

# READY FOR TAKE OFF

Private brands poised for growth in 2018 and beyond

By Lawrence Aylward



Consumers might be loading their shopping carts with more store brands this year. Several private brand prognosticators predict that private brands sales will surge among consumer packaged goods in 2018 and beyond.

“You are going to see private label sales increase at a faster rate in the next five years than in the past five years,” Diana Sheehan, director of Kantar Retail’s grocery channel research team, said in a recent interview with *Store Brands*.

The past year saw several retailers investing in their private brands, including Southeastern Grocers, The Kroger Co., Aldi, Sam’s Club, Costco Wholesale, Walmart, Target, Ahold Delhaize USA, Albertsons, ShopRite and others.

Jim Wisner, a private brands consultant and president of Libertyville, Ill.-based Wisner Marketing Group, says store brands are now more popular than national brands.

“We’re starting to get into a ramp-up phase, and I think it’s going to be really exciting,” he notes.

“My expectation is you are going to see private label sales increase at a faster rate in the next five years than in the past five years.”

Diana Sheehan, director of grocery channel research team, Kantar Retail

Don Stuart, co-founder of Wilton, Conn.-based Cadent Consulting Group, which specializes in private brands strategies, says the time is ripe for “significant private brands acceleration” in grocery.

“Since 1980, private label has been through peaks and troughs. Its share rises when there’s a recession and falls when there’s a recovery,” Stuart says. “Time and time again this has proven to be the case. Up until now.”

Stuart believes a number of factors will contribute to the growth of store brands, even in a strong economy and with consumer confidence at a 17-year high.

Todd Maute, a partner at New York-based brand agency CBX and a consultant for private brands, believes larger grocery retailers will soon begin devoting 25 percent to 30 percent of their business to private brands.

“I think the level of commitment is in its infancy and will build pretty quickly,” he adds.

Retailers’ commitment to private brands can be surmised in the quarterly conference calls between earnings-reporting retailers and their industry analysts, Sheehan says.

“If you look at the quarterly calls [with some of the] top retailers that sell groceries in the U.S., every single one of them are focusing on private brands [in the calls],” she adds. “It’s fascinating. They are putting as much focus on private brands as they are on e-commerce.”

No doubt. In a recent conference call with investors, Mike Schlotman, Kroger’s chief financial officer, noted the “amazing potential” of Kroger’s store brands, called Our Brands, which grew more than national brands in the grocer’s second quarter.

“Identical sales for Our Brands also outpaced identical supermarket sales,” Schlotman said. “The second quarter

brought strong sales and unit growth, with Our Brands representing 27.7 percent of total units sold and 25.4 percent of sales dollars, excluding fuel and pharmacy.”

If there is a canary in the coal mine as to how store brands will perform this year, it could be Chep, an Atlanta-based provider of supply chain solutions and packaging materials, including pallets and containers. Vishal Patell, Chep’s vice president of retail supply chain solutions, says the company is seeing increased business opportunity with private brands.

“Store brands are gaining a huge presence in the grocery sector,” he says. “We see store brands catching on more and more.”

## Why they are bullish

A recent study from Chicago-based market research firm IRI reveals that although total store brand sales are healthy overall, gaining sales of 2.5 percent in 2017, the grocery channel has seen momentum slide during the past few years. The IRI Consumer Connect study states that private brand dollar sales fell 1.6 percent in 2017 after dropping 3.2 percent in 2016 in the grocery channel.

However, IRI’s research shows that the future appears favorable for private brands. Two-thirds of consumers plan to purchase private brands more frequently in the next several months. Among millennials and lower-earning shoppers, three-quarters expect to buy more store brands during that time frame.

IRI reports that the market is transforming quickly, as assortment becomes broader and more targeted and new players enter the marketplace.

“The transforming marketplace certainly warrants close monitoring,” Susan Viamari, vice president of Thought Leadership for IRI, said in the report. “As the players in the game change, existing players will



**Kroger and Aldi are two retailers that continue to invest in different tiers of store brands.**



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Jim Wisner,  
president, Wisner  
Marketing Group



continue to evolve their private label strategies to protect and grow share. Private label is anyone’s game to win, and the winners will be those that stay in lockstep with the rapidly evolving needs, wants and behaviors of today’s CPG shoppers.”

Aldi’s continued growth (the Batavia, Ill.-based deep-discount retailer will expand from 1,600 to 2,500 stores nationwide by the end of 2022) and Lidl’s continued expansion (the Arlington, Va.-based retailer plans to open hundreds of stores in the next few years) will not only heighten competition among grocery retailers, it will also increase awareness of private brands considering that Aldi and Lidl both offer a 90 percent assortment of private brands.

“Any retailer that puts that much emphasis on its private-branded program lends itself to driving stronger consumer awareness,” says Doug Baker, vice president of industry relations, private brands and technology for the Food Marketing Institute.

