

Everyone buys Private Label

Private Label brands in Figure A exceed the market share of numerous competing brands from such Consumer Product Goods companies (“CPG”) as Proctor & Gamble.

According to ACNielsen’s *The Power of Private Label: 2005*, 16% of retail sales in the U.S. are Private Label (“PL”). In Europe, PL share is higher, reaching 45% in Switzerland. See Table 2. PL sales grew 7% last year in the U.S., reaching \$50 Billion. In the top product areas market share ranged from 32% (refrigerated food) to 2% (baby food). See Table 1. In the U.S., some 45% of all shopping trips include the purchase of at least one PL product. See Figure B.

PL wallet share among consumers correlates with several factors, including:

- **Income** – lower income consumers are higher, but higher income consumers are increasing PL consumption.
- **Household size** – higher among large households.
- **Retailer Concentration** – PL penetration is highest in areas where retailers are highly concentrated.
- **Ethnicity** – little information is published about PL share by ethnic groups. Hispanic shoppers have high brand loyalty and PL brands have made relatively few inroads in South America, although they have in Spain (26%).

Target and Yahoo! recent co-branding of a digital print service, *Target Yahoo!*, suggest PL branding has few limits. Several factors fuel the growth.

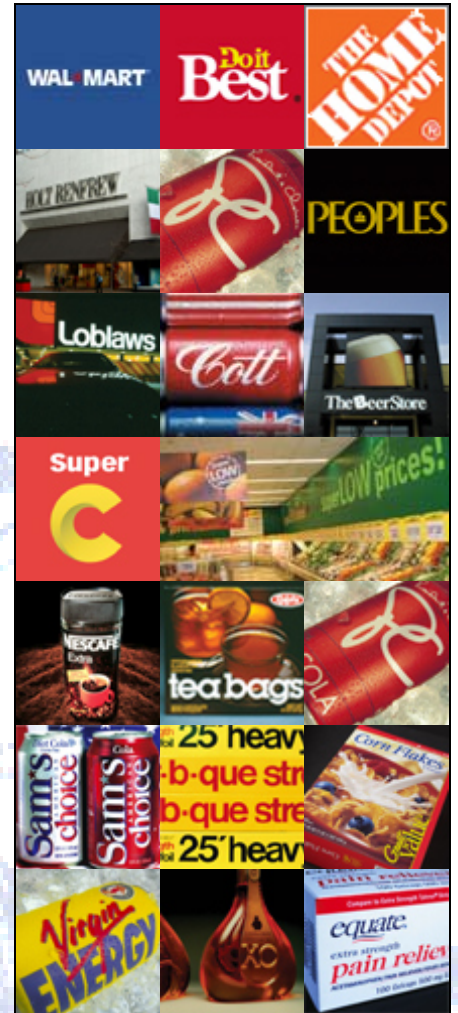


Figure A

Market Segmentation

In one sense, PL is the natural consequence of market maturity: increasingly differentiated segmentation aimed at smaller and smaller consumer segments. Consolidation of retailers and brands led to fewer consumer choices because weaker brands couldn’t get shelf space. To quote [Don Watt](#), designer of the brands in Figure A, “There are too many stores, but not enough of the right kind, too much duplication, not enough real variety.”

TV has lost influence. In the 1960’s, 90% of all purchasing decisions were based on what consumers saw on TV. Today, 72% are based on in-store decision making. Commodization of categories has also played a role. In some ways, the commodization of a category can be measured through PL’s share of the category. Looked at this way, PL is the consequence, not the cause of CPG brand failure. It can be argued, for instance, that the strength of Coke and Pepsi brands among consumers, but failure to accommodate the needs of retailers (retailers

traditionally lost money in the beverage category) led to PL's 8% current (non-Wal*Mart) share of the category (34% at Wal*Mart).

Globally, PL products, on average, are priced 33% less than comparable CPG brands – 28% less in the U.S. Savings vary widely by category – ranging from 55% in Personal Care to 34% in Carbonated Drinks to 2% in poultry (Table 4). Interestingly, share does not correlate highly with percentage savings.

Done right, PL is more than a technique to increase margins or offer products at lower cost: it helps retailers get closer to their customers. Tesco in Great Britain and Loblaws in Canada offer 'healthy' private labels lines as well as 'value' and 'no-frills' options. A number of premium private labels are priced higher than comparable branded products. Jill Brass of Private Label Buyer states, "loyalty to an offering is easier once a level of trust is established between the retailer and consumer."

