



Pumping up

Opportunities exist for supermarkets to grow store brands, a new FMI report outlines

By Lawrence Aylward

While dollar sales of private brand products have been slumping at supermarkets and other regional grocery chains, a detailed report from the Food Marketing Institute's (FMI) Private Brand Leadership Council suggests that those retailers can reverse the decline by differentiating their store brand offerings with more innovative and exclusive products.

FMI's report, "The Power of Private Brands," confirmed that private label grocery sales — hampered by deflation and a decline in supermarket trips — haven't kept up with national brand sales the last two years. But the report, which details information FMI conducted in conjunction with Information Resources Inc. (IRI) and Daymon, stresses that grocers can take advantage of the growth potential of private label by customizing products, recognizing the need to invest to drive store brand innovation and embracing a wider range of promotion vehicles, including emerging social media platforms.

"It will be a lot of hard work and will require retailers to think differently about their store brands, but there is a lot of opportunity for them [with private brands]," Mark McKeown, client insights principal at IRI, told *Store Brands*.

Kristof Duna, director of private brands at Merchants Distributors Inc. in Hickory, N.C., and co-chair of the FMI Private Brand Council's research and education committee, says the research justifies what he is seeing in the

marketplace. But while supermarkets and regional grocery chains have lost dollar share, Duna believes they can regain it by investing more in private label innovation.

"There are still retailers that want to take the benefits of private brands without really looking at the investment needed to keep them on the cutting edge," Duna adds.

Dave Harvey, Daymon's vice president for global thought leadership, says retailers simply need to think differently to distinguish their own-brand offerings to increase sales.

"What will drive future growth in private label are categories actually being created by retailers themselves," Harvey states.

The report, released to coincide with the FMI Midwinter meeting in Arizona this month, has suggested next steps, and the report's final chapter called "Putting It All Together" guides the reader on how to benefit through specific actions. FMI will keep the conversation going well after the report is released, including through a series of webinars that educate the industry on key findings.

"Too often, and after significant effort by stakeholders, research is released but quickly finds its way to a book shelf or a file cabinet," says Doug Baker, FMI's vice president of private brands. "The FMI Private Brand Leadership Council wanted to develop a tool that would be used throughout the year to generate discussion to help brand owners and their trading partners continue to stay ahead of key trends, consumer demand and competitive pressures."

ABOUT THE STUDY

In its detailed report, "The Power of Private Brands," the Food Marketing Institute's (FMI) Private Brands Leadership Council took a multidimensional view of the private brand business by conducting numerous forms of research and analysis that included several research partners, most notably Information Resources Inc. and Daymon. The report looks at the private brand business through four lenses:

- ▶ **From the register:** A look at the implications of sales data across tiers and categories.
- ▶ **From the consumer:** A look at the private label consumer based on a national survey and analysis of social media.
- ▶ **From the industry:** Perspective on industry attitudes and performance based on a trading partner survey that sheds light on differing viewpoints.
- ▶ **From the world:** A view of the forces shaping global retailing and how private brands have unique opportunities with changing shoppers around the world.

The report is available at www.fmi.org in the website's "Store" section.



private label

Here are 10 key highlights from FMI's study:

- 1 Nearly all U.S. households — 96 percent — are purchasing some form of private brand at supermarkets and regional grocery chains that sell food products.
- 2 Private brands performance has been on a declining trajectory at supermarkets and other regional grocery chains that outpaces that of national brands.
- 3 Much of the private brand decline at those retail locations is due to the deflationary impact of dollar sales in dairy, eggs and cheese.
- 4 The industry views private label's main role as being a loyalty builder, which overshadows other benefits such as margin building and leveraging national brands.
- 5 Product customization is the biggest opportunity for private brand growth.
- 6 The industry views the biggest threat to private brands to be a lack of capital investment to drive innovation.
- 7 Organic private brand represents a small but growing segment of the industry.
- 8 While percent of sales on promotion/advertising increased across the board in total U.S. food, private label experienced the greatest increase.
- 9 Millennials are embracing private brands and are more likely to be heavy buyers.
- 10 The best store brand quality perceptions belong to perimeter categories — 74 percent quality perception for dairy, 70 percent for fresh produce and 68 percent for bakery.

