Private-label Marketing
in the Ice-cream Industry

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The American consumer who bought ice cream for home consumption a generation ago typically bought from a neighborhood drugstore or confectionery a pint of handpacked ice cream which had been produced by a local manufacturer and was sold under the manufacturer's label.

But since World War II the pattern of ice-cream purchases for home consumption has changed. Today the American consumer is more likely to select a half-gallon of factory-packaged ice cream from a self-serve cabinet in a large retail grocery store belonging to a corporate chain or to a group of affiliated independent grocers. The self-serve cabinet displays ice cream in a variety of flavors, in several quality grades, and in at least two brands—the manufacturer's brand and the retailer's private brand—both produced by the same manufacturer.

Several developments have contributed to the change in the consumer's purchase pattern. The two most important have been the post-World War II shift in consumer food-buying habits away from small neighborhood groceries and to supermarkets, and the trend toward retail grocery-industry concentration into corporate chains and groups of affiliated independent grocers.

The impact of these developments is manifested by several changes in the structure and behavior of the ice-cream industry:

1. The introduction and development of private-label ice cream.
2. A downward trend in the wholesale price of private-label ice cream.
3. Concentration in the organization of the ice-cream industry.
4. High barriers to entry into that portion of the ice-cream industry composed of dual-brand manufacturers who supply chains and groups.

Chains and Groups as Major Customers

For the dual-brand manufacturer, that is, the manufacturer who sells both manufacturer's-label and private-label ice cream, chains and groups as customers present several problems.

Problems of Supply and Distribution

The problems of supply and distribution concern mainly the small dual-brand manufacturer.

With plant capacities below approximately 2.5 million gallons, the small manufacturer usually is unable to compete effectively as a dual-brand supplier for chain and group business. He cannot produce enough ice cream to fill the needs of chains and groups; he cannot deliver economically over large territories; and without the economies of production and distribution, he cannot meet the private-label wholesale prices offered by the larger producers.
Problems Associated with Private-label Ice Cream

The problems associated directly with private-label ice cream concern mainly the large dual-brand manufacturer.

With a plant capacity of approximately 2.5 million gallons, the large manufacturer can compete effectively as a dual-brand supplier for chain and group business; but he is confronted with deterioration of the market share of the manufacturer's-label ice cream in the chains and groups he supplies, and a decline in the average wholesale price per gallon of ice cream.

a. Deterioration of market share of manufacturer’s-label. Private-label ice cream, usually priced at retail approximately 30% less than is manufacturer's-label ice cream, accounts for 64% of gallonage sold in chain and group grocery stores. The capture by private label of such a significant portion of market share has influenced consumers negatively as to the manufacturer's-label ice cream. Also, since consumers today are buying more private-label than advertised-label ice cream, the retailer may easily change suppliers or begin manufacturing its own ice cream.

b. Decline in the average wholesale price per gallon. As the market share of the lower-priced private-label ice cream grows in a given retail store, the average wholesale price paid to the manufacturer declines, assuming that there is no increase in gallonage sold. For example, if a retailer sells manufacturer's-label only, the average wholesale price paid to the manufacturer is approximately $1.50 per gallon; but if the sales-mix changes to two-thirds private label/one-third manufacturer's label (and this is not uncommon), the average wholesale price received by the manufacturer falls to approximately $1.10 per gallon.

Yet delivery costs remain the same; and the formulation of the private-label is as expensive (more expensive for some of the largest chains) as the formulation of the manufacturer-label ice cream.

Possible Solutions

To permit their firms to survive in the changed market environment, manufacturers in the Northeastern United States have adjusted their marketing policies successfully. A study of what has been done reveals possible solutions for other manufacturers who face similar problems.

The policies can be classified into those adopted by the small manufacturers and the large manufacturers. A plant capacity of approximately 2.5 million gallons is the minimum required to gain the significant production economies necessary for a manufacturer to compete effectively as a dual-brand supplier of chains and groups, and thus be considered a large manufacturer.

Marketing Policies in the Northeastern United States

Plant Capacity below 2.5 Million Gallons

For the small manufacturers, several policies may be considered.

