



A 'natural' resou

Our State of the Industry survey reaffirms that retailers and suppliers continue to embrace natural/orga

By Lawrence Aylward

The big reveal from our 2017 State of the Industry Report is more of an affirmation than a revelation. It's that the natural/organic segment continues to play a substantial role in the innovation and development of private label products.

Retailers/wholesalers and suppliers have corraled the natural/organic segment for several reasons. One, they are following a growing consumer crowd that is demanding better-for-you products made with fewer ingredients. Two, they recognize a vast opportunity in a segment not dominated by the big national brands. And, three, they see the chance to create that all-important

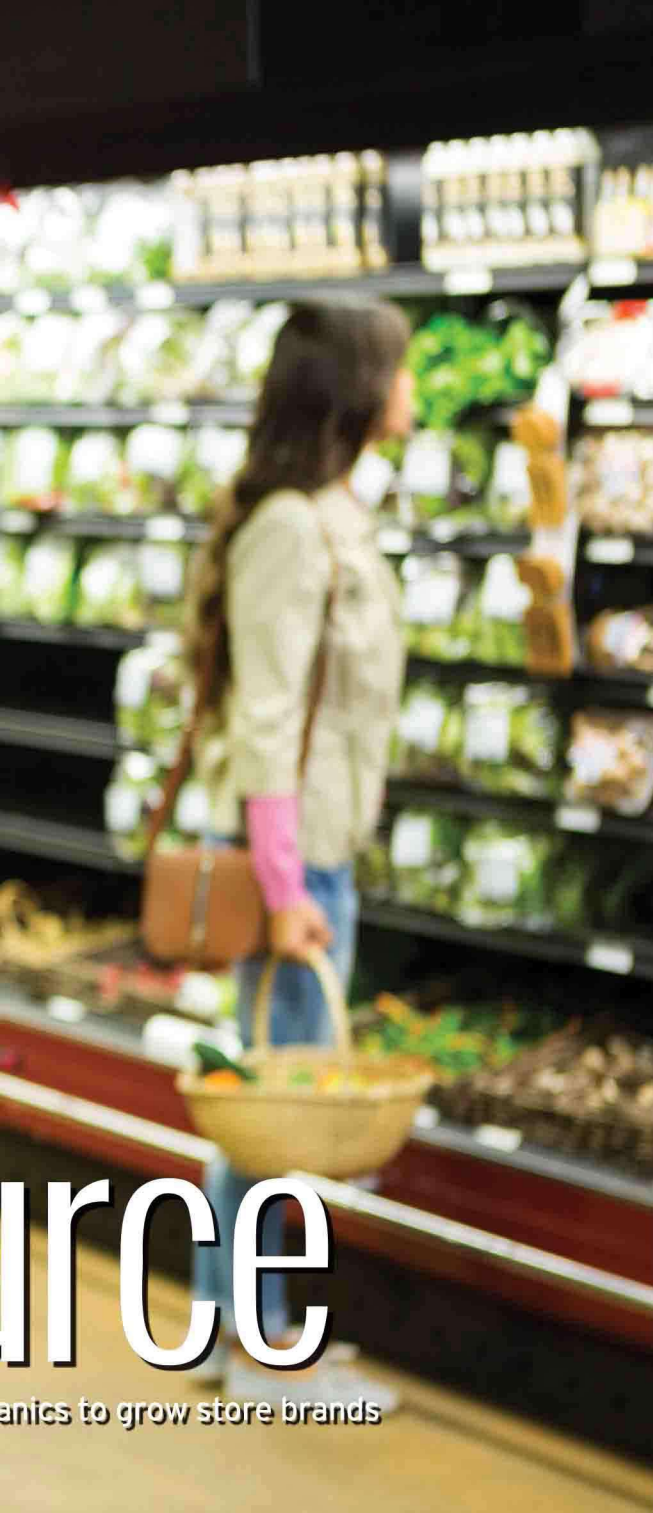
exclusive own-brand product or line to differentiate their businesses from the competition.

"The natural/organic category is becoming mainstream," says Robert Stewart, the private brands manager for Keene, N.H.-based Grocers Supply, a subsidiary of C&S Wholesale Grocers, which offers an array of own brands to its customers. "We're seeing huge growth in the demand for natural/organic products. And consumers are looking for those products in every category."

