



# THE DARK SIDE OF PRIVATE LABELING

EDITORIAL | ALLEN RAY AND DAVID GORDON

Private labeling is creating a real squeeze for manufacturers' reps. Some distributors, primarily national companies, are actively pursuing private labeling to improve margins and capture market share, and some manufacturers are willing to support these distributors in their initiatives.

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Earlier this year, two consultants, Allen Ray and David Gordon, were exploring the implications of the impact of private labeling and notified MANA of a study they were conducting. Granted, this study was aimed primarily at reps in the electrical industry, however, it's hardly news to reps that when a trend surfaces in one industry, it's not unheard of that it will visit them in the near future. Ultimately, a report on the consultants' study appeared in *Electrical Wholesaling Magazine* and its sister-publication, *Electrical Marketing Newsletter*. With permission of those publications, their report, which originally appeared in the August 31, 2007 issue of *Electrical Marketing* follows.

Caught in the middle are independent reps. Reps must still provide some level of support to any distributors that private-label for other lines they carry. But, they still need to generate commission dollars — while street-level pricing deteriorates due to competitive pressures that may have been sparked by the market entry of private-label products in the first place.

The electrical market is in flux and many reps are seeking solutions. Some electrical manufacturers continue to pay commissions for private-labeled products to retain their sales organizations. Some independent manufacturers' representatives are contemplating developing their own lines; others have fatalistic viewpoints and are trying to adapt to what they consider 'a new realism'. Other reps are actively strengthening business relationships with electrical distributors who support **brands**, and are providing them with the support needed to remain competitive.

To better understand this evolving dynamic, Channel Marketing Group, Raleigh, North Carolina, and Alley Ray Associates, Kennedale, Texas, surveyed independent manufacturers' sales representatives and lighting agents on private labeling. More than 150 reps responded. This rep survey follows studies the companies did on what electrical distributors, electrical manufacturers and electrical contractors think about private-labeled products. The articles they wrote about the research are available at [ewweb.com](http://ewweb.com) and at their companies' websites, [allenray.com](http://allenray.com) and [channelmkt.com](http://channelmkt.com).

Reps have noticed a significant increase in the prevalence of private-label and non-branded products in the marketplace. According to the research, 74.5% of respondents have noticed that distributors are more frequently carrying or quoting off-brand products (e.g., no name on product, off-shore "brand," distributor-branded or unrecognized name), so they can offer a "price" line.

Distributors mentioned most frequently as private labelers or sellers of un-branded products were **Rexel** (mentioned by 47.1% of respondents); **City Electric Supply** (CES) (17.2%); and **Graybar** (5.7%). Several other companies were mentioned, but none by more than 3% of the respondents.

Not surprisingly, electrical contractors' interest in private labeling appears to be driven by their desire to buy electrical products at lower prices. The ease of ordering product over the web, local sources and customers' inability to differentiate amongst various brands of product, continues to erode market pricing.

According to survey respondents, many products are currently being private labeled. Reps said the products they see most frequently being private-labeled include lighting products, cable ties, fasteners, tape, electrician's supplies, boxes, enclosures, ballasts, connectors and portable cords.

While most distributors don't plan to sell private-label products, significant competitive considerations exist that manufacturers and distributors will need to address. As a greater percentage of industry sales migrate to unbranded/no-name or private-label products, price will become an even more prominent factor in their customers' buying decisions. Respondents said contractors are willing to buy private-labeled products if they perceive them to be of sufficient quality. At least one rep had major concerns with product liability. "Some of our contractor customers are so centered on prices they forget potential liability," he said.

Reps face the unique challenge of supporting their manufacturers, servicing their electrical distributors and creating demand in their marketplace. The introduction of private-label products into a geographic market is essentially creating another competitor, and increases con-

flicts between brands and between reps and the distributors to which they sell.

The rep still needs to support the distributor, who in most cases purchases other lines from that rep. They also need to support other distributors in the marketplace on behalf of a manufacturer who may private-label for a distributor in that market. In addition, they need to help the manufacturer reinforce the value of their brand — all of this while their commissions are often being eroded by price cutting. Many reps would like to move business to distributors that support their brands. However, reps sell other lines to the same distributor and need to preserve that business relationship.

Said one respondent, "For a few of the electrical distributors in our area that offer private or non-branded products that compete with our lines, we've developed a strategy of gradually moving the business that we want to protect, over to another electrical distributor."

Others are taking matters into their own hands and are either carrying price-oriented lines and/or considering private labeling themselves. Said one rep, "We have talked with our manufacturers and asked for commission where we have found that it was their product. Some **pay** commission, some don't. For those that don't pay a commission, it makes a great deal of business sense for us to source product, maybe with other rep firms, or to even sell directly to contractors."

Conversations with several independent manufacturers' reps in both the Southeast and Southwest, have revealed that some reps are banding together to offer non-branded products from a centralized warehouse, enabling them to compete, based upon price. One of these organizations believes it may even be able to resell product to other reps more cost-effectively, and essentially become a master distributor. 