1. Remain a full-line manufacturer, but associate the firm with a national label. Most chains and groups want a familiar advertised brand in their cabinets, as well as their own private labels. In order to appeal to these stores, some small manufacturers associate with a group of noncompeting dairy and ice-cream manufacturers that have promoted a national brand name.

2. Extend the product line into frozen foods. Assembled from various frozen-food processors, stored on the ice-cream manufacturer's premises, and delivered semiweekly along with ice-cream orders, the frozen-food line increases the manufacturer's sales per store and reduces his distribution cost.

3. Expand into manufacturer-owned retail outlets. Usually designed as dairy-grocery stores or as dairy-snack bars, manufacturer-owned retail outlets are identified with the manufacturer's brand, and offer some defense for both large and small manufacturers against the inroads made by private label.

4. Become a specialist producing a minimum-quality product. Utilizing the entire capacity of his plant for the production of minimum-quality, minimum-cost, half-gallons of ice cream, the specialist eliminates all advertising and promotion, all salesmen, all delivery equipment, and all possible office work and overhead expenses. Thus, he can sell his ice cream at approximately 15% to 20% under the usual private-label wholesale prices. Specialist middlemen, who sell such ice cream to retail grocery stores, take over

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the sales and delivery functions. The ice cream, packaged under a label chosen by the manufacturer, usually is sold only for promotions to independent supermarkets who may or may not be affiliated with groups.

5. Become a specialist producing a premium-quality product.

Producing premium-quality products that return a higher price per gallon and probably a higher profit than would products of standard or minimum quality, this specialist either develops his own label or obtains a franchise from some nationally known organization—a restaurant chain, for example—for marketing the product in an assigned geographical area. Two premium-priced products currently produced by specialists are 16% butterfat ice cream and dietetic ice cream.


By exclusive arrangement, the “captive” manufacturer commits the facilities of his entire plant to the production of private-label ice cream for one chain or group. Involved is the risk of dependency on one customer; for if the retailer withdraws or makes unwarranted price demands, the manufacturer is in an untenable position.

Plant Capacity over 2.5 Million Gallons

With their own advertised brands seriously challenged by the private-label products of their retailers, the large dual-brand manufacturers are in a peculiar position, as their major customers are also their major competitors. They must satisfy their customers so that they can retain patronage; but at the same time they must maintain sales on their manufacturer-advertised brands so that their firms can continue contact with the consumer.

Two marketing policies can be observed among large dual-brand manufacturers. The first is the traditional policy, offering a guarantee on both brands, but limiting service on the private label to a minimum. Manufacturers who have maintained the traditional policy are referred to as partial-program manufacturers. The second is the policy also offering a guarantee on both brands, but extending service to include an integrated marketing program created and administered by the manufacturer for both brands. Manufacturers who have adopted this policy are referred to as full-program manufacturers.

1. Partial-program manufacturer

To maximize the profit from chain and group accounts, the partial-program manufacturer:

a. Is production-oriented, and so he

(1) Keeps his plant operating at capacity, sometimes producing private-label ice cream for retailers who sell no manufacturer’s brand or who buy a manufacturer’s brand from some other supplier.

(2) Restricts his production to staple products which sell well in all types of ice-cream outlets.

b. Usually maintains two distinct pricing policies: in one of which the price of his advertised label remains stable over time; and in the other, the price of private-label declines over time in response to market pressures.

c. Concentrates his marketing efforts on his own brand, leaving the marketing of private labels to the retailer.

d. Usually bases his marketing decision on empirical information.

The partial-program manufacturer believes that:

a. The wholesale price of private-label ice cream is so low that there is little, if any, profit in it for the manufacturer; but the wholesale price of the manufacturer’s label is relatively firm and so still permits profit opportunity.

b. The little profit that may be in private-label at present will disappear as the wholesale price continues to decline.

c. Private-label is a useful vehicle to gain entry for the manufacturer’s brand into chains and groups.

d. If the manufacturer gives the retailer any assistance in merchandising private-label products, the manufacturer would strengthen the sales position of the private-label and would weaken the market position of his own brand.

