SEA CHANGE FOR PRIVATE LABEL

Private Label has traditionally responded much like the ebb and flow of the tides. Its strength has varied with economic conditions; it benefits when the economy is in a recession and suffers during periods of economic growth.

Private Label share today in CPG food, however, is nearly identical to what it was in 1980.

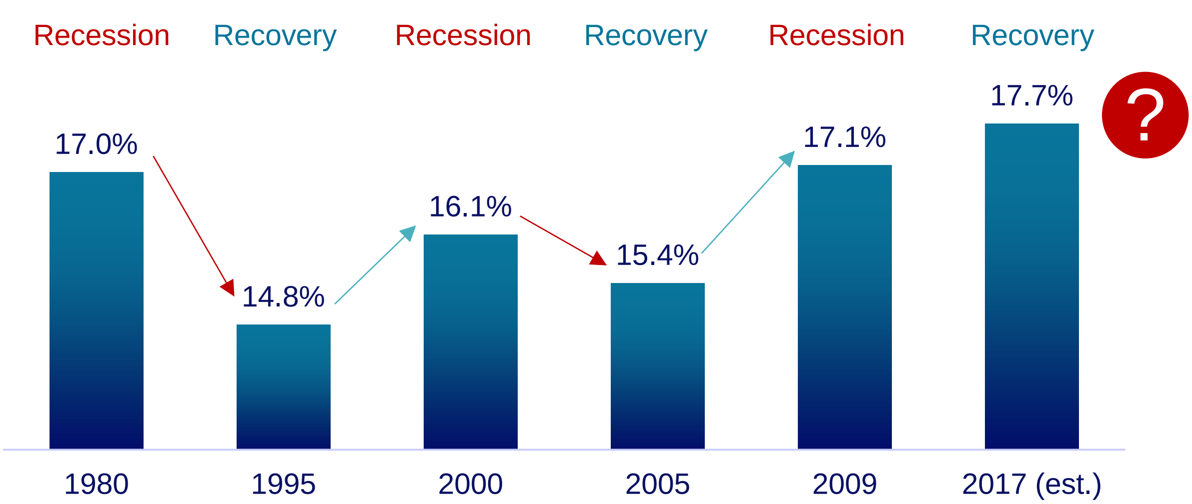
Will this time be different, or will Private Label break out of the tidal flows and experience a sea change?

Like meteorologists, Private Label prognosticators are almost always certain, but often wrong. Despite improved quality, large price gaps, retailer marketing, European pressures (7 countries with > 40% Private Label share) and retailer consolidation, Private Label share has barely budged in the U.S.

Now a break-out from the long-term, cyclical pattern is occurring, which should mean a sea change to lift all Private Label.

Not a single manufacturer can escape the impact!

PRIVATE LABEL DOLLAR SHARE: CPG FOOD



Source: Aggregated Industry Sources

WHY NOW? 7 SEA CHANGERS

1 Amazon + Whole Foods

Jeff Bezos famously stated that "your profit is my opportunity". Analysis of traditional CPG manufacturer margins vs. retailer margins supports that manufacturer margins are 2-3X greater on average. There is a clear opportunity for Amazon to tap into these margins. In fact, in conversations with CPG manufacturers, Amazon is often cited as "our best customer, but also our least profitable".

With the expected addition of Whole Foods, Amazon will leverage this acquisition, in part, as a Private Label accelerator. Whole Foods "365" brand exudes trust, transparency, cleanliness and simplicity; equity that any brand would be proud to own. It is exactly what today's consumer is looking for. In combination with Amazon, a top 3 retailer, there is an opportunity for significant Private Label acceleration.

Additionally, Amazon/Whole Foods synergies will drive organic/natural/premium/specialty growth where Private Label development currently lags.

