



Private Label Revolution: The Second Wave

By Marshal Cohen
Chief Industry Advisor – Retail
The NPD Group

Across all categories in retail, private label is—or soon will be—more prevalent in product assortments; private label now accounts for 30 percent of sales in some U.S. industries. This shift is revolutionizing the way retailers go to market in stores and online, and it will impact every company’s business, whether they market private-label products or not.

This paper will explore how private label has evolved in the U.S., why it’s hot again (and why now), the industries and categories it’s affecting, where it’s headed, and what you need to do about it, whether you’re a manufacturer or retailer.



Defining Private Label and a Brief History

Before we dive into which consumers buy private-label brands, let's review the private label definition. A private-label product is one manufactured and packaged by one company for sale under another company's brand. [Shopify](#) describes it as a product manufactured by a contract or third-party manufacturer and sold under a retailer's brand name. The retailer specifies everything about the product and pays to have it produced and delivered to its store—in contrast to a retailer buying a product under another brand's name and stocking it at its store.

Private label has always been around, but the quality and breadth of items available today are a far cry from the Brand X macaroni and cheese in plain white boxes in the value sections of 1970s supermarkets. Today, we've entered the second wave of private label, where big name retailers are investing more and more in bringing to market their own labels, which customers are growing to love.

The History of U.S. Private Label Retail

The concept of private label isn't new. It dates back to the mid-19th century, when a number of retailers started manufacturing and selling goods under their own names. Even before that, the Industrial Revolution in 1760 kicked off the modern era of retailing and spurred the advent of private specialty stores selling their own products.

How Direct-to-Consumer Created the Perfect Storm for Private Label

Retailers' own private brands, as well as private specialty retailers, are nothing new. So if private label has been around for nearly 200 years, why has it suddenly exploded over the past few years?

Before the rise of the internet 20 years ago, it was much more difficult for new, unknown brands to gain visibility with consumers. They had to win over retailers for a spot on their shelves (which was no easy feat) or go out on their own to design, manufacture, and distribute their own goods and services as a direct-to-consumer (DTC), private retailer.

Here is some notable U.S. private label retail history:

1818

Henry Sands Brooks opened a private specialty store in his own name to sell ready-made garments—which today has evolved into the private retailer Brooks Brothers.

1858

R. H. Macy & Company was founded in New York and started producing and selling private label merchandise like hoop skirts, dresses, and handkerchiefs under its general trademark, a five-pointed red star. By the 20th century, Macy's private-label selection eventually grew to 4,500 different products sold under the Macy's brand names.

While department stores catered to cities, [most 19th century American trade](#) occurred in rural farmland regions. To reach isolated American shoppers who had no other convenient access to retail outlets, retailers started operating mail-order businesses via rural [free delivery and parcel post](#). In 1863, A&P founded its mail-order house in New York, soon expanding to "The Great Atlantic and Pacific Tea Company," selling private label items like its own tea and coffee and catalyzing other grocery merchants to follow the mail-order, private-label model.

1863

Montgomery Ward, another mail-order, private-label retailer, started selling a wide variety of more than 100 of its own products via catalog.

1872

Richard Warren Sears partnered with Alvah Curtis Roebuck to build out a mail-order business for watches and jewelry, which later grew to sell a range of merchandise. Bargaining with suppliers for the lowest prices, Sears, Roebuck and Co passed these savings along to the farmer. Most items sold were its own products under private-label names like Acme (think: clocks, heaters, and [anvils](#)), [Kenmore](#) (sewing machines, laundry spinners, vacuums) and [Craftsman](#) (power tools) in its direct-mail catalog.

1887

Some famous brands today even debuted as private labels. In 1898, **Pepsi-Cola** was introduced by a pharmacist at his drug store in New Bern, North Carolina, creating a beverage called "Brad's Drink" to relieve upset stomach, later renaming it Pepsi-Cola.

The difference today is that consumers do trust the internet as a place to shop. Consumers have come to embrace the benefits of e-commerce, enjoying instant price comparisons and access to extensive product research and reviews. This has contributed to changing shopping behaviors like diminished brand loyalty and value-driven purchase motivators.

The internet has been a fertile ground for other behavioral changes, such as the influence of social media and the rise of the “personal brand.”