Overall, the results of *Store Brands'* industry survey paint a portrait of an industry that is upbeat and eager to grow.

Consider:

- While many retailers/wholesalers (41 percent) surveyed



Price
 Dynamics to grow store brands

offer two tiers of store brands, 23 percent now offer four tiers, a telltale sign that retailers/wholesalers are investing more in private label. Twenty-two percent offer only one tier, and 14 percent offer three tiers. However, of the 22 percent that offer one tier, only 4 percent offer that tier as a value brand. It's the "cheap" image that private label, in general, is trying hard to shed.

- Private label experts have been banging the innovation drum, telling retailers/wholesalers to back off the value-only proposition. According to our survey, retailers/wholesalers cited "serving as an innovator" as the most important role that store brands should play in their companies. They are getting the message.

ABOUT THE STUDY: *Store Brands'* 2017 State of the Industry Report is based on a research questionnaire that was fielded in January 2017 via web and telephone interviews of retailers, wholesalers and suppliers in the *Store Brands'* database. Debra Chanil, director of research for Ensemble IQ, the parent company of *Store Brands'*, directed the project and tabulated and confirmed the results. Results in this report represent a total of 188 responses received.

Retailers/wholesalers that took our survey:

Buyer/Merchandise Manager/Marketing Manager/Category Manager	37%
Director/General Manager	19%
C-level (chairman, CEO, president, COO, CFO owner)	17%
Store Manager	13%
Store Brand/Private Label Brand Manager	4%
Vice President/Senior VP/Executive VP	3%
Regional/District Manager	2%
Other	5%

Source: *Store Brands* Market Research, 2017

Type of retail format that respondents represent:

Supermarket/Grocery	60%
Wholesaler/Wholesaler-supplied Independent	16%
Convenience store	14%
Drugstore	7%
Online retailer	5%
Mass merchandiser	4%
Club store	2%
Dollar store	1%
Other	4%

Note: Multiple responses accepted.

Source: *Store Brands* Market Research, 2017

Number of stores that respondents represent:

1-10	33%
11-50	13%
51-200	17%
201-500	11%
More than 500	26%

Source: *Store Brands* Market Research, 2017

- Sixty-three percent of retailers/wholesalers surveyed cited that unit sales of store brands increased in 2016 from 2015. Eighty-five percent expect unit sales to increase this year.

Scott Negro, who works in private brands for Sunbury, Pa.-based Weis Markets, seems to epitomize the mindset of retailers/wholesalers that are seizing the day, so to speak, when it comes to leading-edge private label.

"We're embracing private label and trying to maintain our relevance to our customers," says Negro, whose company operates more than 200 stores in the mid-Atlantic. "We want to give our customers exactly what they want with store brands."

Natural/organic tier takes shape

There is a distinct connection between the emergence of the fourth-tier offering of private brands and the natural/organic segment. Seventy-two percent of retailers/wholesalers surveyed are offering natural/organic products as an emerging product line.

Stewart says it's simply a matter of addressing the needs of all consumers through store brands.

"It has become more important in private brands to have more structure within tiers so we can market to all consumers," he adds.

Negro believes the natural/organic segment has plenty of room for growth and that retailers/wholesalers have created another tier to capture that growth.

"[The natural/organic segment] still has a very narrow penetration of households and has a long way to go until it levels off," he adds.

Allen Benz, CEO of Brooklyn, N.Y.-based Snack Innovations, is one of the many suppliers capitalizing on the natural/organic trend. Benz says Snack Innovations, which began in 2008, has made tremendous inroads by offering better-for-you snack foods as own brands and hasn't come close to maxing out its growth.

"The masses are still buying regular potato chips and tortilla chips for the most part," Benz says. "But you will see a lot more of these products in terms of organic and natural in the coming years."

Richard Ellinghausen, president of Buena Park, Calif.-based Nectave, which offers organic agave as a sweetener for private label, says what's driving the category is the growing wave of people who simply want to eat better-for-you foods to be healthier without having to go to the gym everyday. But Ellinghausen points out one big factor related to such products.

"If they don't taste good, nobody is going to buy them," he says.