PROJECTION

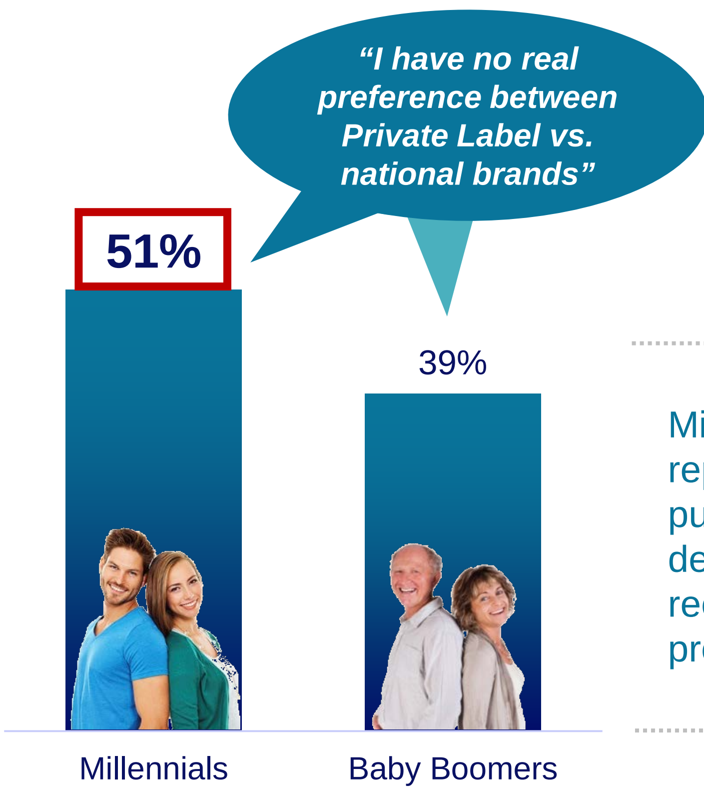
Private Label Food Sales $ **2017 (est.)**	**2 Bil**	**2 Bil**
Private Label Food Sales $ **2027 (proj.)**	**20 Bil**	
Incremental	**+ 16 Bil**	

The Amazon and Whole Foods combination could yield an incremental 2.0 share points for Private Label in the $800B (static dollar assumption) CPG food market over the next 10 years.

$16B = 2.0 SHARE POINTS

❷ Millennials

Millennials are often cited as being brand agnostic – but perhaps they just haven't been educated. If you ask a millennial about a center store brand, the odds are about even that the individual has never heard of it. Brand marketers have been cutting back on traditional media for years.[1] As a result, millennials have no real preference between Private Label or national brands and are far more interested in transparency, clean labels and like-minded values.



Source: Industry Study

Millennials will grow to represent the largest percent of purchasing power over the next decade, and they are more receptive to Private Label products than baby boomers.

By 2027 there will be 15MM more millennials than boomers. Given a 12 point (30%) Private Label preference, this could yield a 6 point Private Label share advantage (versus a 17.7 total share) for millennials or a 1.5 share point gain across the total population (millennials are 25% of the population).

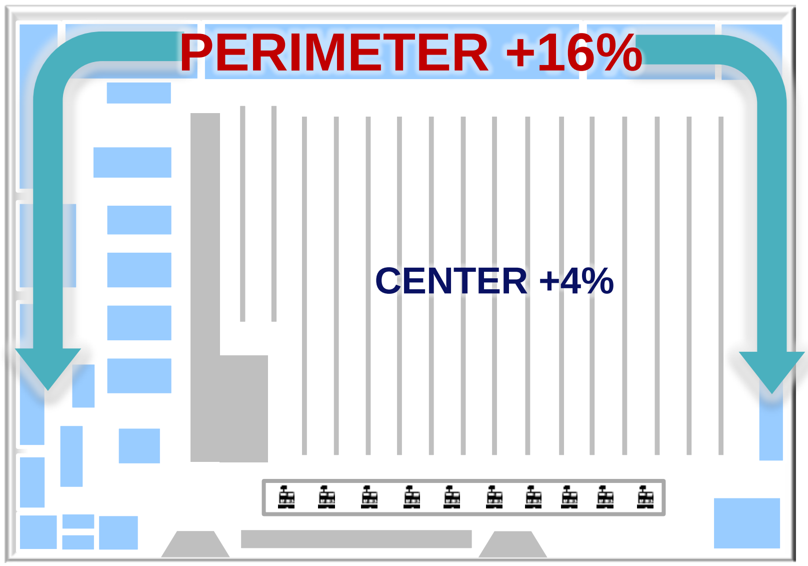
1) Cadent Consulting Group 2017 Marketing Spending Study

3 Perimeter Power

The growth in the perimeter has been dramatic over the past 5 years – 4X the rate of center store.

Compounding this issue is that perimeter categories are far more Private Label oriented. Cadent's assessment of the top 20 food categories split between perimeter and center store indicates a 20 point share advantage for Private Label in perimeter (35 share) vs. in center store (15 share).

