



WHITE PAPER JULY 2012

How to Start a Private Label Program



MAKING MONEY WITH PRIVATE LABELING

If you manufacture and sell packaged products, there is a good chance that you are reading this white paper because you already know that adding private label sales can increase your sales, increase your volume, and increase your profit.

This white paper, aimed at executives of small or medium-sized businesses, will present some of the considerations in starting up a private labeling program for your products.

Once you have defined the private labeling service you will offer, you may even find that your private label program can be spun off as a standalone business or as a local franchise.



VARIETIES OF PRIVATE LABEL PROGRAMS

- > **Hotel and Restaurant Brand Private Label**

Some examples include spices, sauces, soaps, wines, soft drinks, coffee, tea

- > **Party Favor, Wedding, and Corporate Gift Private Label**

Some examples include bottled water, candles, lip balm, chocolates, snacks, and candies

- > **Distributor Brand Private Label**

Some examples include chemical cleansers, dietary supplements, dental supplies

- > **Store Brand Private Label**

Some examples include grocery prepared foods, spices, hardware, plumbing, paints, mops



THE VALUE OF PRIVATE LABEL PACKAGING



Drive Customer Loyalty: Store brand and distributor brand product labels help your customer to sell more by promoting their brand name, logo/ design, and contact details. This helps to ensure that their customers identify their store or catalog as the source of the product, and return to your customer for repeat purchases. Of course, this adds to your customer's store volume and traffic as it gives their customers an additional reason to frequent their store.

Beat the National Brand: When you have a low-cost private label packaging solution in place, your customers are able to purchase private label products from you at a reasonable price. They will then sell your high quality products at a premium price – even 200% or 300% of their cost – while remaining competitive with national brand products. Your customer will make more profit by selling your products instead of national brand products, and you will earn more sales.

TWO OPTIONS FOR PRIVATE LABELING YOUR PRODUCT



Option #1: Add a Logo or Special Message to Your Standard Packaging. Adding a special message or logo to your standard packaging allows you and your customer to maintain the benefits of your own brand name, while still enjoying a specialty message. This “co-branding” is especially popular with fine foods and leading brands.

Option #2: Offer a Completely Re-Branded Product. Presenting custom packaging with your customer’s brand name only is popular with many distributors and wholesalers who seek to differentiate themselves by establishing their own “corporate brand.” They are often looking to sell a full line of products under their brand, and will sell yours if your quality, price, and packaging meet their standards.

Remember: Maintain Required Label Information. When offering completely re-branded products, keep in mind that your custom product labels must continue to comply with labeling laws. Some requirements may require disclosure of manufacturer identity and address. In the United States, a good place to review labeling laws applicable to your product type and industry is the FDA website, which publishes [labeling regulation guides](#) for foods, cosmetics, and dietary supplements.



HOW TO ORGANIZE YOUR PROGRAM

> **Appoint a Salesperson/Organization**

When approaching retailers/distributors to offer them your products with private label packaging, it is critical to convince them that their customers will be delighted by your product and will be even more likely to purchase it under the private label brand of a company they already know and trust.

Often, an existing sales and customer service organization can be leveraged to support a private label program, particularly if existing salespeople are able to provide personalized, consultative customer service along with in-person visits and outbound phone calls. If this is not an option, it may make sense to contract with independent sales reps who can do sales prospecting on behalf of your company.

Private Label sales involves developing branded artwork that meets customers' expectations. As such, you must be prepared to devote sales resources to serving customers by answering questions, offering suggestions, and presenting packaging prototypes with “mock-up labels” for approval.





> **Develop Marketing Promotions**

Personalized products such as custom wedding favors may seem like they will sell themselves. However, all private label product sales will benefit from marketing promotions such as dedicated web pages, email campaigns, and public relations efforts including social media. You must be ready to promote the powerful benefits of private label products to distributors and retailers who sell your products under their name: increased customer loyalty with differentiated products and increased unit sales volume.

> **Work with a Consultant**

Working with a private label program consultant can be helpful, but is not necessary. Consultants often have a network of industry partners, and are particularly good at providing assistance with store brand distribution. If you plan to sell private label products via retail stores, it may make sense to contact a Private Label Consultant. Some consulting companies also offer sales assistance, with representatives who have experience in selling private label products.