Ethnic Segmentation

Introducing private label to ethnic shoppers involves special risks. As with mainstream products, signage, location, and housekeeping have much to do with acceptance. Ethnic products, however, require an additional level of nuance. Slapping Hispanic-looking labels on packaged food products, for example, disrespects a culture that views creating healthy and tasty meals from fresh ingredients for one's family as an act of fulfillment and an expression of love. It is also necessary to understand that both Hispanic cultural identities and the languages associated with them are in flux.¹ Table 3, for example shows how integration influences immigrant food purchases.²

Intangibles

The importance of intangible factors for brands in general is stressed by Don Bosis who developed the NASDAQ

Product Area	Private Label	
	share	growth
Refrigerated Food	32	9
Paper, Plastic & Wraps	31	2
Frozen Food	25	3
Pet Food	21	11
Shelf-Stable Food	19	5
Diapers & Feminine Hygiene	14	-1
Health Care	14	3
Non-Alcoholic Beverages	12	3
Home Care	10	2
Snacks & Confectionery	9	8
Alcoholic Beverages	6	3
Personal Care	5	3
Cosmetics	2	23
Baby Food	2	13

Table 1

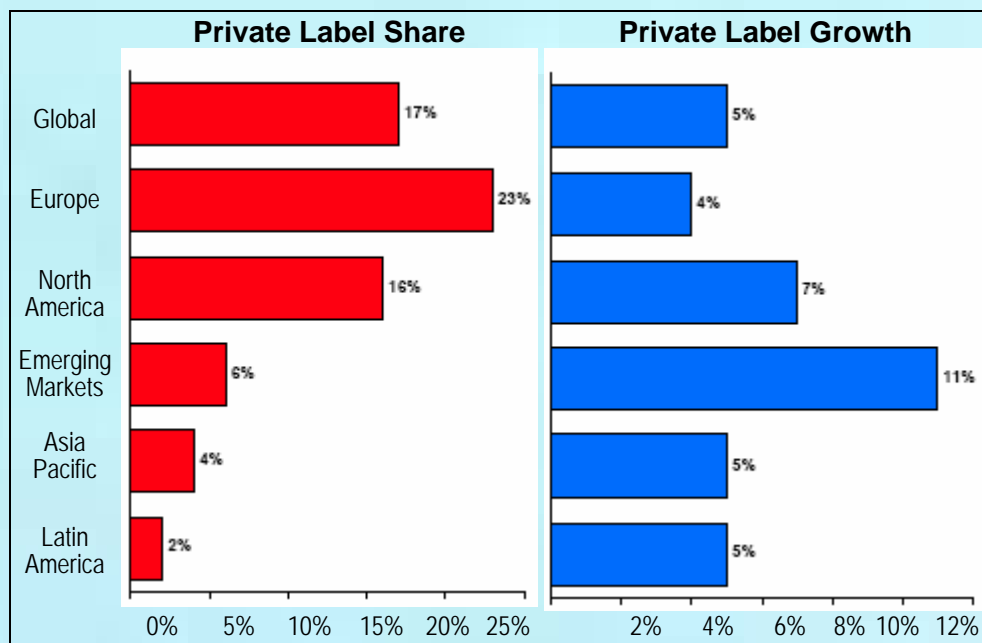


Table 2

¹ Korzenny, Felipe, and Betty Ann Korzenny. *Hispanic Marketing: A Cultural Perspective*. Oxford: Elsevier, Inc., 2005

² *Grow With America: Ethnic Marketing & Merchandising*, Coca Cola Retailing Research Council.

on-line, nasdaq.com, and [MarketSite](#) brand extensions while Executive Vice President of Marketing at NASDAQ, “intangible factors related to our brand are often the most important in determining whether a company lists on NASDAQ or on the NYSE. The same is true of companies that list with us. Their brand equity, as reflected in market valuations, is highly affected by intangibles.”

Self image, as illustrated by the example of Hispanic family tradition previously described, is more intertwined with food than with many other products. Getting the intangibles right is therefore especially important for grocers who develop and manage private labels. According to Don Watt, “A brand is a series of tangible and intangible factors. To have a good brand, you need a good product, but a good product may not become a good brand. It's the intangibles that make you want it as part of your lifestyle.”

