

2018

# THE BRANDING OF PRIVATE LABEL



One of the “7 Sea Changers”

**CADENT**  
— Consulting Group —

# The Branding of Private Label

In 2017, we reported on the “[7 Sea Changers](#)” for Private Label. Number 7 was “Private Label is a True BRAND.” The others included: Amazon + Whole Foods, Millennials, Perimeter Power, 21st Century Deep Discounter Dynamics, Traditional Retailer Reaction, and New Entrants. This year, we sought to dig even deeper into Number 7, to better understand the trends that are making Private Label a “True BRAND.”

Before determining if Private Label is a brand, we must first answer the question, “What is a brand?” It seems like a simple question, but the answer is not as straightforward. People and organizations have different ways of defining a brand, but here is what we found to be the core:

## **brand** [brand]:

1. The elements both tangible and intangible that identify and differentiate a product from the competition.

A brand is a promise.

A brand is a promise of good value. It is a promise to its consumers that it will consistently deliver the quality expected of its product at an acceptable price. The quality expected is determined by a bundle of features and benefits that a consumer can consistently obtain from “their brand.” These features and benefits may be purely functional in that the brand works as expected. However, brands often also have emotional benefits linked to them. Two products may actually deliver the same functional benefits, but one brand makes a person feel one way and the other brand makes him or her feel differently. So much so that when consumers are truly brand loyal, they will travel in order to get their brand of choice, or even leave a store if it’s not there. This makes it critical for retailers to carry the right brands in their stores to attract and retain their shoppers.

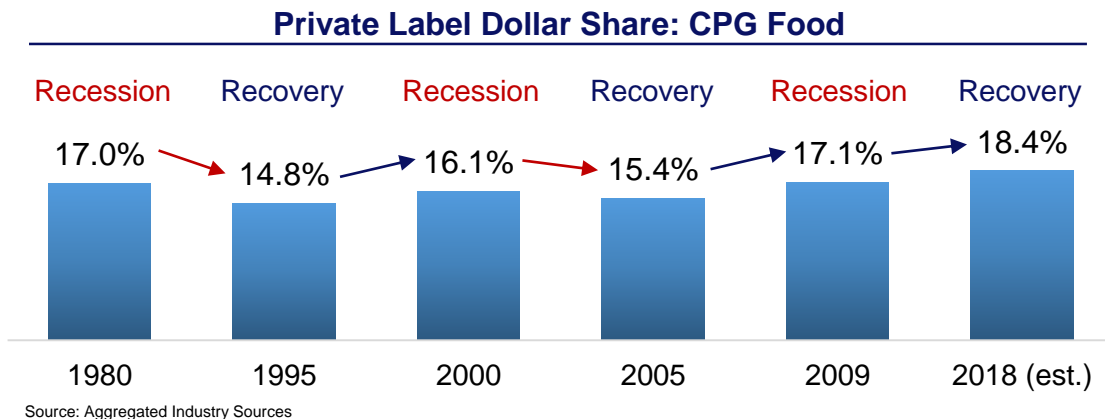
In essence, a brand is a promise of good value, consistency and quality. It has emotional and functional features and benefits that, altogether, build consumer loyalty.

So, is Private Label a brand? Well, let’s see.

Note: All product names, logos and brands are property of their respective owners.

# Private Label: Industry Growth – 2018 3x the Growth of National Brands

Consumer interest and purchasing of Private Label had remained nearly constant for a generation. Subtle rises and falls during times of economic bust and boom have roughly traced the arc of “Store Brand.”



Is that mold beginning to crack? New channels, new retailers and brands, and new attitudes suggest that it is. Entering 2018, Private Label (PL) was growing at 4.1%, while national brands were growing at only 1.4% based on syndicated sources. And according to the three core constituents – manufacturers, retailers, and shoppers – PL is poised to grow even more in the future.

<p><b>Manufacturers</b></p>  <p><b>+4%</b> annually over next 3 years</p>	<p><b>Retailers</b></p>  <p><b>+5%</b> annually over next 3 years</p>	<p><b>Shoppers</b></p>  <p><b>95%</b> will purchase same or more PL next year</p>
--	--	---

Private Label has a growing presence in traditional grocery stores and mass merchandisers, but it also represents a large percentage of goods sold in newer, fast-growing retail channels. Primary examples include Kirkland products by Costco, 365 Everyday Value by Whole Foods, and the expanding American presence of European-owned Private Label giants, Trader Joe’s and Aldi. Even product search functions on Amazon’s online marketplace have the potential to steer customers towards their 100+ in-house Private Label brands.