A CLOSER LOOK

Beginning on page 30, a series of charts with text expands on "The Power of Private Brands" study. The text includes insight from the following sources close to the report to help retailers better understand what's behind the numbers:

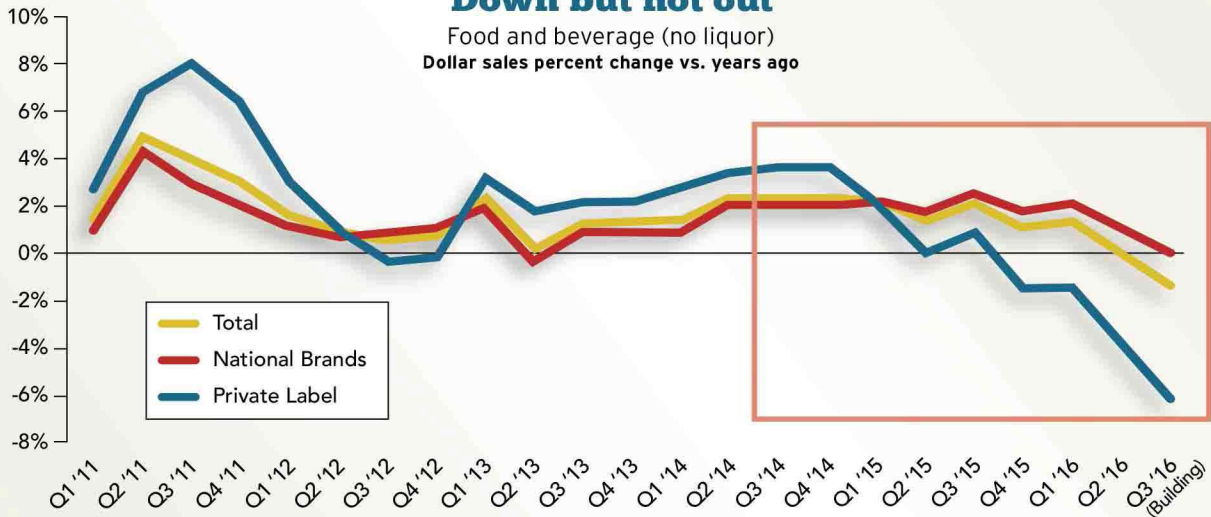
- ▶ *Mark McKeown*, client insights principal at IRI;
- ▶ *Kristof Duna*, director of private brands at Merchants Distributors Inc. and co-chair of the FMI Private Brand Leadership Council's research and education committee;
- ▶ *Dave Harvey*, Daymon's vice president for global thought leadership;
- ▶ *Carl Jorgensen*, Daymon's director of global thought leadership/wellness; and
- ▶ *Nicole Peranick*, Daymon's director



Store Brands Exclusive Analysis

Down but not out

Food and beverage (no liquor)
Dollar sales percent change vs. years ago



DOWN BUT NOT OUT ▲

INSIGHT: Since the second half of 2014, dollar sales of food and beverage (no liquor) private label products have declined at supermarkets and regional grocery chains, outpacing national brands. One of the reasons is the decline of store trips, which doesn't surprise McKeown.

"Consumers aren't just shopping at one retailer anymore," he adds.

Private label is big business in the United States, with sales of \$795 billion (including nonfoods) across multiple retail channels, according to IRI. Private brands command 24.2 percent of all retail sales, with grocery retailers owning 29.2 percent of that share.

NEXT STEPS: Despite the recent decline, grocery retailers have a strong opportunity to increase sales in private label, Harvey says. They can start by looking to pump up private label sales with innovative and new products in areas of the store where national brands don't dominate.

