

PACKAGING "VALUE"

By Ron Romanik

Co-Branding with Costco's Kirkland Seal of Approval

By all accounts, Costco shoppers are a loyal bunch. In the 25 years of its existence, the big box retailer has become the fourth largest retailer in the U.S. by sales volume, despite having only 400 stores in the U.S. By comparison, all the other retailers in the top 10 have over 1500 outlets each.

Also unlike the other retailers in the top 10, Costco has only one store brand, Kirkland Signature, named after Kirkland, WA, where the company was headquartered between 1987 and 1996. In recent years, the consistent, black rectangular Kirkland Signature logo box has found its way onto packages in a number of unexpected categories, including vodka, scotch, and a variety of French wines. In addition, Costco has expanded its "co-branding" strategy to include some well-recognized brand names.

A black box of approval

The atmosphere of a typical Costco store is one of hustle and bustle. There is a lot to see and explore. The typical Costco shopper probably only visits once a month, and there are often new products on the floor each visit, while other product options may have been discontinued. For many Costco loyalists, seeing the Kirkland logo on a product must certainly be a reassuring sign that encourages the sale. Costco shoppers have come to trust the store, trust the choices it makes in deciding what goods to stock, and expect high quality from Kirkland-branded products.

"The Kirkland brand becomes a 'seal of approval,'" explains Philippe Becker, creative director at PBD International in San Francisco. The logo is instantly recognizable and always takes the top, center position on every package. On the back of each package, the logo is repeated with a guarantee: "Every Kirkland Signature product is guaran-



teed to meet or exceed the quality standards of the leading national brands. If you're not completely satisfied, your money will be refunded."

Tom Newmaster, partner at William Fox Munroe Inc. in Shillington, PA, agrees that the Kirkland box on a package is "an endorsement" that means both quality and value. "The packaging doesn't look like Costco is cutting costs, and the customers know the products are going to be good," says Newmaster.

The new Martha Stewart soup line packaging has her name repeated twice on the front panel, using both of her highly recognizable logos. "The Martha Stewart line is

more about being able to 'bringing a face, reputation, and perceived quality to their food,'" says Simon Gainey, founder of Competitive Innovation in Media, PA. "There are plenty of examples of co-branding restaurants and chefs; far fewer however where a branded line co-brands with a store brand. There are examples where this has happened but I think it's a trend that ultimately will leave the brand with less business in the end game."

Gainey goes on to explain that from the perspective of the store brand, the store wants to co-brand to generate a reputation and gain consumer trust until it can carry it on its own without the Brand name. Because when the store has the customers' trust and reputation, it can just cut out the middleman and improve margins. "In the meantime, Costco can increase the probability of success by co-branding," concludes Gainey.

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Exclusively Costco

Some private label branded products come with an air of exclusivity, and Costco benefits from this perception as well. "I think it's become an interesting trend actually," says David Moyle, owner of DeMo Communications in Brea, CA. "We have seen Target and K-Mart carrying brands like Martha Stewart or Rachel Ashwell's Shabby Chic line 'exclusively,' trying to gain a certain level of perceived quality to their stores through the co-branding of a celebrity that stands for quality."

Gainey likes to talk about the "treasure hunt" aspect of a well-branded retail experience. Retailers try to surprise and delight their consumers, and consumers look for unique offerings or special opportunities. Finding Costco bargains makes consumers feel better about their trip to the store, and Costco knows this very well.

Newmaster agrees that Costco shoppers have an inkling that many Kirkland products are exclusive and that

they will not be able to find the same deal anywhere else. "When they put the Kirkland name on it, they're saying: You can only get this here, and it might not be here next time," Newmaster says.

"I think they've followed a model, and used branded products to help drive traffic while slowly developing the reputation of the Kirkland name," explains Gainey. "As they have become more capable, they have replaced competing branded products with their own store brand, Kirkland Signature, where it makes sense."

