

# Private Brands Going Nowhere but Up

Industry Report

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## Going Nowhere but Up Industry Report

Premium private brands are flourishing, and national brand heavyweights are scrambling to keep up. This wasn't always the case. So how did the humble generic brand rise to such prominence, becoming a key driver of where consumers choose to spend their cash?

Back in the 1950s and '60s, great marketing was defined by mega-brands like Tide, Kraft, and Lipton. They had the budgets and resources to make sure they knew their customers better than anyone else, and they used it to develop new products or line extensions to keep consumers

hooked. As the quality and quantity of competitive goods for sale increased, brand management grew in importance.

For the next 20 years, Proctor and Gamble, Colgate, Pepsi, Coke, Kellogg's and others built their brand empires by cultivating strong emotional bonds with customers. They sold people a feeling; everyone else simply sold products. By the early 1990s, big national brands were comfortably in charge of how their products went to market—dictating to retailers about shelf placement, advertising and more. That was about to change.



# 2X

SALES OF PRIVATE LABEL GOODS IN THE U.S. GREW MORE THAN TWICE AS FAST AS SALES OF NAME BRAND PRODUCTS BETWEEN 2015 AND 2019<sup>ii</sup>

While many retailers stocked undistinguished private label brands, some started to think that maybe they could also get a piece of the branded pie. High quality, premium private brands could improve their margins and raise the profile of their corporate brand.

SUPERMARKET PRIVATE LABEL BRANDS ACCOUNTED FOR 17% OF U.S. SALES IN 2019, LESS THAN HALF THEIR PERCENTAGE IN THE U.K. AND GERMANY, ACCORDING TO EUROMONITOR<sup>iii</sup>



Retailers in the United Kingdom saw this opportunity first, and acted on it. Initially, national chains like Tesco and Sainsbury shamelessly stole ideas and talent from the heavyweight brands. But it wasn't long before they fielded serious competition. They proved it was possible to develop the same, or even stronger brand loyalty from customers as leading national brands of the day.

Years later, private labels enjoy up to 50% market share in the U.K. (depending on the category). That's translated into a significant boost to the bottom lines of the big private brand chains—their profit margins are more than double that of the rest of the world's supermarket chains. Other European countries followed.

And while the U.S. was not an early adopter, private label sales here are gaining momentum.





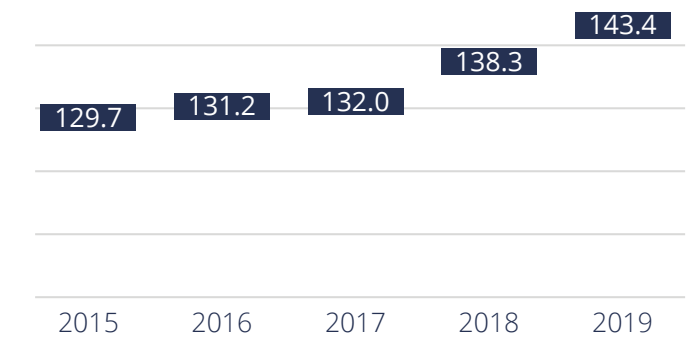


Private labels are growing year over year. Even with a strong economy, price is not the main driver. Growth is consistent across food, household, pet, beauty and personal care categories, according to research by the Food Marketing Institute (FMI) and its insights provider, IRI®

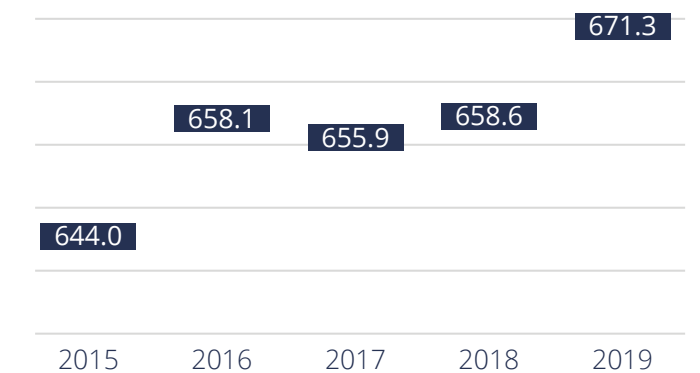
- Private label sales rose to more than \$143 billion in the 52 weeks ended May 25, 2019, a number that's increased by about \$14 billion since 2015<sup>vi</sup>
- The 2019 private label increase was up 3.7% from the previous year and represented a 2.5% four-year compound annual growth rate (CAGR)
- By comparison, sales of branded products were more than \$671 billion for the same period, up only 1.9% over 2018 and a 1% CAGR
- 20% of sales growth in private brands comes from products that are branded as premium, trendy or organic<sup>v</sup>
- About 41% of consumers would like to see more better-for-you products and 44% want more unique attributes

## DOLLAR SALES & GROWTH

*PRIVATE LABEL*  
+3.7% vs. year ago +2.5% (4-year CAGR)



*BRANDED PRODUCTS*  
+1.9% vs. year ago +1.0% (4-year CAGR)