In addition, Millennials continue to drive industry trends in the grocery and consumer packaged goods markets. More than ever before, Millennials express both the highest current purchasing of and the most interest in Private Label products. Although across all ages and incomes, willingness to purchase Store Brand depends heavily on brand value.



# Approach/Overview

## RESEARCH OBJECTIVES:

This year we assessed the factors driving Private Label from consumer (shopper), customer (retailer) and category (manufacturer) perspectives. What are retailers and manufacturers doing and how are shoppers responding?

## RESEARCH METHODOLOGY:

Nearly 500 manufacturer, retailer and shopper participants were surveyed online with customized questionnaires. Selected in-depth, 1-on-1 follow-ups were completed to gain a better understanding of the “why” behind Private Label decisions.

## CONSUMER



## CUSTOMER

## CATEGORY

# The Branding of Private Label: Executive Summary



Private Label is experiencing a unique growth spurt, growing about three times as fast as nationally branded products. Is this trend sustainable? We think “yes,” as it is being driven by some core fundamentals:



**CONSUMER:** The composition of consumers is changing. Once driven by the force of the Baby Boomers, now there’s a new generation in town. Millennials have arrived, and their approach and attitudes toward Private Label are very different from the shopper of the past. 95% of Millennial shoppers will purchase the same amount or more of Private Label next year!

- *One Size Does NOT Fit All:* With one-third of Millennials’ shopping carts already filled with Private Label products (versus an average of 25% of units), half of Millennials report that they plan to buy even more Private Label products in the next year. Millennials are clearly a driving force.
- *The Value of Value:* Big national brands may have extensive marketing, operations, and legacy on their side, but Private Label has its own path to success. By delivering a good selection of quality products at a fair price, Private Label is creating much-desired value.



**CUSTOMER:** New retailers have entered the realm, and traditional retailers are fighting with new Private Label strategies. Quality markers such as “Organic” are leveling the playing field between Private Label and nationally branded products. Retailers expect Private Label to grow 5+% annually over the next 3 years.

- *Store Brand Driving Store Choice:* Private Label is a differentiator, particularly among Millennials. 60% feel that their Store Brand is better than others, and 54% say that their choice of store is actually influenced by the retailer’s store brand.
- *New and Expanding Channels:* Natural, deep discount, club and online retailers are over-indexing with Millennials and they are all poised for continued Private Label expansion.
- *Import/Export and Partner to Build Scale:* European-based, Private Label dominant retailers, such as Aldi, are expanding rapidly in the U.S. Concurrently, retailers including Whole Foods and Kroger are broadening the presence of their Private Label brands beyond their own shelves (Amazon, Walgreens, and Alibaba).



**CATEGORY:** While certain categories have been more open to Private Label, categories previously thought of as being insulated from the Private Label threat are now facing the challenge. Manufacturers forecast 4+% annual growth from Private Label over the next 3 years.

- *The Tiering of Private Label Brands:* Many retailers offer a tiered approach to Private Brands to meet the varied needs of their different shopper segments and compete across the spectrum of national brands.
- *“Fresh” Growth Drivers:* Store Brands in dairy and fresh foods/produce rank highest on quality and selection, with Dairy also ranking best for a good Private Label price.
- *Category Insulation Diminishing:* Categories such as beauty/personal care and pet products have historically felt ‘protected’ from the threat of Private Label. These barriers are being broken down by specialty stores and online store brands that are associated with quality.



# The Consumer: One Size Does Not Fit All

Discovering the profile of the “typical” Private Label consumer feels tempting, but the truth at the heart of Store Brand’s surge is more complicated. Consumers purchase many types of brands and products. In the same way, they purchase many different forms of Private Label for a variety of reasons.

Some consumers buy Private Label for the price point: low prices with a slight compromise on quality. Others look for products with competitive prices and premium quality. And, many consumers do both!