Effect of Integration on Immigrant Food Purchase Behavior

Newly Arrived	Newly Established	Firmly Established
Foreign born	Foreign born	Foreign and U.S. born
Low to moderate income	Moderate income	Moderate to high income
Resident under 10 years	Resident 10–20 years	Resident 20+ years
Native language dominant	Native language dominant or preferred	Bilingual or English preferred
Preferences	Preferences	Preferences
Fresh ingredients	Fresh & packaged ingredients	Packaged & fresh ingredients
Traditional homemaker	Some convenience orientation	Convenience oriented
Ethnic brands	Ethnic & national brands	National & ethnic brands
Frequent shopping	Shopping 1–2 times a week	Shopping once a week
Neighborhood and chain	Chain and neighborhood	Chain

Table 3

Operational Considerations

PL introduces additional operational considerations. Logistics choices are limited to a single supplier. Delivery time can be longer and less consistent. Claim processes are often different for PL than CPG brands.

When considering whether to adopt a private label plan, grocers have choices other than developing a new brand. Numerous manufacturers offer well designed “house brands” with coordinated packaging, advertising, and in-store displays. Various quality levels are available. In addition to reducing the considerable up-front development

Share of Shopping Trips Including Private Label

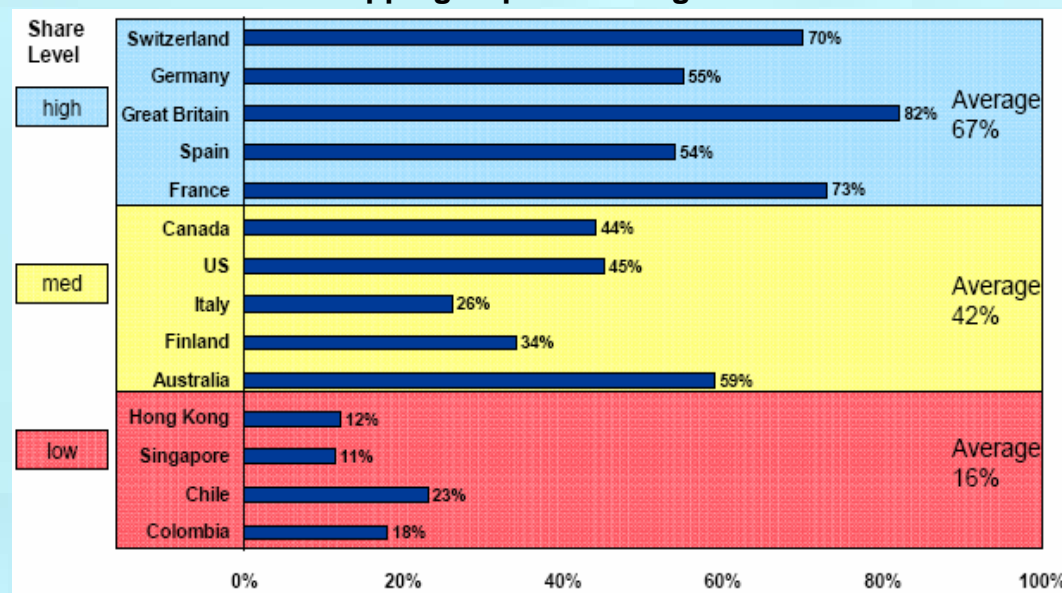


Figure B

expense, such labels have statistical track records retailers can use in crafting product positioning strategies. [Cott's](#) ‘Presidents Choice’ brand is widely used by a number of supermarket chains in North America and the UK. Lesser known brands include those distributed by [Southeast Frozen Foods](#) in the eastern USA.

Conclusions

Private Label continues to grow. PL products are being introduced into new markets and categories. Worldwide, PL is priced a third less than CPG brands, although premium labels are changing the perception of what “store brands” can be. Increasingly retailers are using PL as a differentiator and to strengthen relationships with customers. Switzerland’s 45% market penetration suggests an upper limit, although PL’s share in Switzerland continues to grow, raising the upper limit. How far PL will grow has yet to be determined.