The retailers that have made strides by offering private brands that focus on quality products at a low price, including Aldi and Monrovia, Calif.-based Trader Joe’s, have already impacted the popularity of store brands and will continue to do so, Baker adds.

“As these retailers continue to grow their private-branded programs and deliver quality goods and a good experience with products, they continue to improve the consumer trust in those products and therefore have created a halo effect,” Baker says. “If I’m a strong private brand user from one retailer and I go to another retailer, I’m more willing to try that retailer’s private brands because I have had a good experience with the private brands I’ve purchased.”

But retailers will have to continue “to sharpen their focus” on private brands,” Baker adds. “If the competition is heavy in private brands, you better make sure that your private brands can compete,” he says.

Brian Sharoff, the longtime president of the Private Label Manufacturers Association (PLMA), says Amazon’s acquisition of Whole Foods Market and Lidl’s entry into the U.S. last summer were two of the most dramatic events in the private brands industry in the last 10 years. Both are strongly committed to store brands, he adds.

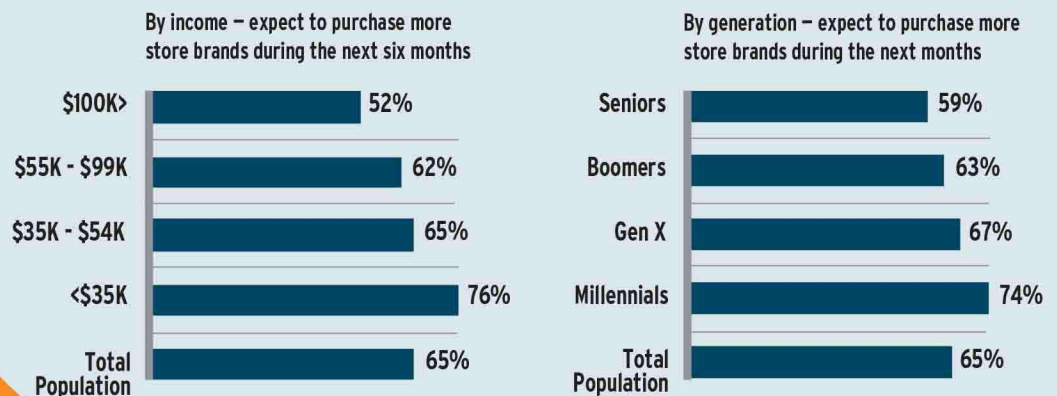
“[Amazon/Whole Foods and Lidl] are two very powerful entities, and they are already challenging established retail leaders across every channel to increase their commitment to private label as well, so there is plenty of reason for optimism among private label manufacturers,” Sharoff notes.

Stuart says Seattle-based Amazon’s acquisition of Austin, Texas-based Whole Foods will “lead the charge” in advancing store brands, but other factors will also play a role. Like Baker and Sharoff, Stuart believes other grocery retailers will amp up their private brands programs to better compete and differentiate.

Stuart also says more grocers will utilize fresh products on a store’s perimeter as their own brands. One

## Buying into private brands

A majority of consumers anticipate purchasing store brands more frequently in the coming months.



Source: IRI Consumer Connect 2017





Lidl's 90 percent assortment of private brands and the retailer's continuing expansion will expose more consumers to private brands in general.

needs to look no further than the cult following that Publix has achieved for its fried chicken and sub sandwiches as proof that store brands can succeed on the fresh level.

"The growth in the perimeter has been dramatic over the last five years, up four times the rate of center store or roughly 16 percent in aggregate versus 4 percent for center store," Stuart says.

Cadent Consulting Group conducted an assessment of the top 20 food categories between perimeter and center store, which indicated there was a 20-point share advantage for private brands in the perimeter with about a 35-point share versus the center store at a 15-point share.

"If we extrapolate these perimeter growth trends at four times the rate of center store and the private label share advantage, this could yield an additional \$18 billion in private label over the next 10 years," Stuart says.

Stuart, Baker and others also stress that millennials will continue to impact private brand sales. Studies indicate that roughly half of millennials have no real preference between private brands and national brands, which is about 30 percent higher than baby boomers, says Stuart, noting that millennials could have a tremendous impact on private brand sales in the fresh category.

"The perimeter and millennial behaviors are very much aligned, which is great for private label growth," Stuart adds.

Mark McKeown, client insights principal at IRI, says IRI data of private brands sales at supermarkets, drug stores, mass market retailers, military commissaries, club stores and dollar chains reveals new non-food categories that are gaining growth in private brands.

Consider the auto product segment. For the 52 weeks ending July 9, 2017, private-branded

auto fluids had dollar sales of \$77.3 million, an increase of 80 percent from the prior year. Automobile waxes and polishes had \$17 million in sales, an increase of 38 percent from the prior year.