**Types of Private Label Purchased (% of Buyers)**

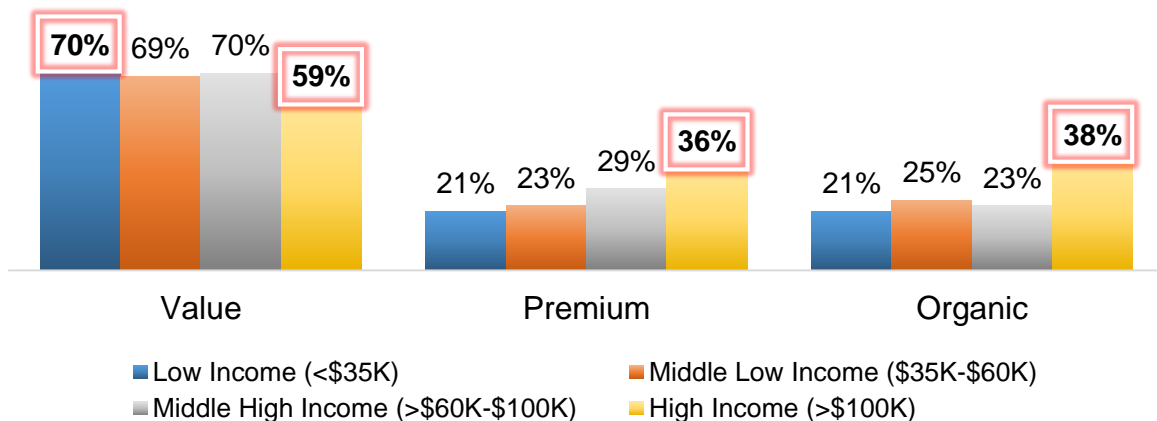
		Price		
		Low	Middle	Premium
Quality	High	14%	16%	8%
	Medium	25%	31%	1%
	Low	3%	2%	0%

## AGE AND INCOME PREFERENCES

While consumer openness to Store Brand extends across the board, Millennials and younger shoppers purchase the most. While the typical shopping cart encompassing all channels is about 25% Store Brand products, Millennials report that their basket is actually 32% filled with Store Brand products. And, not only do they already buy more Store Brand, but almost half (48%) of Millennials plan on purchasing somewhat or much more Store Brand next year.

The growing share of Private Label takes different forms such as “Value,” “Organic,” and “Premium.” Regardless of income, the most popular designation of Private Label is “Value.” On average, two-thirds of all consumers report purchasing it. Not surprisingly, the highest earners (\$100k+ per year) purchase the least “Value” Private Label; however, they purchase the most Store Brands that have higher quality indicators, such as “Premium” and “Organic.”

**Purchasing of Different Types of Private Label – By Income**





# The Value of Value

## DRIVING BRAND, AND STORE LOYALTY

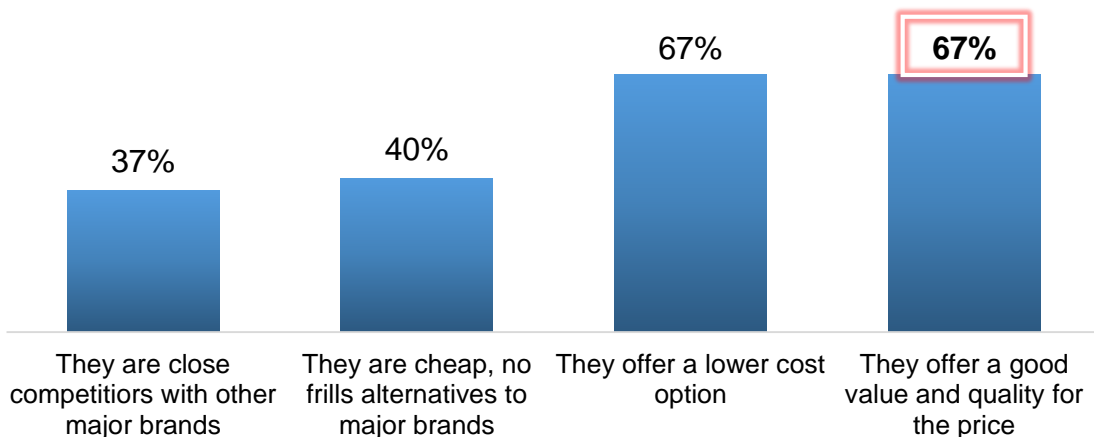
The daunting competition of big, national brands have extensive marketing, operations, and legacy on their sides. But, Private Label brands have an alternative route to success by establishing their “Value” to shoppers by delivering an assortment of products (selection) at good prices with comparable or even superior quality.

### The Private Label Success Pyramid



This approach differentiates Private Label products as it delivers shoppers’ key decision drivers of lower cost and good value/quality relative to national brands.