Getting likes and followers on social media channels is a powerful motivator for today’s consumer, whose purchases reinforce his or her own unique identity—not the brand’s.

These are just some of the dynamics contributing to the perfect DTC storm for emerging, online-born brands. With lower barriers to entry into the marketplace, consumer receptivity, and online as a viable distribution channel, the scene is set for reimagined private label to emerge as a significant disruptor, forcing traditional retailers to respond and step up their own product game.

Don’t Call Them Knockoffs

There has been a homogenization of the retail landscape, in which so many products are so similar; they all look the same, promise the same benefits, and have the same features. It’s a real challenge to get brands and retailers to create truly unique offerings. This has created an opportunity for retailers to compete on creating unique products instead of pricing.

Flash forward to 2018, and the private label definition has truly evolved.

These aren’t your grandmother’s private-label products any more—they’re not generic, and they’re unique.

The focus is no longer on price, but on creating brands with distinctive personalities that appeal to consumers’ desire for experience.

Private-label brands are establishing their own unique identities, positioning themselves as premium brands synonymous with quality and value, to compete with “name” brands. Because retailers are taking responsibility for their brands’ production and credibility, private label brand quality must be as good as, and in many cases better than, name brands. Retailers that offer high-quality store brand products have helped take the decision making out of the purchase equation. Costco is one retailer that does this well. Its private label Kirkland Signature brand draws loyal shoppers not just for price reasons, but because customers have grown to rely on its quality.

Which Industries Are Affected?

Private label is pervasive across a range of industries. We took a look at our Retail Tracking Service point-of-sale data to see how some top industries feel the impact of this movement. We found that private label is making up an increasingly substantial chunk of total channel sales in the technology, accessories, housewares, and apparel industries:

INDUSTRY	PRIVATE LABEL MARKET SHARE	YOY GROWTH
Technology 	4% of total tech dollar share 15% of tech unit share in 2017	 Units increased 2 share points year-over-year
Accessories 	5% of total accessories dollar share 14% of accessories unit share	 Both private label dollar and unit share grew slightly from 2016 to 2017, while national brands lost share.
Housewares 	20% of total housewares dollar share 28% of housewares unit share	No substantial growth
Apparel 	Nearly one-third of total apparel dollar share Just over-one third of apparel unit share	 Dollar share increased 1 share point from 2016, while unit share increased 3 share points from 2016. Both unit and dollar growth for private apparel brands were higher than growth of national apparel brands.

Who Buys Private Label?

One-third of apparel sales are devoted to private label, 28 percent of housewares unit sales are private label, and share of technology, accessories, and apparel private label sales are on the rise. This begs the question: Who buys private label, and is there such a thing as a typical “private-label consumer”?

To find out, we turned to our [Checkout E-commerce Tracking](#) service, which measures the entire e-commerce retail landscape, including marketplaces, DTC entities, top industry-specific retailers, and emerging players. Studying our longitudinal panel of over 3 million online shoppers in partnership with [Slice Intelligence](#), we focused on four popular, online-born DTC private-label players as our lens of study: Warby Parker, Casper, Mack Weldon, and Bonobos.

RETAILER	INDUSTRY	LAUNCHED	PRODUCT DESCRIPTION
Warby Parker	Optical	Online, 2010	Prescription eyeglasses/sunglasses
Casper ¹	Home	Online, 2014	Sleep products and textiles
Mack Weldon	Apparel	Online, 2011	Men’s basics/underwear
Bonobos	Apparel	Online, 2007	Men’s clothing/accessories

[1] Excludes mattresses—analyzes Casper sales of bedding products such as sheets, pillows, comforters, etc.



These retailers all share one common theme: they were started by founders frustrated by the traditional shopping system, who believed there was a better way to make shopping fun and painless. Founded as an antidote to the traditional retail experience, these brands have become respectable players in their categories. We estimate that even the smallest of the four-retailers studied (Mack Weldon) achieved over \$50 million in online sales in 2017.

In order to gain insight into online buyers of private-label products, we looked at online shoppers who shopped at these private-label brands in 2017 to understand buyer demographics and to follow their purchase behavior.

