials, ordering of higher quantities to get better prices and anticipated orders. As the supply chain issues are evolving quickly and are far from finished, members are also elaborating tactics to mitigate margin loss and increase the retail prices in the seamless possible way.

Members have engaged in the transformation of their Private Labels, and they can already account for results especially when it comes to the rationalisation of the brand portfolio and the clarification of the product claim. While guaranteeing sustainable and profitable growth is still a challenge, the supply chain issues have critical consequences on margins and are obviously on top of all members list of concerns. This is the reason why the 2022 IADS Academy programme will focus on the Private Label business and its productivity, to define and make new options available to its members.

About IADS - International Association of Department Stores

The IADS is the most exclusive and oldest professional department store think tank in the world. Its uniqueness lies in the close relationship between its member CEOs, making it a very powerful asset for decision-making at the highest level.

Today, the Association gathers a group of 12 members across the world, all leaders or key players on their respective markets, and represents more than €31bn cumulated annual turnover, achieved through more than 490 stores with 233,000 associates in 19 countries. Members are: Centro Beco (Venezuela), Beijing Hualian Group (PRC), Breuninger (Germany), El Corte Inglés (Spain), El Palacio de Hierro (Mexico), Falabella (Chile), Galeries Lafayette (France), Lifestyle International Holding (Hong Kong), Magasin du Nord (Denmark), Manor (Switzerland), The Mall (Thailand), SM (Philippines).

About the IADS Academy

The IADS Academy is an IADS initiative started 25 years ago to develop young talented executives into future leaders, by giving them exposure to international markets and working methods as well as a long-term network. For several months, they collaborate in groups on issues raised by CEOs and are asked to provide concrete and actionable answers. Among current members, 3 CEOs and 1 COO are Academy Alumni. Over 25 years of existence, 28 companies from 21 countries have participated and the Academy trained 180+ high potentials.

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