### Attitudes Toward Private Label Products - Consumers





# The Customer: A Destination with Differentiation

## EXCLUSIVE PRODUCTS: COME FOR THE STORE BRAND

Shoppers travel to multiple retailers per week. While nationally branded products appear everywhere, their pricing varies. Often this might lead to a race to the bottom to attract shoppers to the store with a promise of lower prices.

Suppose product differentiation drew consumers and encouraged store loyalty. The unique nature of a store's Private Label brand(s) does just this. Evaluated by generation, Millennials are driving this faith in Store Brand: 60% believe their retailer's Store Brand is better, 54% choose their store based on the retailer's Private Label, and 48% expect to purchase more Store Brands next year. This younger generation *already* purchases the most Store Brand products, and they plan to purchase more next year. This means the Private Label shoppers of the future (Millennials!) have already arrived!

### Millennial Attitudes & Behaviors Toward Private Label

**60%** believe their retailer's Store Brand is better than others.

**54%** say their choice of retailer is influenced by the Store Brand.

**48%** expect to purchase more Store Brands next year.

The growth of retailers such as Trader Joe's and Whole Foods stems in large part from their shoppers' belief that they carry superior quality products. Store Brand attracts consumers and then encourages greater sales growth. This phenomenon extends nationwide because shoppers can often buy their favorite Store Brand even if they relocate. The irony of Store Brands' rising competitiveness with national brands is the increasingly national availability of strong Private Label products.



Private Label has even grown its presence at traditional grocery retailers like Stop & Shop and Kroger. Earning consumer loyalty for quality and price means a shopper might decide to drive an extra ten minutes to their store because of strong Private Label.





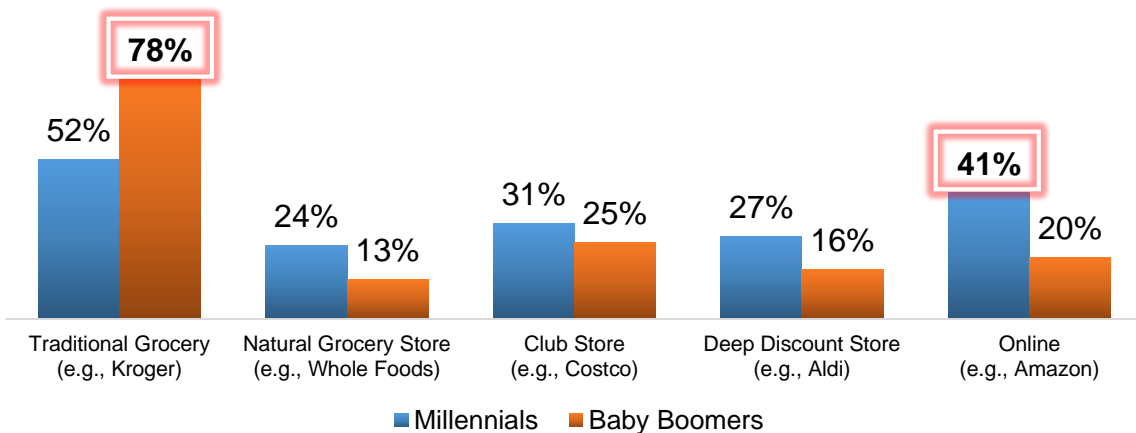
# New & Expanding Channels

## NATURAL, DEEP DISCOUNT, CLUB, AND ONLINE

While Millennial shoppers certainly still purchase at traditional grocery stores and mass merchandisers, they split their business across channels and retailers. They outpace other demographic groups quite noticeably at natural grocers, deep discounters (e.g., Aldi), club (e.g., Costco), and in online food shopping.

These channels represent some of the largest names and brands in Private Label. Trader Joe's and Whole Foods have successfully harnessed consumer interest in their Store Brand through "Organic," "Premium," and "Value." Costco's in-house Kirkland brand occupies a large proportion of shelf space. The success of that brand speaks for itself given the membership fees required to purchase at Costco. Aldi is a relatively new and unique retailer offering low cost Private Label to its shoppers. Finally, Amazon's acquisition of Whole Foods including its thriving 365 Everyday Value brand has made Store Brand available for delivery to millions of shoppers and Prime members. Also, Amazon's own Private Label brands cut across multiple categories online.