PRICE DIFFERENTIAL OF PRIVATE LABEL BY CATEGORY							
	CATEGORY	PRODUCT AREA	PL PRICE DIFFERENTIAL		CATEGORY	PRODUCT AREA	PL PRICE DIFFERENTIAL
1	After Shave Preps	Personal Care	-55%	41	Toothpaste	Personal Care	-31%
2	Sports Energy Drinks	Non-Alco Bev	-52%	42	Vodka	Alcoholic Bev	-31%
3	Mouthwash	Personal Care	-51%	43	Drinking Yogurt	Non-Alco Bev	-30%
4	Shampoo	Personal Care	-51%	44	Ketchup - Tomato Based	Shelf-Stable	-30%
5	Pain Relief	Health Care	-50%	45	Flavored Milk Drinks	Non-Alco Bev	-29%
6	Cold Remedies	Health Care	-50%	46	Beer/Lager/Ales	Alcoholic Bev	-28%
7	Disposable Razors	Personal Care	-49%	47	Rice	Shelf-Stable	-28%
8	Fresheners/Deodorizers	Home Care	-44%	48	Whisky	Alcoholic Bev	-28%
9	Carbonated Beverages	Non-Alco Bev	-43%	49	Savory/Neutral Crackers	Shelf-Stable	-28%
10	Body Moisturizers	Personal Care	-43%	50	Juices/Juice-Based Drinks	Non-Alco Bev	-28%
11	Toothbrushes	Personal Care	-43%	51	Potato Fries	Frozen	-27%
12	Cleansing - Bath/Shower	Personal Care	-43%	52	Dry Pasta	Shelf-Stable	-27%
13	Dog Food	Pet Food	-43%	53	Coffee	Non-Alco Bev	-27%
14	Skin Tanning (Protection)	Personal Care	-42%	54	Plastic Wrap/Rolls	PPW	-26%
15	Face Moisturizers	Personal Care	-42%	55	Kitchen Paper/Towel	PPW	-25%
16	Feminine Personal Hygiene	Diapers/Fem Hyg	-42%	56	Disposable Baby Diapers	Diapers/Fem Hyg	-25%
17	Hair Styling	Personal Care	-41%	58	Baby Food	Baby Food	-24%
18	Deodorants	Personal Care	-41%	57	Lip Stick/Gloss	Cosmetics	-24%
19	Fabric Softeners	Home Care	-41%	59	Eye Shadow	Cosmetics	-24%
20	Breakfast Cereals - RTE	Shelf-Stable	-40%	60	Aluminum Foil	PPW	-24%
21	Household Cleaners	Home Care	-39%	61	Vegetables	Shelf-Stable	-23%
22	Cat Food	Pet Food	-39%	62	Chocolate	Snacks/Conf	-22%
23	Wine	Alcoholic Bev	-38%	63	Vegetables	Frozen	-22%
24	Tea	Non-Alco Bev	-37%	64	Garbage/Refuse Bags	PPW	-22%
25	Auto Dish Detergent	Home Care	-37%	65	Butter/Margarine	Refrigerated	-21%
26	Self-Adhesive Dressings	Health Care	-36%	66	Milk	Refrigerated	-17%
27	Hand Dish Detergent	Home Care	-35%	67	Yogurt	Refrigerated	-17%
28	Water	Non-Alco Bev	-34%	68	Meat/Poultry/Game	Refrigerated	-16%
29	Laundry Detergent	Home Care	-34%	69	Cheese	Refrigerated	-16%
30	Jam/Jelly/Marmalade	Shelf-Stable	-34%	70	Toilet Tissue	PPW	-13%
31	Toilet Soap	Personal Care	-33%	71	Dry Soup	Shelf-Stable	-12%
32	Mayonnaise	Shelf-Stable	-33%	72	Complete Ready Meals	Refrigerated	-11%
33	Chips/Crisps	Snacks/Conf	-33%	73	Pizza	Frozen	-11%
34	Facial Cleansing	Personal Care	-33%	74	Fish/Shellfish/Seafood	Frozen	-11%
35	Cereal/Fruit/Muesli Bars	Snacks/Conf	-33%	75	Insect Control	Home Care	-9%
36	Toilet Care	Home Care	-32%	76	Baby Formula	Baby Food	-6%
37	Ice Cream/Frozen Yogurt	Frozen	-32%	77	Complete Ready Meals	Frozen	-5%
38	Cooking Oil	Shelf-Stable	-31%	78	Meat/Poultry/Game	Frozen	-2%
39	Sweet Biscuits (Cookies)	Snacks/Conf	-31%	79	Wet Soup	Shelf-Stable	0%
40	Facial Tissue	PPW	-31%	80	Chewing Gum	Snacks/Conf	7%

Table 4

The Teton Sands Group is seasoned C-level managers with partner-level “big-six” experience. We bring ideas, perspective, and best practices from numerous industries to your business.

Our Sales Strategy Practice focuses on helping sellers thrive in a flatter world of hypercompetitive markets where: brand allegiance is virtually nonexistent; buyers are a click away from price and feature information; great products earn low margins; and, competition is global.

www.tetonsands.com