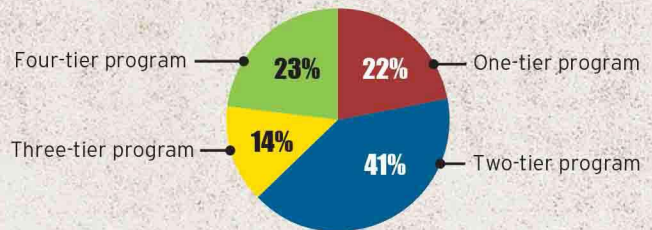
Percent of retailers/wholesalers interested in future private label development of:

Fresh prepared foods	46%
Center-store grocery items	44%
Deli	43%
Bakery	42%
Packaged beverages (no milk)	38%
Refrigerated/frozen prepared foods	38%
Dairy products (including milk)	37%
Health & beauty products	34%
General merchandise	33%
Non-food essentials	33%
Value-added produce	30%
OTC medicines/preparations	29%
Alcoholic beverages	19%

Source: Store Brands Market Research, 2017 Note: Multiple responses accepted



Percent of retailers/wholesalers operating one to four tiers:



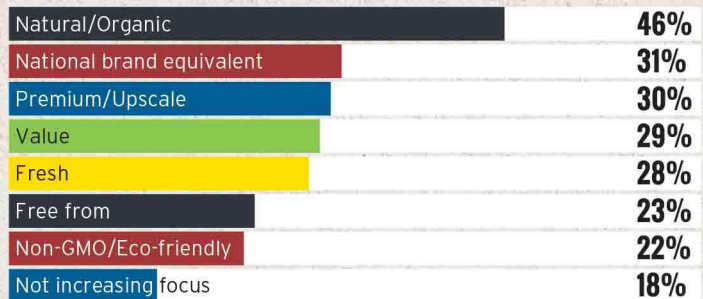
Source: Store Brands Market Research, 2017

Percent of retailers/wholesalers offering:



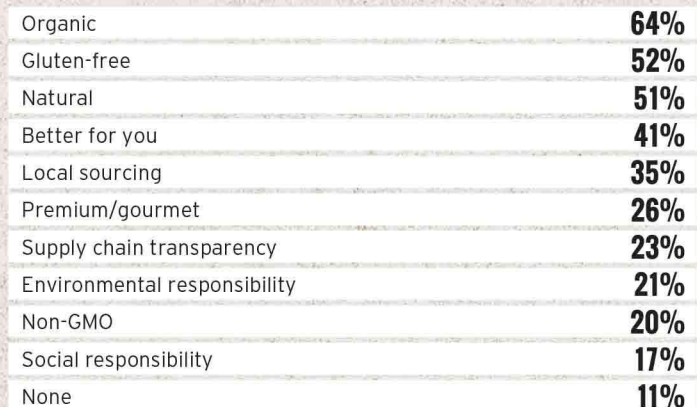
Source: Store Brands Market Research, 2017 Note: Multiple responses accepted

Percent of retailers/wholesalers increasing store brand focus:



Source: Store Brands Market Research, 2017 Note: Multiple responses accepted

Percent of retailers/wholesalers actively pursuing in private label:



Source: Store Brands Market Research, 2017 Note: Multiple responses accepted

Changing roles for store brands

Nearly 60 percent of retailers and wholesalers surveyed say they are increasing store brand development. But it's more than that: Many retailers and wholesalers want their own-brand creations to be viewed as innovations to drive store traffic and customer loyalty.

"Not so many years ago we were just following the national brands and replicating their products at a cheaper cost," Stewart says. "Now we are actually creating new products. It's a fundamental shift if you think about it. Private label is really driving innovation in a lot of categories."

Stewart also believes that branded-company mergers have hindered them from developing new products.

"Whenever there are mergers and acquisitions, the branded companies don't spend as much on new products and innovation," he says. "They kind of lose their forward-looking focus."

Negro says Weis Markets' store brand development team has an innovative mindset.

"Customers' demands are ever-changing, and we need to continue to stay on top of that," he adds. "It's a challenge, but there is nothing better than creating something new, especially when it works."

At Snack Innovations, the last thing Benz says he wants to do is offer me-too products.

"Everything we make is innovative, whether it's the flavor profile or the entire product," he says.



