READY TO Rebound

A HOST OF FACTORS ARE FORECAST TO RESTORE PRIVATE BRAND GROWTH.

> By Kathie Canning

As with much of retail, the private brand industry has undergone a dramatic transformation during the past decade. The recession that began in 2007 spurred demand for store brands and thanks to satisfaction with product quality demand remained intact as economic conditions improved. Another contributing factor to growth was a shifting mindset among retailers. The traditional margin-play focus gave way to an emphasis on differentiation to drive banner loyalty and the result was more unique products great-looking packaging.

Sales that were on a multi-decade uptrend hit a wall last year. Dollar sales fell by 0.7 percent and unit sales declined 0.4 percent in 2016 across the supermarket, drug store, mass, dollar and club store channels, according to the Private Label Manufacturing Association's (PLMA) 2017 Private Label Yearbook. PLMA relies on data from Nielsen that showed store brand dollar share slipped from 17.7 percent to 17.5 percent.

A portion of private brands' recent lackluster performance is also attributable to disruption among retailers, according to Jim Wisner, president Wisner Marketing Group. Albertsons, for example, is in the process of transforming the private branding in all of its banners which disrupted product availability and marketing efforts. Walmart and Topco Associates LLC, a retailer cooperative, have also made disruptive private brand moves while other CPG retailers have launched dozens of new private brands, according to Wisner.

"Let's not everybody get excited and say, 'Oh no, the bloom's off the rose and customers don't care about store brands anymore. You really have to look beyond the numbers to see what's causing it," Wisner said.

VALUE STILL MATTERS

The downturn, while unfamiliar territory for private brands, is expected to be short lived. Deflation which depressed growth in many food categories has abated, value remains intact as a driver of long-term purchase behavior, especially among Millennials, and company specific issues are being resolved. Meanwhile, private brand-centric retailers such as Aldi and Lidl are in growth mode.

"They have very different business models," Todd Maute, a partner with CBX Software said of Aldi and Lidl. "They are 85 percent to 100 percent private brand."

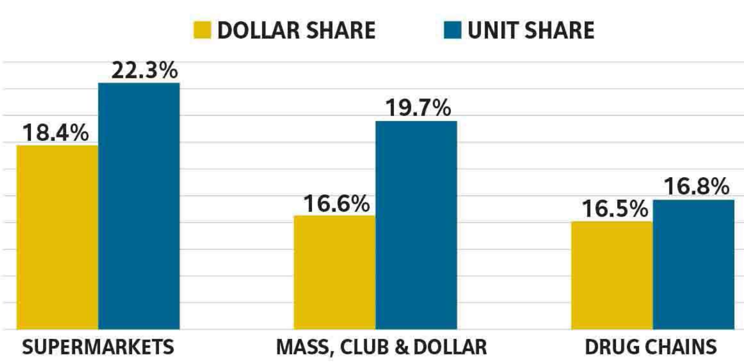
Amazon is also expected to have a bigger impact on private brands, having recently entered the CPG space.

"Amazon's online strategy amplifies the importance of private brands," said PLMA president Brian Sharoff.

Private brands also continue to post strong growth in niche categories such as organic and local and specialty foods under both private brands and smaller, often regional brands are growing. Another factor impacting private brands, according to Jordan Rost, vice president of consumer insights at Nielsen, is polarization, a phenomenon occurring across retail.

"At the high end, there's a reinvention of a more premium private label brand experience that's resonating with some consumers," Rost said. "At the other end of the spectrum, consum-

STORE BRAND MARKET SHARE BY CHANNEL



SOURCE: PLMA/Nielsen

ers are increasingly using value-oriented private labels to be smarter and savvier shoppers."

A POSITIVE OUTLOOK

Expectations of a resumption of private brand growth are forecast to happen quickly. Charisse Jacques, a principal in the retail and consumer products practice of A.T. Kearney, calls the outlook for the next year and a half very positive. It is view rooted in the belief that leading retailers will continue to make investments needed for private brand innovation.

"The more retailers shift their mindset to treating private brands as a way to drive differentiation and loyalty, the more consumers will continue to buy them," she said. "Also, as more branded CPG companies look to increase their direct-to-consumer business, retailers will be forced to look for other ways to make up for the potential loss in sales, and private brands will rise to the top of the list."