Private Label Shopper Demographics and Behavior

Age

The 18-24 age group has been a key focus area for many brand managers. While many 18- to 24-year-olds crave digital interaction, it would be a mistake to assume that online DTC private labels are exclusively designed for this segment. In fact, three out of the four DTC private label brands we studied under-indexed among the 18-24 age segment (all brands except Warby Parker). Moreover, all four of the retailers over-indexed among the 25-34 segment, and three of the four (except Warby Parker) also over-indexed among 35- to 44-year-olds. One of the retailers (Mack Weldon) actually over-indexed with shoppers over 45 years old—a group that was born well before the inception of e-commerce. This suggests that DTC private-label brands that hope to launch in the digital space can be successful, regardless of target age group.

Lifestyle

Buyers of all four brands tend to be well-educated and over-index among bachelor and graduate degree holders. For example, 17 percent of online apparel buyers and 19 percent of online home textile buyers have graduate degrees. By comparison, the percentage of Warby Parker, Casper, and Mack Weldon buyers who have graduate degrees ranges from the mid- to high-20s. And for Bonobos that figure stands at above 30 percent. Buyers of the four brands also tend to have higher incomes than the average category buyer. While 31 percent of online apparel buyers and 33 percent of online home textile buyers have household incomes of over \$100K, the percentage of shoppers across the four brands with incomes over \$100K ranges from the high-30s to the mid-40s.

Spend

While many online DTC private labels are bought by a tiny sliver of total e-commerce buyers, analysis from [Checkout E-commerce Tracking](#) suggests that online DTC private label buyers are a small but mighty group. In 2017, buyers from all four of the brands studied spent approximately double what the average online apparel buyer spent in 2017².

Private Label Buyers Shop Across Categories

Do heavy private label buyers in one category also buy private label in other categories?

Our Checkout research shows that indeed, DTC private label buyers shop private label across industries and price points. For example, both Bonobos and Mack Weldon are among the top apparel brands in

^[2] For Warby Parker and Casper, which are not apparel brands, only buyers who purchased any apparel item during 2017 were included in the apparel spend per buyer analysis.

terms of the percent of buyers they share with Warby Parker and Casper. While Warby Parker buyers (defined as anyone who purchased Warby Parker from 2015 to 2017) represented approximately 5 percent of total online apparel buyers in 2017, they represented approximately 24 percent of Bonobos buyers and 17 percent of Mack Weldon buyers that year.

Buyer Penetration by Category and Brand

This 24 percent figure is especially interesting given the fact that Warby Parker and Bonobos are far apart on the pricing spectrum. (A pair of prescription glasses from Warby Parker can cost half as much as a pair of pants from Bonobos.) We found a similar pattern for Casper home textile buyers. While Casper home textile buyers represent less than 1 percent of total apparel buyers, they represent 6 percent and 4 percent of Mack Weldon and Bonobos Buyers, respectively.

So, Now What?

To sum up our Checkout findings, our research shows that online-born DTC private labels such as Warby Parker tend to cater to a segment of premium consumers who are high category spenders, well-educated, and affluent—between 25 and 44 years of age. We also found online private label shoppers have a high propensity to cross-shop at other online private label shops, even across industries and price points. This suggests the broader adoption of online DTC private label brands by consumers—and its continued acceleration.

So what implications does this have for commerce overall?

In Europe, private label is even bigger than it is in the U.S., with about one in three purchases made on private label brands. For some European countries like Switzerland, nearly half of purchases made are on private label. Will it ever get that big in the U.S.?

Given the high penetration of private label sales in industries like home and apparel and of both e-commerce and private labels, we believe there is much growth ahead for private-label brands in the U.S. that can promote innovation online. Our research reveals there is a lucrative segment of shoppers who are actively engaged with DTC private-label brands online.

Industries like apparel and home are further along than tech or accessories in the online pervasiveness of private label. But given the private label growth in these industries online, we're led to believe things are just starting to heat up with private label. Moreover, as national brands lose share across categories, the writing is on the wall: private label is far from finished growing.

The Premium Private Label: How Brands and Retailers Should Respond

What do you do with this information as a brand or retailer?

Listen up, retailers:

Buyers across online DTC private labels have a much higher tendency than the average consumer to shop at other online DTC private labels, even in different industries. Is your previously loyal consumer deserting you in favor of these brands?