Percent of retailers/wholesalers increasing store brand development:



Source: Store Brands Market Research, 2017

Reasons that retailers/wholesalers are increasing/maintaining store brands:

- 1 Adding more product lines
- 2 Increase sales, broaden market
- 3 Better margins
- 4 Create cutting-edge products
- 5 Increase natural/organic offerings

Source: Store Brands Market Research, 2017

Retailers/wholesalers rank roles of store brands in order of importance:

- 1 To serve as an innovator to drive store traffic and customer loyalty
- 2 To provide loyal shoppers with lower-cost alternative
- 3 To earn higher margins
- 4 To compete against national brands

Source: Store Brands Market Research, 2017

The private brands pipeline

A majority of retailers/wholesalers use fewer than 25 suppliers for private label manufacturing. But that percentage of retailers/wholesalers using fewer than 25 suppliers climbed to 56 percent in 2016 compared to 42 percent in 2015. The percentage of retailers/wholesalers using between 25 and 50 suppliers also declined to 17 percent in 2016 compared to 26 percent the previous year. Perhaps retailers/wholesalers are taking a less-is-more approach when using suppliers.

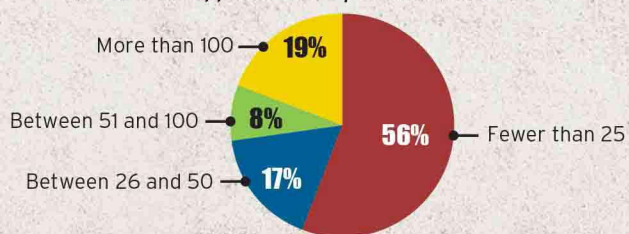
While "the lowest cost" is most always a major

Percent of retailers/wholesalers increasing number of suppliers in 2016:



Source: Store Brands Market Research, 2017

Number of suppliers used by retailers/wholesalers:



Source: Store Brands Market Research, 2017

Retailers/wholesalers rank attributes in selecting suppliers:

- 1 A strong quality assurance program
- 2 A proven track record in terms of deliverables
- 3 New ideas for product concepts
- 4 Ability to partner with us
- 5 Lowest cost
- 6 Ability to deliver smaller quantities of product
- 7 Ability to deliver custom products and/or packaging
- 8 Strong commitment to environmental improvement
- 9 Ability to meet large quantity product minimums

Source: Store Brands Market Research, 2017

factor in doing business in almost every industry, retailers/wholesalers ranked it fifth among nine attributes for selecting the right suppliers. Their top choice in selecting a supplier was “a strong quality assurance program.”

That’s not surprising considering that trust in a product’s quality — from its origin to its performance to its safety — is vital to private label’s success today. The trust factor is something that is boding well for store brands, which wasn’t always the case, Stewart says.

“More consumers are trusting private brands,” he says. “They have become more receptive and comfortable with the quality of the products.”

Bullish on sales growth

Sixty-three percent of retailers/wholesalers reported an increase in unit sales of store brands in 2016 compared to 2015. Twenty-one percent reported a decrease. What’s more, retailers/wholesalers are bullish on 2017 sales — 88 percent expect unit sales to increase in 2017.

“I feel good about our store brand growth this year,” Stewart says. “Consumers are receptive to and comfortable with the quality of our products.”

Suppliers are also bullish. Ninety-eight percent of respondents expect private brands to grow in 2017, including 19 percent who expect strong growth.

Benz is *really* bullish on Snack Innovations’ growth. In the past few years, Benz says sales have doubled year on year for the company. He expects another banner year this year.

“We are already in communication with some major retailers for private brands and expect to increase business another 100 percent in 2017,” he adds.

Percent of suppliers reporting increase/decrease of unit sales of private brands in 2016 compared to 2015:



Source: Store Brands Market Research, 2017

Percent of suppliers reporting increase/decrease in dollar sales of private brands in 2016 compared to 2015:



Source: Store Brands Market Research, 2017

Of the 51% of retailers/wholesalers that manufacture store brands, here are top categories:

Prepared food	57%
Bakery	55%
Dairy	20%
Other (including shelf stable, frozen, grocery, produce nuts, organic)	34%