"Grocery retailers also need to think of private brands as [extending] beyond items and products," Harvey adds, noting that services, from product delivery to nutrition consulting, can play a major role. "This is really a new frontier for their private brands."

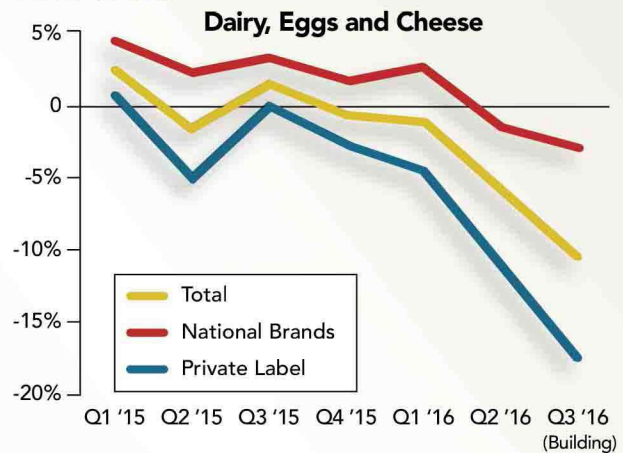
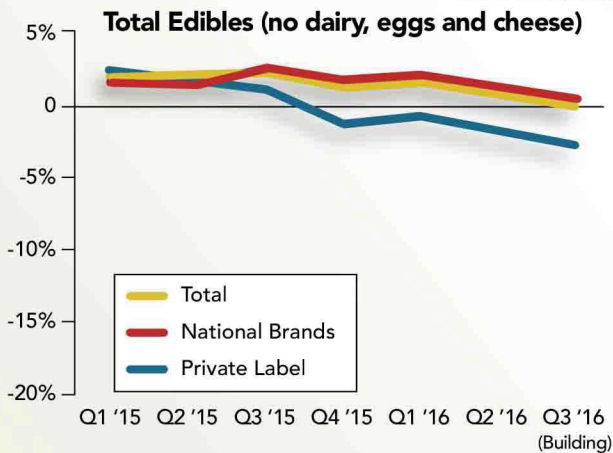
DEFLATION DEPRESSES SALES ▼

INSIGHT: The majority of the decline in private label sales at grocery is due to deflation in dairy, eggs and cheese, which is noticeably steeper than the rest of total edibles. McKeown says deflation of packaged meats has also had an impact.

With dairy, eggs and cheese in the mix, private label dollar sales were down more than 15 percent in the third quarter of 2016 when compared to the same time the previous year because of deflation in commodity products. But remove dairy, eggs and cheese from the equation, and private label sales were down only about 2 percent.