**Channels Where Millennials and Boomers Shop**  
(Past Week)



**Boomers**  
**150**  
**INDEX**  
versus *Millennials*  
for shopping  
Traditional Grocery

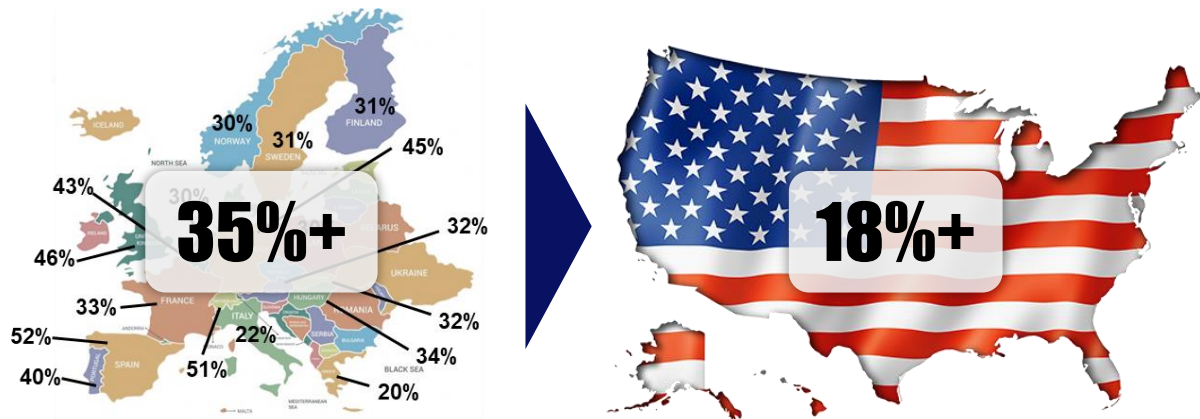
**Millennials**  
**205**  
**INDEX**  
versus *Boomers*  
for shopping  
Online



# Import/Export and Partner for Scale

Private Label purchasing rates in Europe vastly exceed those in the United States. Several countries have a Private Label share greater than 40%. One of the chains leading this European Store Brand boom has already made a splash in the American grocery market. And another is not far behind...

## Private Label Brand Market Share



Source: PLMA European Private Label Share by Country

The German grocery giant, Aldi, has accelerated investment and expansion plans and should add 1.25 share points to total Private Label in the next ten years in the United States. Aldi carries a unique offering of goods, largely because its Store Brand makes up 90% of its product offerings. Another German grocery chain, Lidl, is just getting started. The overwhelming presence of Private Label in these deep discount retailers drives low prices with higher retailer margins. Once again, Millennials shop in this channel (deep discount) at a rate of more than 10 percentage points higher than Baby Boomers.

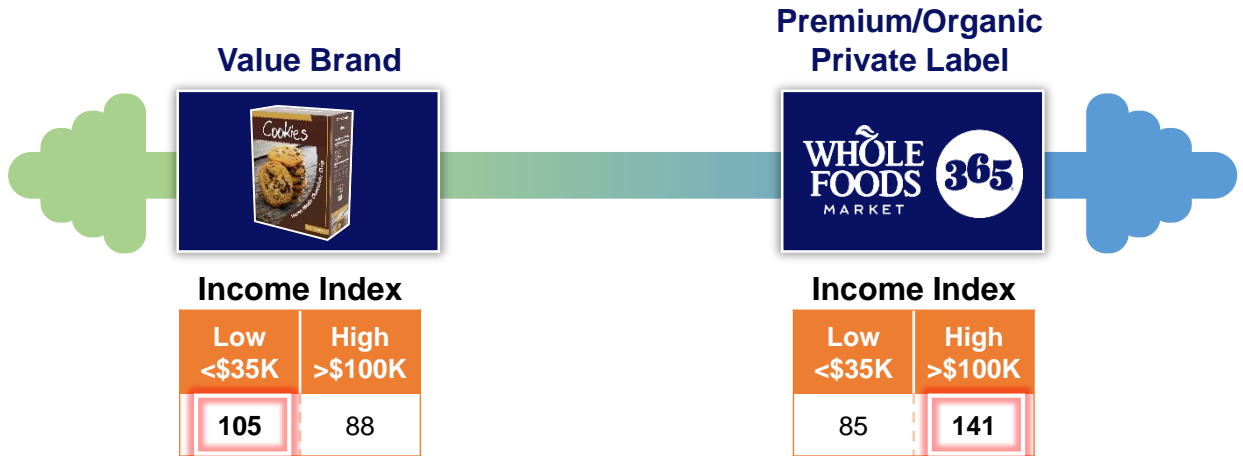
While Private Label expertise has been imported from Europe through acquisition (Ahold, etc.) and expansion (Aldi), retailers are also exploring new partnerships, allowing Private Label Brand presence outside of their own shelves.