2. Full-program manufacturers

To maximize the profits from chain and group accounts, the full-program manufacturer:

a. Is marketing-oriented.

b. Strongly differentiates his manufacturer’s brand.

c. Concentrates marketing efforts on both the manufacturer’s brand and the retailer’s private label.

d. Seeks control at the retail level through administered prices, preplanned layout, and complementary promotions developed with the aid of marketing research.

e. Maintains a pricing policy relatively independent of competitive action—indicating the behavior of a differentiated oligopolist in regard to both the private-label and the manufacturer’s label when the two products are sold together to the retailer.

The full-program manufacturer believes that:

a. Ordinarily the manufacturer derives little profit from private-label ice cream, and will probably derive even less profit as wholesale prices of private-label decline further.

b. Chains and groups seek improvement in their profits on private-label ice cream through lower wholesale prices.
c. If the manufacturer allows the chain or group to manage the marketing of the private label:

1. The wholesale prices will continue to decline as a result of chain and group pressure.
2. Private-label will crowd the manufacturer's label into smaller displays or out of the cabinet, and thus the position of the manufacturer's brand will be weakened, the brand losing sales and consumer contacts.

d. As the manufacturer's sales decline, his production will decrease, and the average total cost per unit (assuming that his lost manufacturer's-brand business may not necessarily be supplanted by private-label business) will rise, thus reducing his profits and ultimately creating a barrier to his effective competition for chain and group business.

Therefore:

1. The manufacturer's private label customers among chains and groups must be only profitable accounts that will buy both private-label ice cream and manufacturer's label from him.
2. To maintain or to improve his production rate and sales volume, to maintain or to improve the market position of his advertised-label product, and to halt or to reverse the growing trend toward private-label ice cream, the manufacturer must obtain and must maintain control of the marketing of both manufacturer's-label and private-label products in his retail accounts.
3. To obtain such control over the entire ice-cream department, he must be able to offer the chain or group more profit on the total ice-cream business than the chain or group presently enjoys.

Full-program manufacturers state that if they implement the full-program concept in a chain or group, the growth of private label is controlled, often reversed; the wholesale price of private label suffers no further decline; sales of the manufacturer's brand increase; and overall ice-cream sales increase.

Many full-program manufacturers are inclined to answer questions about various reactions in prospective accounts to the full-program concept. They agree that the concept is most difficult to sell to the largest chains, perhaps because large organizations traditionally resist changes in routine and procedures, and also because buyers in these organizations are oriented to low wholesale prices and a policy of noninterference from manufacturers.

The most receptive firms are the smaller chains and groups, usually with sales under $100 million. Within the retail firms most receptive to the concept are top executives, who are more interested in raising net profits than in the lowest wholesale prices.

Retailers who buy from full-program manufacturers indicate that they are satisfied with the full program.

Relieved of planning and detail, buyers can turn their attention to other dairy and frozen foods. Gross margin is improved, because promotions are controlled; and with higher gross margins and increased ice cream sales, total profit from the ice cream department is higher.

Conclusions

To make a stand against private-label products, manufacturers have the following alternatives:

1. They may refuse to sell branded goods to retailers carrying private-label products.
2. They may supply both manufacturer's-label and private-label products to the retailer.
3. They may increase promotional effort on their manufacturer's-label products.¹

The present analysis in the Northeastern United States suggests additional alternatives. For manufacturers unable to compete effectively as full-line, dual-brand suppliers, the following may also be alternatives:

1. Specialization.
2. Extension of the product line.
3. Forward integration.
4. Association with a national brand.

For those manufacturers who can compete effectively and want to continue as full-time, dual-brand suppliers, an additional alternative may be the full-program concept.

This means that the manufacturer's product for a given chain or group is viewed as a manufacturer-administered, total ice-cream-marketing plan, encompassing the design, assortment, packaging, suggested pricing, display, and promotion of the retailer's private-label items and the manufacturer's own label items in consort, so that all of the items are complementary, rather than competitive.

This approach to merchandising a product facing strong private-label competition may even be applicable to other firms producing other products under somewhat similar circumstances.