Deflation depresses sales

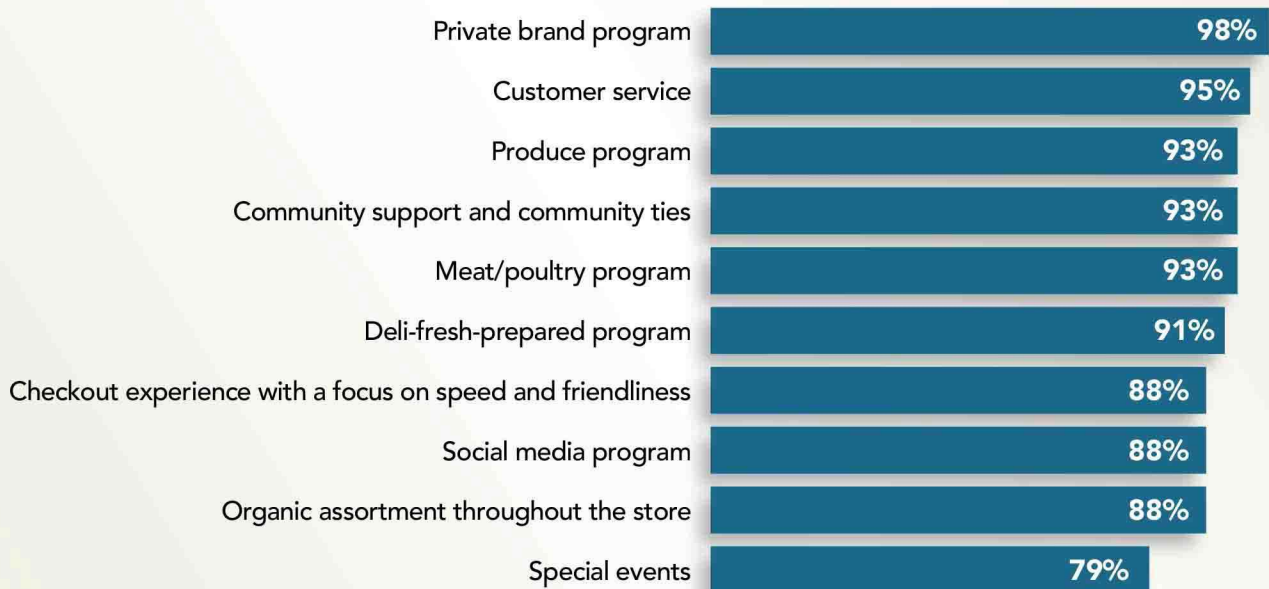
Majority of decline due to dairy, eggs and cheese
Dollar sales percent change vs. years ago



Store Brands Exclusive Analysis

Keeping private label relevant

Retailers were asked: Which of the following strategies do you use to build competitive advantages? Here's how they responded:



"There is still deflation, but the slope is not nearly as steep," McKeown says.

NEXT STEPS: While McKeown is unsure when deflation will end, he is certain that retailers have an opportunity to increase private brand sales by enticing consumers to trade up from low-level to mid-tier store brands by offering more exclusive and quality products, which could then create consumer loyalty.

"This is what has me very bullish on private label — that grocery retailers are saying they are going to use their brands to build loyalty with their shoppers," McKeown adds. "That is a critical mindset they must have in building their brand architecture with different tiers and understanding the role of those different tiers."

"I applaud the grocery retailers that are looking at their brands as a critical part of generating loyalty," McKeown continues. "This needs to grow."

HOUSEHOLD MAINSTAYS ▶

INSIGHT: What private label has going for it is that 96 percent of U.S. households purchase such products at supermarkets and regional grocery chains. Forty-nine percent of household consumers consider themselves medium-level buyers (26 percent to 75 percent of their total purchases) of private brands.

McKeown says grocery retailers need to figure out how to best position their store brands and move beyond marketing and merchandising them only as the lowest-priced items on store shelves, which is how they were originally presented in the 1970s and 1980s.

"We think those days are over," McKeown adds.

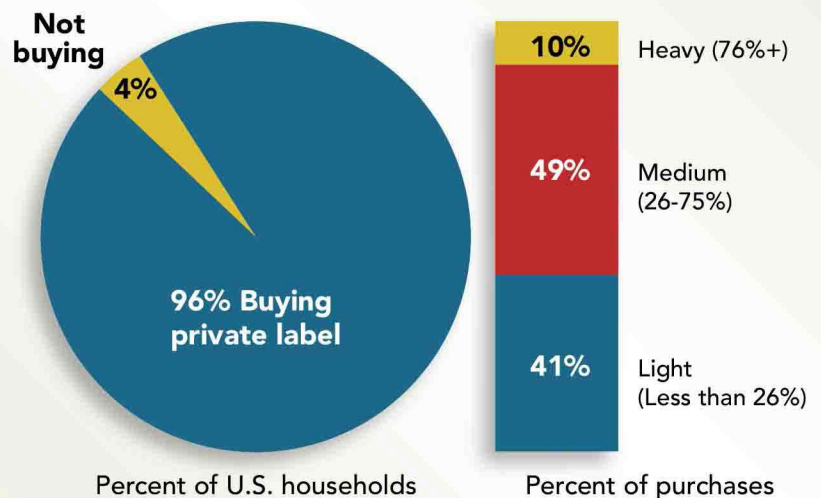
NEXT STEPS: By offering multiple tiers of private brands — the key being middle and upper tiers that highlight quality, not low price — retailers can increase the number of heavy buyers of private brands.