The Amazon acquisition of Whole Foods has extended access of the 365 Everyday Value brand both in-store with Prime Member discounts, as well as online. More recently, Kroger and Walgreens announced a test in which some Kroger Private Label products will gain distribution in Walgreens' stores. In addition, those stores will be eligible as pickup locations for Kroger's online 'Grocery Pickup' ordering. This could be a win-win for the two retailers with the potential to expand distribution for Kroger's Private Label brands into Walgreens' stores and add grocery options, otherwise limited, for Walgreens' shoppers. Moreover, the excitement is building around the launch of Kroger's Simple Truth Private Label brand on China's Alibaba website.



# The Category: Multiple Tiers of Private Label

One size of Private Label does not fit all shoppers. In fact, one size of Private Label might not fit one shopper. The proliferation of Private Label brands offers consumers tremendous choice. Quality products, Private Label “brand names,” and competitive packaging and shelving mean shoppers treat Store Brands as their name suggests: as brands!



Like the higher vs. lower income shoppers seen above, Millennials also purchase “Natural,” “Premium,” and “Organic” at much higher rates than their Baby Boomer counterparts. Importantly, shoppers of all ages who purchase these high quality Private Label products do not ignore “Value” options. They purchase all types.

Retailers believe “Organic” Private Label will grow 7.7% annually over the next three years, almost twice as fast as “Value” Private Label. The expansion of specialty indicators of quality is expected to drive strong growth in the future.



This is a valuable “trustmark” that neutralizes the strength of many national brand equities

In addition to tiering-up, retailers are also meeting lower-income/smaller household needs by tiering down their brands. Target just announced the launch of “Smartly,” a new low-price brand of everyday essential products across many categories that will compete below their existing mainstream Private Label brand, “Up & Up.” This new brand will help Target to better compete with the deep-discount and dollar channels, while also keeping national brand pricing in check.



# “Fresh” Growth Drivers

We have seen products designated “Organic” and “Premium” on the rise, especially among Millennials and more affluent shoppers. Not surprisingly, this has led to strong Private Label growth trends in many food categories. For instance, categories sold in the perimeter boast high Private Label shares and consumer engagement. Dairy and fresh food/produce are the Store Brand categories ranked the highest in terms of quality and selection. Dairy also ranks strongest for best price.

Top 5 Sections: Best Private Label Quality	Top 5 Sections: Best Private Label Selection	Top 5 Sections: Best Private Label Price
<ol style="list-style-type: none"> <li>Dairy</li> <li>Fresh Foods/Produce</li> <li>Over-the-Counter Health Care</li> <li>Shelf-Stable Packaged Foods</li> <li>Baby Products</li> </ol>	<ol style="list-style-type: none"> <li>Fresh Foods/Produce</li> <li>Dairy</li> <li>Baby Products</li> <li>Over-the-Counter Health Care</li> <li>Frozen</li> </ol>	<ol style="list-style-type: none"> <li>Dairy</li> <li>Shelf-Stable Packaged Foods</li> <li>Over-the-Counter Health Care</li> <li>Paper Products</li> <li>Frozen</li> </ol>