Store brand nasal spray, drops and inhalers had \$280 million in sales, nearly an increase of 62 percent from the previous year, in the health and wellness category.

"Retailers are expanding beyond traditional food and beverage and the center of the store with their brands," McKeown says.

Maute says barriers have been lifted on "traditional no-go categories for store brands."

"There is a significant opportunity for retailers to creep into areas of the store that are differentiators for private brands," he adds. "Those categories tend to be in the beauty departments, and health and wellness spaces."

## What it takes

While the outlook for private brands is positive, store brands aren't just going to start flying off store shelves. It's going to take some doing.

"If you take a look at the categories across the store, some of them are commodities and they will always be commodities. There's just not much innovation in certain categories," Baker says. "But other categories where there is an opportunity to innovate is where retailers need to go."

Baker says overall dollar sales of private brands at grocery retailers were up about 1.6 percent in 2017, with much of the growth coming at mass merchandisers and club stores. He says private brands are experiencing growth in premium, organic and value tiers. The mainstream tier is not growing significantly.

"When you see growth in premium and organic, that requires innovation," Baker says.

To innovate in those categories, retailers may have to secure new relationships with suppliers in areas where they have not looked before, Baker adds. Such relationships will require a different strategy and a commitment to collaborate longer with a supplier, he adds.

"Because if any of this innovation requires capital investment [by the supplier], then that [supplier] needs to know that it will not find itself in a bidding war with another supplier 12 months down the road [for a retailer's business]," Baker says. "Really strong innovation comes when a retailer and a manufacturer get together and make a decision to do something together."

McKeown stresses that retailers will only succeed in offering innovative and exclusive store brands if their



current own brands are already trusted by consumers.

“But if the consumer doesn’t [trust your store brands], then you won’t succeed at innovation and exclusivity,” he adds. “There won’t be enough volume for the retailer to make money and suppliers to invest in it.”

Retailers that offer several tiers of store brands also need to decide the tiers of which they want to introduce innovative and exclusive items, McKeown stresses.

“You don’t want to be innovative and exclusive in each tier because they have different value propositions,” he states.

There is also the paying-attention-to-store-brands-to-help-them-succeed factor.

“Retailers that tend to win with tiers of store brands tend to support them with much greater intensity and frequency than the retailers that just put the products on the shelf,” McKeown says. “They need to create awareness for them.”

Packaging can also impact success, Maute states.

“Hands down, store brand packaging has significantly improved over the years and continues to improve,” he says. “And the packaging is getting category specific. Retailers are starting to understand that consumers behave differently in one aisle compared to another aisle, and that the strategy for creating a design brand across 2,000 SKUs is making it difficult to tell a comprehensive story [in packaging] within any given category.”

There’s also the online component. If store brands are going to take off, then retailers need to better engage consumers online with their own brands.

McKeown says retailers need to find the right balance for selling private brands through brick-and-mortar stores and online. He expects online sales of private brands to accelerate for retailers if they can capture and capitalize on the all-important data needed that reveals consumers’ buying habits. McKeown says retailers need to “test and learn and test and learn” their online strategies to improve private brand sales.

“That’s the new normal — using technology and what they are capturing through the online experience and figuring out how to bring that back in the store,” he adds, noting that IRI forecasts online sales of CPGs will comprise about 5 percent of retailer’s sales by 2020 and 10 percent of sales by 2022.

Maute stresses the importance of retailers “connecting the dots” from in-store to online experiences.

“Retailers need to understand consumer behavior online and couple that with how consumers shop in their stores to create a comprehensive brand experience to move store brands forward,” he notes.

Online shoppers are more likely to consider a wider range of brands online as compared to in-store shoppers, points out Jordan Rost, vice president of consumer insights for the market research company Nielsen.

“So there’s a level playing field online for any branded or private label product that can deliver on an individual consumer’s needs,” he adds.

But online retailers need to give consumers the right information to help them make their own choices and that will also vary by individual needs, Rost says. Some consumers are more likely to use reviews to give them the confidence to pick a new brand, as is the case with millennials. Older consumers are more likely to be more motivated by a promotion, Rost adds.

Amazon is the nation’s largest online grocery, even though e-commerce grocery sales currently account for less than 3 percent of grocery and consumable sales. But other grocery retailers, including Walmart and Kroger — are escalating their online strategies. Walmart is adding 1,000 online grocery locations this year.

In October, Walmart-owned Jet.com introduced its Uniquely J online private brand geared toward millennials. The line’s products, including organic sauces and coffee and plant-based cleaning items, embrace several elements that private brand experts say are needed to differentiate and succeed.

“It’s about the message you provide when you put a product online,” Baker says. “The more information you can provide online about your products to consumers, the more opportunity you have to create relationships with those consumers and those products. It’s not just about slamming the product online and putting a price on it.” **SB**

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