"Going forward, in order to win in the U.S. private label market, retailers need to [adopt] a multi-tiered strategy," McKeown says, noting that product quality and uniqueness is more reflected in the middle and upper tiers.

If grocers can entice shoppers with quality and unique store brands in one area of the store, they can win consumers' trust to do the same thing in other store areas, McKeown notes.

Household mainstays

More tiers could lead to increased sales by heavy buyers.



KEEPING PRIVATE LABEL RELEVANT ◀

INSIGHT: While nearly 98 percent of retailers use private brand programs to build competitive advantages through differentiation, it's vital that they keep those programs relevant, Jorgensen says.

"More consumers are shopping around solutions, not products or product categories," he adds. "[Retailers] need to change their thinking and move away from categories and more toward solutions."

Peranick says consumer needs are as fragmented as ever, and that retailers need to adapt. "The one-size-fits-all strategy is just not working anymore," she adds.

NEXT STEPS: Within the theme of differentiation, grocers have an opportunity to leverage their private brands around personalization, Peranick says.

"Private brands is one area where retailers have complete control, and retailers are the ones to better address the needs of their trading areas," she adds.

To keep up with trends, retailers need to create a culture of creativity, Harvey says.

"Some ideas might be great successes and others might not be as successful, but retailers can show their shoppers that they are thinking differently and trying new things," he notes.

Jorgensen stresses that capital investment in private brands is crucial. While some retailers may consider it risky, they have to look at the potential payback — growing loyal brands with higher margins.

"Investing strategically in private brands is less risky

than investing in many other aspects of retailing," Jorgensen notes.

SAVING MONEY...AND MORE ▼

INSIGHT: Private label product purchasers feel good about what they're buying because they are saving money. That's fine, but McKeown says retailers also need to make consumers feel good about the quality of products they're buying.

"It's about saving money and providing better products on par with national brands, and in many instances providing products that national brands haven't brought to the market yet," he adds.

NEXT STEPS: Grocers need to find more avenues to provide quality products, much like they have done with organic products, McKeown says.