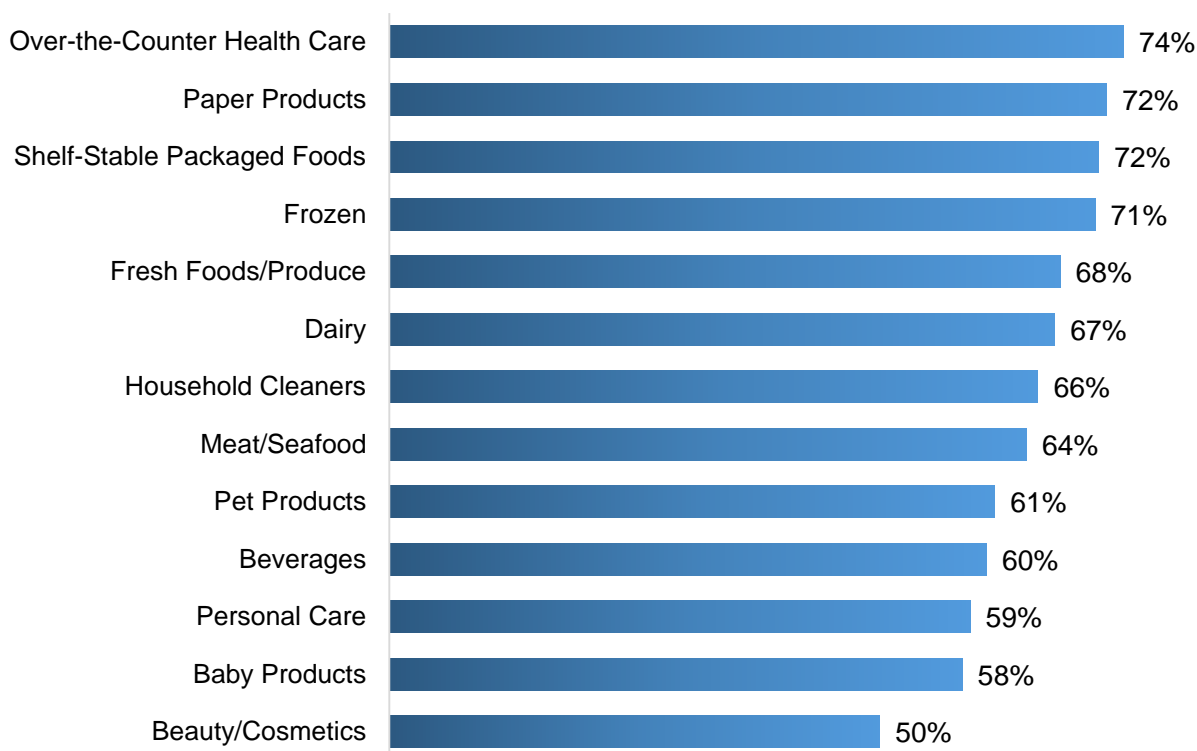
As Private Label increasingly acts like a “brand,” consumers will increasingly trust its quality. Products that earn certifications, such as “USDA Organic,” can level the playing field between national and Private Label brands. In fact, the “national” element of name brand products may actually hurt goods in the categories of fresh food/produce, dairy, and meat/seafood. If consumers know a “fresh” brand is national, they may actually seek out a Store Brand that boasts “Local,” “Natural,” or “Organic” because these options feel less processed, preserved, and transported than the national name brands.



# Category Growth Drivers

While category “insulation” may appear formidable now, there are strong reasons to believe Private Label still has room to grow. Today, anywhere from 22% to 47% of Millennials mostly/exclusively purchase Private Label depending on the category. Moreover, in every single category of grocery and consumer packaged goods evaluated, at least half of Millennials would consider buying Store Brand.

## Millennial Consumers: Likely to Consider Purchasing



Turning to industry experts, we see that even in territory considered less friendly to Store Brands, substantial annual growth is expected. Emerging players in these Private Label fields have the potential to capture an increasingly interested consumer. For example, while the beauty/cosmetics category currently scores lowest in Private Label consideration, specialty beauty retailers like Sephora offer a wide array of Store Brand beauty products. Similarly, Amazon recently unveiled Wag, their new in-house line of Private Label for pets.



# The Future “Minding the Gaps”

## Retailer Top 5 Private Label Priorities

Retailer Private Label Priorities	Manufacturer Rating of:		Gap
	Retailer Importance*	Manufacturer Performance*	
1. Product Delivery	90%	64%	<b>-26 pts</b>
2. Product Quality	87%	91%	+4 pts
3. Collaboration / Partnership	<b>55%</b>	64%	+9 pts
4. Price	94%	45%	<b>-49 pts</b>
5. Ability to Drive Category Growth	77%	58%	<b>-19 pts</b>

\*Top 2 Box: Very/Extremely Important to Retailers  
Very/Extremely Strong Performance

Manufacturers need to “Mind the Gaps”  
in order to drive growth

Is price always the most important factor? Manufacturers believe that retailers will always put price (94%) first, but interestingly several other factors precede price, according to retailers. Retailers rate product delivery the highest. While manufacturers recognize the importance of this, they are clearly underperforming. And when it comes to price, despite manufacturers feeling that it is the most important attribute to retailers, they are significantly underperforming.

While at first glance, manufacturers are overperforming when it comes to collaboration and partnership, they are significantly underestimating its value to the retailer.

A clear action is for manufacturers to better understand retailers’ needs and desires to help determine which capabilities to develop further.



# Action Plan

It is clear that Private Label is a brand. What does this mean for manufacturers of branded products?

Since Private Label is a brand, treat it that way – as a branded competitor. Rethink your traditional approach and make sure that you are delivering the best brand experience for both your consumers and your shoppers while providing category thought leadership to your retail partners.