Millennials favorable attitudes toward private brands will also fuel growth while national brands' continue to struggle with how best to connect with a mass audience in an increasingly fragment media landscape.

"This generation is feeling much better about serving private brands to their family, as well as to their guests," said CBX's Maute. "That's a fundamental emotional shift to the acceptance of these brands, where it's not just being driven by economic challenges."

Maute also forecasts a continued push to the perimeter of the store on the part of store brands to match consumers' shopping behavior. Online purchases of center-store food and non-food dry goods are on the rise because consumers feel less of an emotional connection to those products, he adds.

"You're seeing growth in dairy, produce, bakery and meal solutions, which are pretty much owned by the retailer," he said. "So the branding, which typically didn't live in the perimeter, is starting to show up there. I think that growth will continue, especially with all of the things around sustainability, eating better, eating fresher foods."

On the non-foods side, private brands are expected to continue to shine, especially on the health side of HBC. Private brands already account for well over half of all over-the-counter preparations purchased. And on the personal care side, Kroger's success with mirra and Walgreens' home run with No7 demonstrate growth is attainable.

LEADERS VERSUS LAGGARDS

A strong private brand program brings many concrete advantages to a retailer, of course. But developing such a program requires a top-level commitment and a strategic plan. Top-level executives also will need to find ways to overcome some current challenges including e-commerce, where national brands are seen outperforming private brands. Making a stronger digital connection with shoppers will be critical or potential growth will be at risk.

"In the past, private brand value was primarily articulated on the shelf," said Carol Spieckerman, president and CEO of Spieckerman Retail. "These days, retailers are advertising these brands online, and as retailers continue to refine their click-and-collect, delivery, drive-through and other convenience options, private brands will be in the mix. The end result will be private brands competing favorably against national brands across all channels."

Retailers — regional retailers, in particular, also are challenged by the recent wave of consolidation among the private label supplier base. It has become harder to find manufacturers that can handle the shorter runs required for some of the more unique, differentiating products. In addition to overcoming challenges, retail leadership must emulate today's private brand leaders to succeed.

Winning retailers know how to reach millennials, too, notes Keith Daniels, a partner at Carl Marks Advisors. Millennials' purchasing power continues to grow, and they care about quality and banners and channels more than they do about brand.

Private brand leaders also know how to leverage technology to have better control over product development and inventory regulation — so they can get private brand products to market faster, says Achim Schneider, global head of SAP Retail.

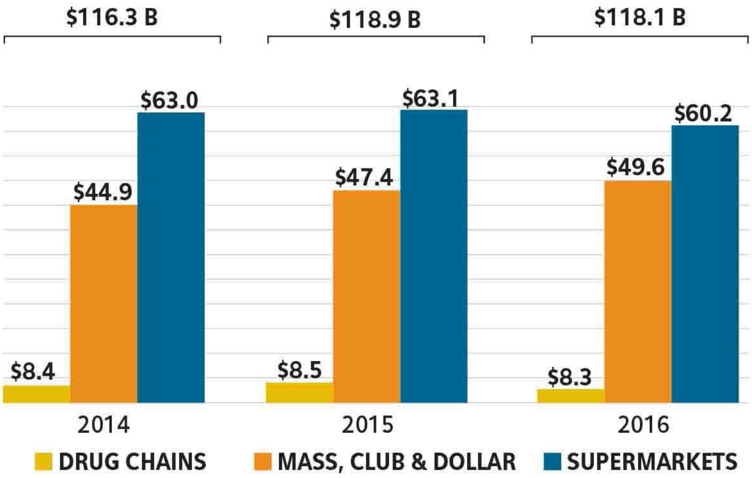
"Additionally, technology allows for optimized management and synchronization of in-house and outsourced manufacturing, which strengthens collaboration with business partners," Schneider said.

Above all, perhaps, private label leaders are adept at tying the private brand proposition to that of the retail banner itself, suggests Ben Ball, senior vice president with Dechert-Hampe, Northbrook, Ill.

"If HEB means quality, then HEB's private brands have to mean quality," he says. "Laggards define the private brand as a value offering for price competition and little else." **RL**

GROWTH INTERRUPTED

Store brand sales are poised to rebound in 2017 and beyond



SOURCE: PLMA/Nielsen