We've proven that online DTC private labels appeal to a premium consumer—across all age groups. Commit yourself to your own brands, and shift your thinking from private label as only a value-oriented product around cost, to an opportunity to win over that premium shopper with a transformative shopping experience and unique product. Focus both on low-priced private label as well as adding value with quality. People are willing to pay for a quality, innovative product with personality.

E-commerce strategy is not only about attracting Gen Y or Z shoppers; don't alienate your older shoppers! Focus on the 25-44 age segment, and don't forget about shoppers over 45 years of age.

Prioritize offering a unique product—perhaps even launching (or acquiring) an online, exclusive, premium private label that can compete against the Caspers and Warby Parkers of the world. Instead of offering generic alternatives to national brands, how can your product differentiate itself outside of price? Create an offering that will appeal to this well-educated, affluent, private label consumer segment. Invest in private label, because if you don't—your fellow retailers will.

Manufacturers, this concerns you, too:

You no doubt can learn from the behavior of this DTC private label online segment of shoppers. Are you losing share of wallet from the DTC brands in this study? How many of your customers also buy these brands, and how can you win them back?

Focus on alternative distribution channels, offering unique products, and maximizing your brand equity, marketing, media channels, and influencers.

Think about how to protect yourself if a retailer closes its doors, or as your retailer partners invest in developing their own private label lines that may compete with your own brands. How can you create a product that your retailer partner can't afford to drop?

As a brand, you need to think about all your channels; you can't just rely on being at the retailer. How can you build up your own DTC, online channel to fortify yourself against the ebb and flow of retailer private label dynamics? If you get dropped, are you prepared to flourish elsewhere?

The Dangers of Ignoring Private Label

Consumers expect exceptional products—regardless of the label.

Today, cultivating a private-label brand is more than just slapping a label on a generic product. These products must meet a need, while also introducing shoppers to new and innovative experiences.

Private-brand products that cater to these needs are finding themselves well positioned to drive sales and loyalty—and that's evidenced by the growth of private label across a range of industries. Will you ride the wave, or get left behind?

Notable Recent Private-Label Launches

Walmart has been pushing to integrate its own private brands into every department, with 5 to 50 percent of its categories comprised of private label. We expect this figure to climb to 50 percent across most categories. Notable successful examples include its [Great Value](#) and [Sam's Choice](#) food brands, and the [Equate](#) personal care brand. And with its acquisition of [Jet.com](#), Walmart also acquired a strong portfolio of products like the [Uniquely J](#) line of packaged goods.

WALMART



TARGET



Target has also been very successful with its private labels, from its children's clothing brand [Cat & Jack](#) to its women's apparel brand [A New Day](#), men's apparel brand [Goodfellow & Co](#), athleisure brands [Joy Lab](#) and [C9](#), and home brand [Project 62](#).

To expand its consumer base, of course Amazon has gotten in the game, too. Its Amazon [Elements](#) and [AmazonBasics](#) lines offer a range of high-quality products for customers to enjoy at value pricing. Recently, the online giant has partnered with the same vendors used by major athletic brands including Nike, Under Armour, and Lululemon. This brings to light a key component of the next wave of private label: quality.

AMAZON



Learn More

This is a snapshot of our private label e-commerce insights, delivered in partnership with [Slice Intelligence](#). For more on how to amp up your private label strategy for your categories, visit our [LinkedIn page](#), contact your NPD account representative, call 866-444-1411, or email contactnpd@npd.com.

About The NPD Group, Inc.

NPD is the leading global provider of market information and business solutions covering brick-and-mortar, e-commerce, and emerging channels in more than 20 industries. We combine our unique data assets with analytic solutions to help our clients measure performance, predict trends, and improve results, advising them to help drive successful growth. Practice areas include apparel, appliances, automotive, beauty, books, consumer electronics, e-commerce, entertainment, fashion accessories, food consumption, foodservice, footwear, home, juvenile products, mobile, office supplies, retail, sports, technology, toys, travel retail, games, and watches / jewelry.

For more information, visit npd.com.

Follow us on Twitter: [@npdgroup](https://twitter.com/npdgroup)

0318

Press Contact

Janine Marshall

516-625-2356

janine.marshall@npd.com

The NPD Group, Inc.
900 West Shore Road
Port Washington, NY 11050