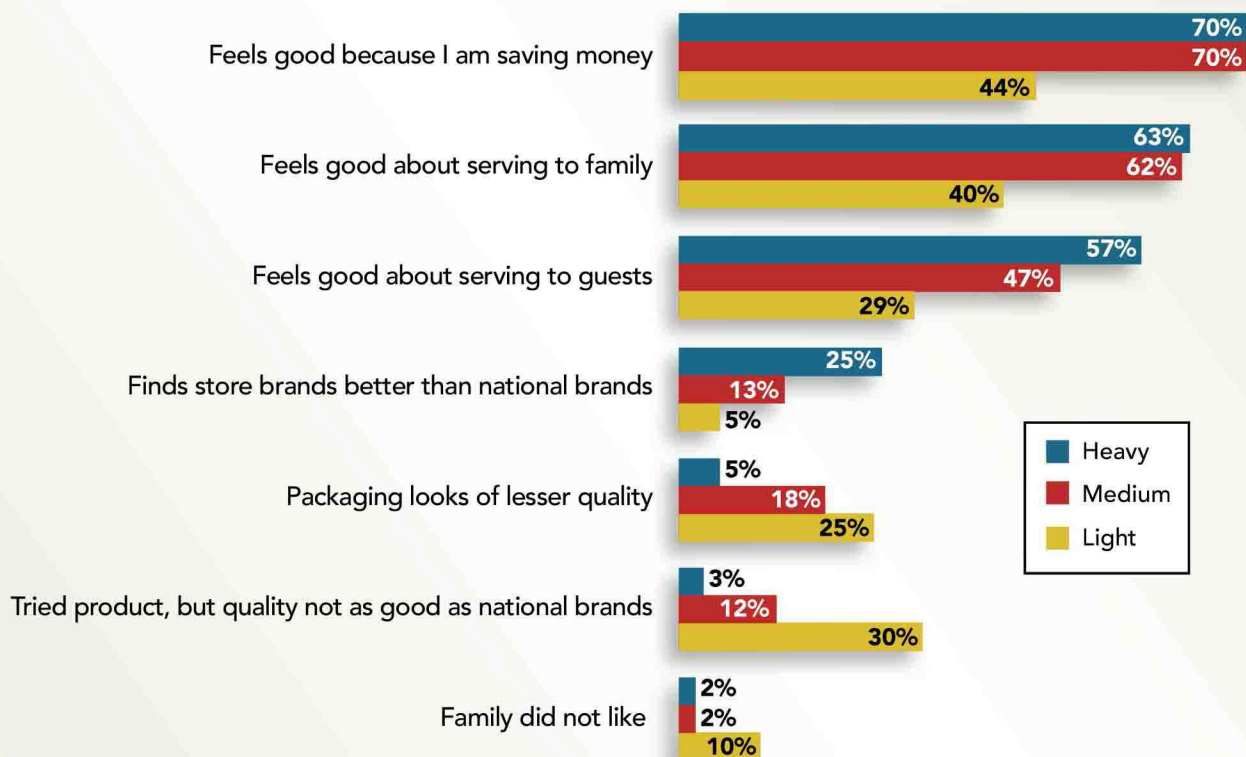
"Grocers looked at what Whole Foods Markets was doing with organic and said to themselves, 'Well, we can do that.' And once they figured out the sourcing, they realized there was a lot of money to be made there [with private brands]."

But while store brands need to resonate with consumers as quality products and offer other benefits, such as clean labels, this doesn't mean that retailers should jettison their value-tier private brand products, McKeown affirms.

"They still need to offer value products," he adds. "In a competitive environment, there are still items where consumers are price sensitive — fresh dairy, some produce and center-of-the-store items where price is the primary factor involved in purchasing decisions."

Saving money ... and more

Even though non-heavy buyers express less-favorable perceptions about private label, they recognize the benefits of store brands.