AGGREGATE GROWTH (2011 - 2016)



Source: Cadent Industry Study

Extrapolation of perimeter growth trends and Private Label advantage could yield $18B or 1.75 share points over the next 10 years.

1.75 SHARE POINTS

This gain will be in concert with millennial gains; approximately 50% of millennial gains will be due to the perimeter

	Millennial	Perimeter
Gross Share Gain	1.50	1.75
Net Share Gain	**0.75[1]**	**1.75**

2.50 SHARE POINTS COMBINED

1) Adjusted by 50% factor

4 21st Century Deep Discounter Dynamics

It may not be World War III, but the 90% Private Label share at Aldi, with Lidl not far behind, can significantly disrupt the mix. These are new 21st century deep discounters in the U.S. with a holistic commitment to Private Label. Growth projections for Aldi, which is making $5B in capital investments for expansion/improvement, and Lidl are from $12B (U.S. today) to ≈ $30B in 10 years.[1] This growth, when factoring in the Private Label share differential (≈85%[2] average vs. 17.7% today in all outlets), could yield $12B (1.5 share points) in growth for Private Label.

$12B = 1.5 SHARE POINTS

CADENT Consulting Group

1) Cadent projection based on store expansion; 2) 85% (est.) Private Label share for Aldi/Lidl combined.

5 Retailer Reaction – Traditional

Grocery, mass and club could contribute an estimated 1.5 incremental share points to total Private Label over the next 10 years. Beyond the changing retail dynamics, retailers are now staffed by leading-edge brand managers, with superior customer databases that can target shoppers through digital communications – the great equalizer of marketing. Comparable store sales are flat and a strong Private Label can be a critical differentiator.

“We reiterated our out-perform rating on Costco and added that what may save the retailer is its unique Private Label (Kirkland Signature) products.”

~ Wall Street Analyst

> “If you want to differentiate and drive loyalty, you need to have a quality Private Label offering. If you don’t, you will be left behind.”

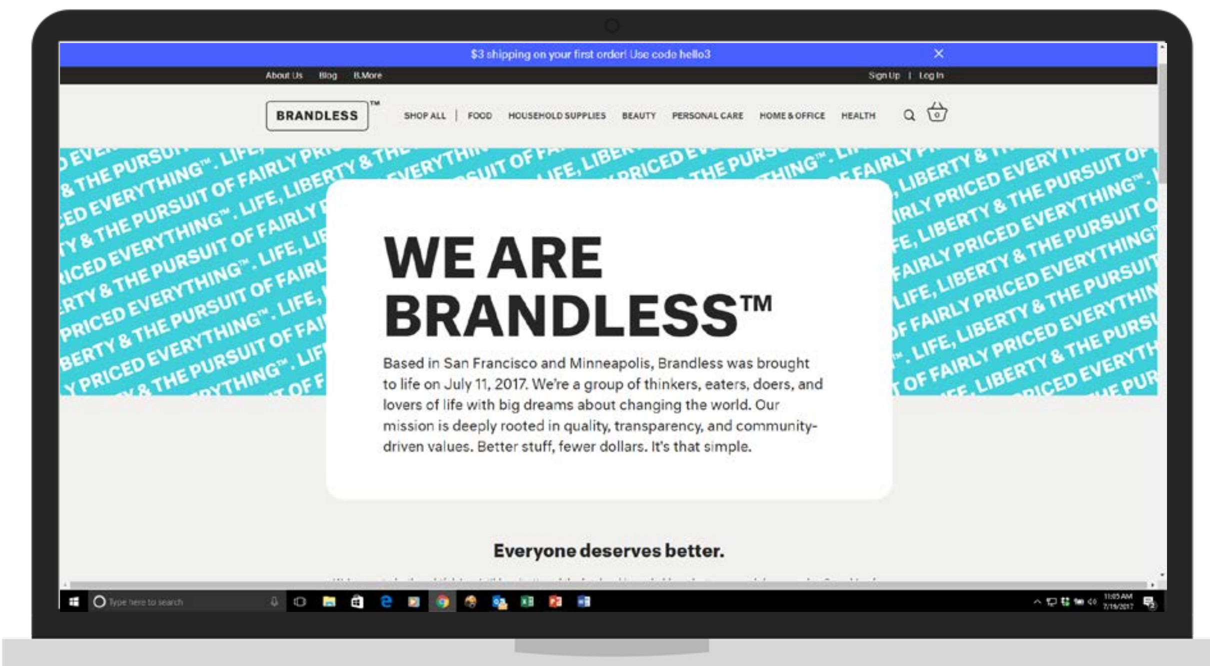
~ Major U.S. Retailer

1.5 SHARE POINTS

❻ New Entrants

BRANDLESS is the latest, but there are more to come. With an inventory of targeted categories and items all priced at $3.00, BRANDLESS is leveraging the intersection of transparency/ sustainability/organic/Private Label/eCommerce. BRANDLESS also has a bold strategy:

> “Reframing CPG… a new wave of consumer-activist culture and transparency.”