DRAFT A PRIVATE LABEL AGREEMENT

It is advisable for you and your customer to enter into an agreement which specifies that:

- Your agreement begins on a certain date and continues until one or both parties officially terminate the contract in writing.
- Your company has the non-exclusive right to use the customer's copyrighted materials, including their logo and trademarks, for the purpose of printing labels
- Your use of customer artwork and other copyrighted materials is subject to your customer's approval, which may be withdrawn at any time
- You grant your customer the non-exclusive right to use your logo (in the case of co-branded packaging)
- Your purchase terms and shipping and billing terms are agreed upon
- You grant your customer the right to cancel a custom order within a specified time period, after which cancellation charges will apply



DETERMINE PRICING

Private label product pricing should be based on Value price strategy rather than on a Cost-Plus price strategy.

Many start-up private labeling programs undervalue their private branded products because they are accustomed to pricing their products based on product cost. This doesn't work when there is negligible cost associated with digitally printed private label packaging, as when custom product labels are printed by a digital color label printer.

Instead of pricing based on cost plus labor, consider the price your customers are willing to pay for their specialty personalized products. Let your customers determine the price you charge.

Bear in mind that graphic design fees, such as logo development or artwork creation are one-time service fees that should be billed directly to your customer and will not be part of packaging costs.



RESOURCES YOU'LL NEED

> Digital Label Printer

A tool such as this is the cornerstone of a private label program since it produces the private label packaging you will offer to your customers. When you own a digital label printer, you have the in-house flexibility to print custom labels in any quantity, when they are needed, and at an affordable price. Digital label printers are often chosen by companies that want the capacity to fulfill “small quantity” private label orders, since the technology eliminates concern over minimum label purchase quantities. Before buying a digital label printer, it is important to [evaluate color label printer options](#).



> **Graphic Designer**

If you plan to serve more than a handful of private label customers, it will be more cost-effective to directly hire a full-time or part-time graphic designer. This is because a professional freelance artist will charge \$50-\$100 per hour of design work – and the hours of design work will multiply as your customers request artwork changes and second and third proofs of their custom label. If you choose to use a freelance artist, it is worthwhile to consider working with a university student who may charge a lower rate, or negotiating a lower rate through a freelance service.



> **Website/Ecommerce Site Development**

With more than 83% of American broadband users conducting web research on products and services before buying,¹ it makes sense to offer any new product for sale online. Maintaining an ecommerce site is the best way to show your product offerings to prospective customers and to propel website visitors through the sales funnel to become buyers. An ecommerce site (web store) helps to answer questions about your pricing, and provides a secure and convenient means for you to take payment.

¹ Jansen, J. (September 29, 2010). Online Product Research. [Pew Research Center]. Retrieved June 19, 2012 from <http://www.pewinternet.org/~media/Files/Reports/2010/PIP%20Online%20Product%20Research%20final.pdf>

RESOURCES

for Private Label Packaging and Program Development:

- > **Color label printers** that digitally print custom labels on demand: QuickLabel Systems.
- > **Label applicator equipment**, installation, and integration services: Accraply.
- > **Freelance graphic design services**: Freelance.com. Local university job boards may also be useful.
- > **Web Design/Ecommerce Site Development**:
Just Small Business Websites, LLC
- > **Private Label Consulting Services** that offer sales, marketing, and distribution support: Resource One.



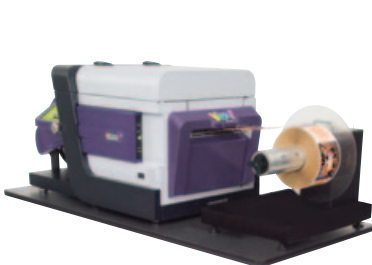
SUCCESSFUL PRIVATE LABEL PROGRAMS

- > **American Bridal** – site devoted to wedding theme personalized party favors
- > **J.O.Spice** – Ecommerce site offers personalized spices and seasonings for restaurants and party favors
- > **Private Label Specialties** – specialty beverage website uses gallery of previous label designs serve to entice end users as well as those interested in a franchise
- > **Spangler Candy** – ecommerce site shows how the labeled lollipop will look
- > **Vita Labs** – website offers dietary supplements to packaged for health food stores, health clubs, doctor's offices, and more



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Vivo! Touch



QLS-4100 Xe



Zeo!



Kiara!



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The Labels You Want When You Need Them®

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