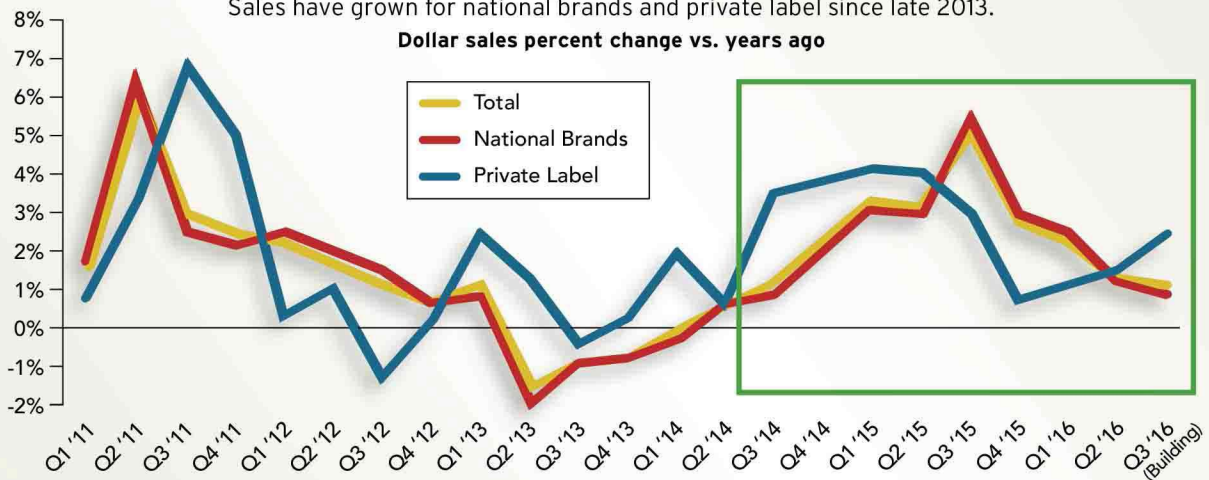


Store Brands Exclusive Analysis

Boosted by beverage

Sales have grown for national brands and private label since late 2013.

Dollar sales percent change vs. years ago



BOOSTED BY BEVERAGE ▲

INSIGHT: What is it about the beverage category that causes it to consistently grow for private label and national brands? Jorgensen attributes the growth to “a hotbed of innovation.”

“There are so many different types of waters — plant-based, energy-based, hydration-specific, flavored ... you name it,” he says. “It has been a top area for innovation and is beautifully suited to private brands.”

NEXT STEPS: For retailers, it’s a category to continue to explore and invest in. Jorgensen points out that private label manufacturers like the category because it’s a high-margin segment, and products are easy to manufacture, package, label and distribute.

Peranick says the growth of health and wellness products across many categories has especially benefitted beverage and will continue to do so. In addition, the increased demand for on-the-go healthy products has also driven up sales.

“When you have those factors — health, convenience and also that this is where a lot of the innovation has been in terms of flavors and packaging — it has created a lot more opportunity,” she adds.

MATCHING UP WITH MILLENNIALS ►

INSIGHT: Kristof is not surprised that millennials have a greater propensity to be heavy buyers of private label products. He points out that research cited in the FMI report indicates that consumers, mainly millennials, are becoming more brand agnostic.

“The difference between millennials and the generation before them is that millennials grew up with access to information at their fingertips,” says Kristof, a millennial himself. “So they are much more likely to do their research on their own. In the past, [more people] relied on the companies themselves, trade organizations or the government to do that research for [them].”

NEXT STEPS: Grocers can’t afford not to pay attention to

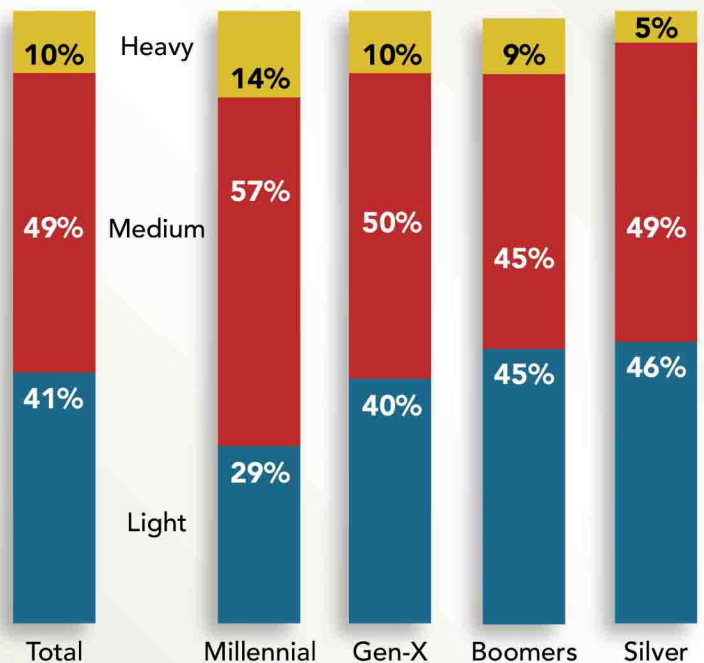
millennials, even though retailers from all walks say they are a tough audience to crack from a marketing standpoint. Millennials, born between 1980 and 2000, now comprise a quarter of the U.S. population and are larger than the baby boomers.