New Entrants ≈ 0.5 Share Points

❼ Private Label is a True BRAND

When a shopper arrives at an intersection, how does she decide?

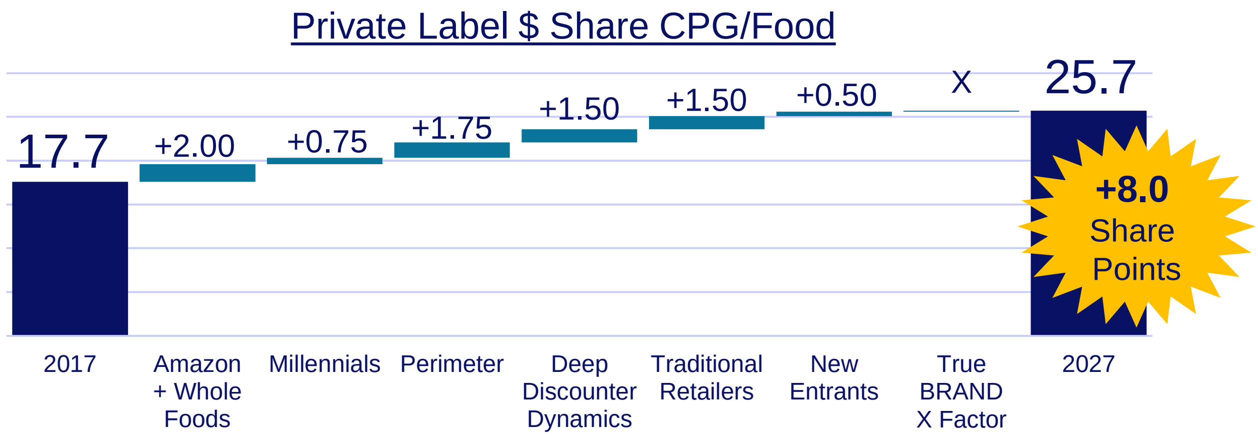
Or does she simply buy online?

With national brands universally stocked, stagnant growth, lack of innovation and competitive pricing, what is the X factor?

Increasingly it is about the store brand, house brand or simply put, Private Label. Private Label can tier up, tier down, go sideways or simply out-perform and out-innovate with the backing of large, powerhouse retailers.

This is the X factor that could be the key differentiating element in the next decade.

THE RESULT



$64 billion in Private Label share “steal” from national brands – $800B U.S. CPG food business.

IMPLICATIONS FOR MANUFACTURERS: THE $64 BILLION QUESTION

Global warming has hit the CPG industry and Private Label seas are rising. Private Label has reached new heights in a time of relative economic strength. We believe that Private Label can represent $64B of growth within the next 10 years ($800B X 8.0 share points).

How will you respond?

Now is the time to reassess your core competencies and target where you can have a true competitive advantage.

1. Double-down: Realize that you are a consumer marketer but it’s not just about the brand, it’s about engagement. The relationship that your shoppers have with your brand and the brand experience is what matters. Marketing is what you do and you need to do it best. What’s the best pricing strategy vs. Private Label? How should you promote? What messages will turn your consumers into brand advocates? What’s the best approach to merchandising and assortment for you and your retail partners?

2. Bifurcate: In theory, this represents the best of both worlds, but is by far the most perilous. While the benefits of potential synergies of producing both branded and Private Label offerings could accrue from a manufacturing, distribution and retail marketing perspective, most often this complexity overwhelms an organization. A dual national branded/Private Label approach should only be selectively employed.

3. Reinvent: If you’re great at manufacturing and you’re truly a low cost producer, position yourself as a strategic source. Develop alliances, continue to innovate, and recognize the complexity of Private Label with numerous brands, labels and variations. This is something that you must be able to do better than anyone else in your business.

Whatever path you choose, you must understand: 1) What shoppers say, 2) What shoppers do, and 3) How retailers perform in order to optimize your brand and category growth.