**CONSUMER:** Delight consumers with consistently high quality products at a fair price. Make them feel good about your brand with the right messaging, at the right time, in the right places – be it on-pack, in the digital world, or through traditional media.

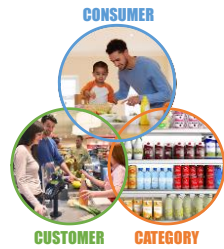


**CUSTOMER:** Retailers’ expectations of their manufacturer partners continue to grow. Retailer strategies are not a “one size fits all.” The discovery phase of selling is critical to understanding your retailers’ wants and needs to build the right strategies and plans. Know your retailer and share your category thought leadership as a means for mutual success. Think about the following questions: What’s the best way to set the shelf for category success? How should brands, forms and sizes be arranged to optimize growth? What will the future of your category look like? How will your partnership with retailers help build the section of the future that attracts shoppers to their category – for both your brand, and theirs? What should your role be in Private Label?



**CATEGORY:** Make the shopping experience seamless across the categories that you impact. Drive to have the right products (assortment) in the right place (merchandising) at the right value (price and promotion). Build an experience that makes shoppers come back for more, whether through samplings, tastings, or providing recipes. Help shoppers choose the product that’s right for them by arranging the shelf based on shopper decision criteria, not yours, and not even those of the retailer. Consider utilizing a fact-based consumer decision tree (CDT); it really helps in building the right shelf.

We recognize that these strategies are not always going to be as easy to execute as one hopes. Often the simplest ideas can be the most complex to implement. But importantly, please recognize that Private Label *is* a brand. It is growing and it will only continue to do so.



# Private Label Summary

**The Sweet Spots:**  
**1) CONSUMER:** High & Low Income, and Millennials  
**2) CUSTOMER:** Quality + Price + Selection  
**3) CATEGORY:** Tiering, Premium and Value

## WHO: Demographics – Index

Income	Age
>\$100K	Millennials
>\$60-100K	Boomers
>\$35-60K	
<\$35K	

Heavy Private Label Shoppers are More Often High or Low Income and Millennials

## HOW: They Buy – Index

Factor	Millennial	Boomer
Quality	94	100
Price	93	106
Selection	91	103

The "Value" Equation

## WHAT: Product Type – Index

Type	Millennial	Boomer
Organic/Premium	141	80
Value	140	80

Bifurcated Premium/Value



## WHY: They Buy – Index

Top Reasons	Millennial	Boomer
Low Price	90	104
Good Value	89	108

Low Price and Good Value - More True for Boomers

## WHEN: Frequency – Index (>1x/week)

	Index
Low Income	97
High Income	144
Millennials	133
Boomers	92

High Income/Millennials

## WHERE: Outlets – Index

Outlets	Millennial	Boomer
Traditional Grocery	67	150
Online	205	49

Online is a Driver



# Cadent Consulting Group Overview

## WHO WE ARE

Cadent Consulting Group, established by the founders and senior leadership team from Cannondale Associates and Kantar Retail, is a marketing and sales management consulting firm serving the Consumer Packaged Goods (CPG) and Retail industries. We offer a broad array of information, insights, capabilities and expertise across the manufacturer, retailer and shopper spectrums.

## OUR MISSION

Our Mission at Cadent is to help our clients drive growth and profitability while optimizing go-to-market investment and organizational productivity. We aim to translate insights into competitive advantage for our clients.

## OUR FOCUS



## OUR HISTORY IN INDUSTRY RESEARCH

Cadent's Management Team, while at Cannondale Associates, published the first Category Management/Leadership Industry Study in 1994, followed by the Trade Promotion Industry Study in 1995 and the annual PoweRanking® Study in 1997. Over twenty years of experience in category management, trade promotion and industry best practices has deepened our knowledge and expertise across manufacturers, retailers and consumers/shoppers.

We constantly seek to better understand our client needs. Cadent published studies of Manufacturer Spending in 2014 and 2017, the Path to Purchase Study in 2015 and the Strategic Pricing Study in 2016. Given the strategic role of Private Label and its importance to sales and profit growth, we are now releasing "The Branding of Private Label" study, following 2017's "Sea Changer" report on Private Label.



44 Old Ridgefield Road, Ste. 235  
Wilton, CT 06897

203-529-3701  
www.cadentcg.com

1603 Orrington Avenue, Ste. 600  
Evanston, IL 60201