According to several reports, millennials aren’t influenced much by advertising. So to Kristof, millennials will continue to be prime candidates for private label — if they like the products, that is.

The good news for store brands is that millennials identify some private brand products to be virtually the same as national brand products, Kristof says.

Matching up with millennials

Age group is embracing private label and has a greater propensity to be heavy buyers of store brands.



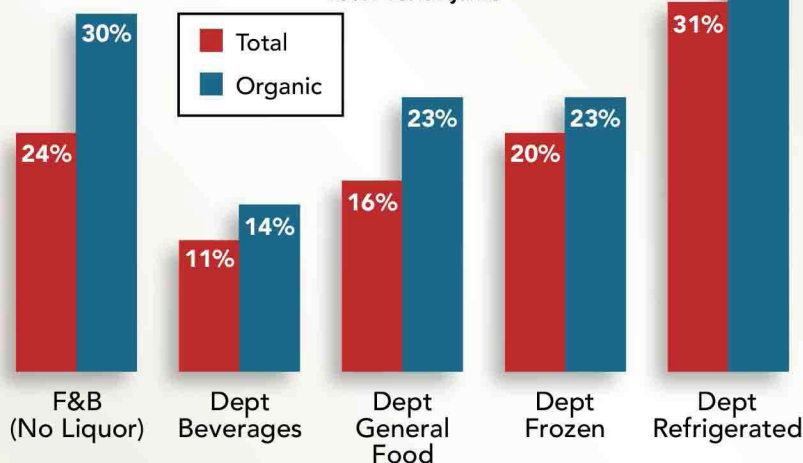
“They are smart enough to understand that, and realize that it doesn’t make sense to pay more for the national brand,” he notes.

So if grocers and private label manufacturers continue to introduce quality products that match up to national brands, they’ll be feeding right into millennials’ hands.

Gaining with organics

Private brands are consistently capturing more of a percentage of total organic sales.

Total vs. Organic



GAINING WITH ORGANICS ▲

INSIGHT: FMI data reveals that organic private brands represent a small but growing segment of the industry. However, organic private brands are consistently capturing more share points of total organic sales.

NEXT STEPS: Kristof says store brands are finding success in organics because no national organic brands are dominating any segments of the category, which could also bode well for future organic private brands.

Organics are also popular among millennials, who prefer brands that support their local communities. The connection is that millennials perceive many organic products to have local origins. Organic food is also perceived to have many other benefits: pesticide-free, more sustainable and better for animal welfare.

And while organic continues to represent an opportunity, Kristof believes the newer trend beyond organic is clean label and products featuring fewer ingredients.

“Organic is great because you know the standards those products are sourced under. But you can still have an organic product with a long list of ingredients,” Kristof adds, noting that more consumers want organic products with fewer ingredients that they can pronounce.

WHERE PRIVATE BRANDS CAN IMPROVE ▼

INSIGHT: Cleaning supplies and beer/wine/spirits top the list of private label products that heavy buyers of store brands avoid most. Duna says it has been difficult for private brands to break through in these categories because the national brands have had a stronger and longer foothold, and private brands haven’t invested enough to drive innovation in the categories.

Duna notes there is still a negative quality perception toward these items as private brand products, noting that most older consumers are more apt to use national brands in these categories because they simply believe they are better.

NEXT STEPS: In the report, FMI says the poor quality perception of these products doesn’t mean private brands are failing.

“More likely it means that national brands have set a very high bar in certain categories, including in consistency and marketing, and have done a great job associating their products with high quality,” the report states.

While Duna says there are items among these products where flavors, textures

and scent formulas are so distinct and unique that private brands haven’t been able to replicate them, he believes private brands are getting close in some areas, such as with carbonated soft drinks.

Duna also believes more investment is needed in these categories to improve store brands.

“There are certainly private labels that do well, but they haven’t broken through quite as well,” he adds. **SB**

Where private brands can improve

The percentage of heavy private label buyers who avoid these store brand products.