Moyle goes on to say that this strategy worked very well for Target, as many people have come to see Target as a place to find good quality products for less money. "Lately, some of their items are not as inexpensive as I remember," Moyle says. "They are right up there with the prices you would find at a Linens and Things before they all closed."

Appropriate design

Another advantage a retailer such as Costco has is that it can control its retail space and "own" an environment. The Kirkland brand works well in this milieu because it can experiment in different categories with limited investment or risk. "For many retailers, consumers embrace their store brands, and that gives them freedom to innovate," says Becker.

The package designs of Costco's Kirkland branded packages are appropriate to product, category, price point, and consumer expectations. A large tin of holiday "European



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Cookies" has the glossy sheen of a department-store offering for quality appeal and high-resolution images to entice the consumer with taste appeal. Costco tempers its designs to the customer, and like any successful brand, the company tries to match the brand promise to the product. "The package will be the presentation," concludes Newmaster, emphasizing the simultaneous design communication of quality, value, opportunity, and exclusivity.

Moyle observes that at Costco, "Every product is handled differently. It depends on what they're competing against, and the types of packaging that are there." He believes that Costco has built such consumer trust in its Kirkland products that the loyal shopper believes that the trust will not be violated, and the quality, packaging, perception, and price will align. "It's almost as if the price doesn't matter," says Moyle.

Co-branding dilution

"Frankly, I think co-branding is very dilutive to the equity of both the branded item and the store brand," Gainey contends. "Kirkland doesn't need the Filippo Berio name, for instance, to be believable, noticeable, and appealing to its core consumers. Kirkland has such a great name, it doesn't bring anything to the Filippo Berio name other than to confuse consumers." At least a small percentage of Costco shoppers must be confused, asking themselves: Is it

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a not-as-high-quality form of Filippo Berio, or is it the same stuff only cheaper?

Becker believes that the strength of any brand name that appears under the Kirkland name has to be diluted to a degree, but they have to pay to play. "Because of the volumes they are dealing with, Costco has incredible power over their suppliers," Becker explains. Co-branding is a compromise on the part of the consumer brand to gain exposure at Costco while discounting some of their inherent value.



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"I think some brands have been forced to be very tactical particularly if they are not a top-three name in the category," Gainey surmises. "Costco is such a huge player that the opportunity to co-brand is hard to refuse."

Moyle has a different interpretation of big name brand products co-branded with Kirkland, and does not necessarily see an equal payoff. "Costco already has a reputation for carrying great quality items for 'less,'" Moyle argues. "I say 'less' because, in reality, a consumer may be spending more total dollars on bulk items, but less per unit in the long run. And, there are less expensive alternatives with other store brands, if you don't mind sacrificing quality—toilet paper and paper towels are a prime example."

The ultimate message

Newmaster believes co-branded products can be a true partnership with Costco, where each brand adds value to the other. In this age, retailers can call the shots, even though there is a risk of consumers wondering in their mind, as in the Martha Stewart example, "Which is the 'over-brand'?"

Moyle sees the payoff for Costco and the co-brand when a positive customer experience in one category raises

expectations in other categories. "I think this is a move on their part to say to customers: See, we are always working to bring you quality, and, since you are a member, you can enjoy discounts on these great items," says Moyle.

Gainey says that, traditionally, store brands were often considered a "trade-down," but that concept is not as relevant at Costco, nor in many of today's more refined store brand environments. "The Kirkland name has become strong enough to support Costco's own brands," says Gainey. "Customers learn to trust what they promise, and Costco knows their customers are ready to 'trade-off' on certain items."

In the end, Kirkland Signature may qualify as a destination brand. Today's savvy consumers segment their shopping and rely on the quality of certain goods at certain retailers. Becker believes that the success of Costco's strategy is that co-branding elevates the quality perception of Kirkland products, even though this is counterintuitive to brand building, because this strategy may not maximize the potential of the Kirkland brand. Either way, according to Becker, the packages communicate: "Not only are our products as good as the brand leaders, they are the brand leaders." ■