Source: Store Brands Market Research, 2017 Note: Multiple responses accepted

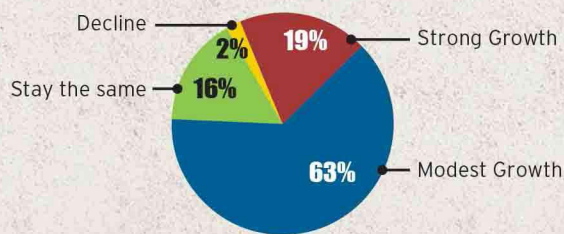
Of the 51% of retailers/wholesalers that manufacture store brands, most do a small percentage:

5% percent or less	24%
More than 25%	10%
Between 6% and 10%	9%
Between 11% and 25%	8%
Do not manufacture store brands	49%

Source: Store Brands Market Research, 2017 Note: Multiple responses accepted



Percent of suppliers reporting expecting store brand growth/decline in 2017:

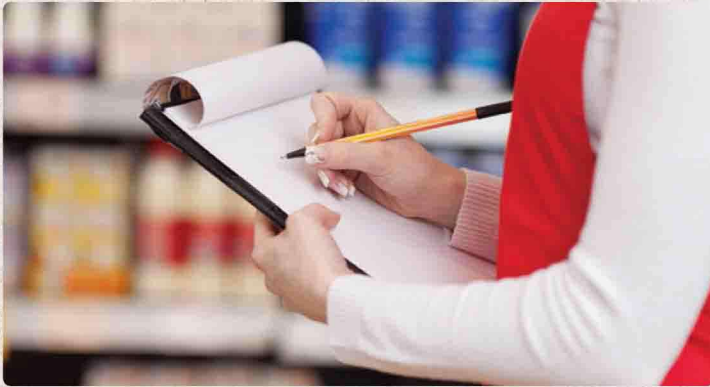


Source: Store Brands Market Research, 2017

Percent of retailers/wholesalers reporting unit increase/decrease of store brands in 2016 compared to 2015:

Unit sales increased by 1% to 2%	25%
Unit sales increased by 3% to 5%	21%
Unit sales increased by 6% to 10%	9%
Unit sales increased by more than 10%	8%
Unit sales stayed the same	16%
Unit sales decreased by 1% to 2%	10%
Unit sales decreased by 3% to 5%	5%
Unit sales decreased by 6% to 10%	3%
Unit sales decreased by more than 10%	3%

Source: Store Brands Market Research, 2017



Retailers/wholesalers believe these trends will drive private label in next two years:

- 1 More private label product categories
- 2 Increased foodservice offerings at retail
- 3 Online grocery (ordering and having product delivered/picked up curbside)
- 4 Continued growth of organic products
- 5 More private label products that offer exclusivity
- 6 Movement away from value products to more premium private label
- 7 Continued emphasis on locally sourced products
- 8 More coupons for private brands delivered via email and social media
- 9 Continued growth of free-from and clean-label offerings
- 10 More sustainable packaging for private label

Note: Respondents were asked to choose top three. Categories ranked in order of importance.

Source: Store Brands Market Research, 2017

Getting on the same page

Most suppliers surveyed — 72 percent — say their top challenges with store brands are that retailers/wholesalers don't merchandise, promote or market them adequately enough and that more attention is paid to national brand promotions than store brands.

Clearly, whether retailers/wholesalers agree or not with suppliers' assessment, it is an issue that needs to be addressed.

Retailers/wholesalers and suppliers also differ on ranking the most important trends that will drive

Suppliers cite top challenges for store brands:

Too little promotional/merchandising by retailers	36%
Inadequate marketing efforts by retailers	18%
Too-frequent national brand promotions by retailers	18%
Lack of innovation	13%
Quality issues	6%
Retailer consolidation	5%
Lack of product/supplier transparency	3%
Lack of acceptance by consumers in certain categories	1%

Note: Respondents were asked to pick only one answer.

Source: Store Brands Market Research, 2017



private label in the future. Retailers/wholesalers rank “more private label product categories” as the top trend that will drive store brands, while suppliers believe it is “more private label products that offer exclusivity.”

Even though they differ on the most important trend, perhaps they are not far off. A popular exclusive item can drive store traffic and build store brand loyalty, Stewart points out. Increased store brand loyalty, subsequently, could lead to more product lines.

“If you can build enough brand loyalty, then you’re going to increase your overall market share big time,” Stewart adds. **SB**

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