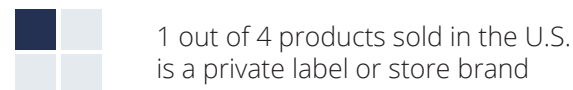
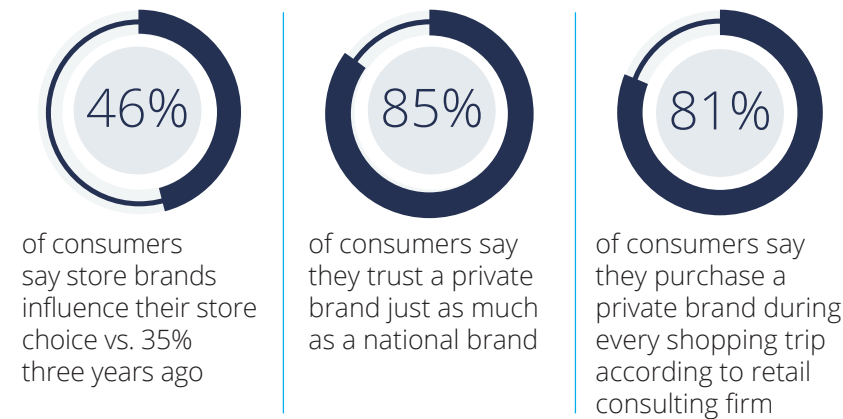






As retailers produce more high-quality, novel products, shoppers of all ages signal their approval by buying more private brand products. According to research by the Food Marketing Institute, consumers are increasingly choosing where to buy groceries based on the quality and selection of private brand products available.

What's more:



Source: Daymon

A 2019 Private Label Manufacturers Association (PLMA) survey found two-thirds of respondents felt that the store brand products they bought were “just as good, if not better than the national brand version of the same product.”

More than 40% said they buy store brands “frequently or always” and 25% said they “are buying more store brands than five years ago.”

## WHAT'S DRIVING THE SHIFT?

Catchy branding, high-quality goods, competitive pricing and more organic, sustainable, better-for-the-environment products keep consumers coming back to certain stores for their favorite private brands. Millennials—now the largest generation of shoppers—are particularly budget and environmentally conscientious. They also have less brand loyalty than Boomers, which makes them more likely to be attracted to private brands.

“From a sales perspective, the rise of private label is clear... While name brand products have made great inroads this year, up 2% in sales, growth has been constrained by flat consumer spending intentions, which have leveled off relative to store brands.”

*Nielsen*

### FOR MOST SHOPPERS THIS COMES DOWN TO TWO REASONS:

1. Private brand products offer better overall value.
2. Retailers have gotten good at anticipating what consumers want and delivering it with private brands.

“Private-label brands have been around for many years, but they’ve been undergoing an evolution lately. In the past, they were considered and branded as generic products—laundry detergent or dish soap that didn’t have a name on the label other than what it was. Just a container with the product inside. Now we have store brands that mimic the elements, attributes and packaging of their big-name competitors, but cost less.”

*Carlos Torelli, professor of business administration and James F. Towey Faculty Fellow at the University of Illinois.*





A photograph of a woman applying a white bandage to a young child's forehead. The child is wearing a red and white striped shirt and blue jeans. The woman is wearing a white t-shirt. The background is a simple room with a wooden shelf and a paper towel roll.

Private label products have delivered huge success to dozens of retailers—beyond a boost to their bottom lines. These brands also cultivate a stronger, more lasting relationship with customers. Consumers trust the retailers and rely on them to create high-quality products at competitive prices.

A few retailers have done such a good job curating their private label brands, they now enjoy a groupie following, with shoppers willing to tolerate busy parking lots, crowded grocery aisles and long checkout lines to buy them. Private Selections at Publix, Simple Truth at Kroger, and pretty much everything at Trader Joe's have secured that level of shopper loyalty.

But successful private label brands come at a cost. They may not be for everyone.



Stores can't simply put private brand products on the shelf and forget about them. Retailers have to measure the success of these products and continue to improve them. This takes resources and management muscle.

Creating fly-off-the-shelf private brands is not easy.

Success depends on:

- FINDING THE RIGHT BALANCE BETWEEN QUALITY AND PRICE
- MANAGING SUPPLIERS AND TIGHT DEADLINES
- DEVELOPING THE RESOURCES TO MANAGE A PORTFOLIO OF PRIVATE BRANDS

In the fast-moving world of retail, companies that decide to launch private brands must find time for brand management because it is critical to success. Retailers must be more than reactionary by thoughtfully planning, testing and innovating.





Who's leading the pack?

# Private Brands

By closely watching their private label product mix, assessing product performance and making improvements, these retailers have built brand loyalty and seen sales skyrocket.



Kroger's Simple Truth private label brand topped \$1 billion in sales

**TRADER JOE'S**

Trader Joe's estimated annual sales are more than \$13 billion, yet its store brand has no online store, no loyalty program, and no discount offers



The investment banking firm UBS valued Costco's Kirkland Signature private label as an asset worth \$75 billion



Six of Target's owned lines now produce more than \$1 billion in annual sales



Whole Foods' 365 Everyday Value brand generated \$10 million in sales on Amazon.com in the four months after Amazon purchased the high-end grocer



Thrive Market has 200 private-label products that represent 30% of its business





In 2019, after Natural Grocers added 47 private label products to its portfolio, sales increased by 6.4% (\$54 million) over the previous year. By optimizing their store brand offering to focus on organic ingredients, including pantry staples, frozen and fresh items, sales soared to \$903 million. The chain plans on launching an additional 70 products in 2020.



Both the California-based grocer Raley's and Midwestern grocer SpartanNash launched initiatives in 2019 to clean up their private label offerings. That includes clearer, more transparent labels and fewer processed ingredients. The two retailers are capitalizing on the overall growth of private label brands in the U.S., and the consumer's desire for more "clean" food options.



Now's the time to jump in

# Private Brands



## Why now?

1. The down-market stigma of store brands is gone.
2. Big retailers' popular brands have gotten consumers used to good, private label products.
3. Private label brands continue to grow and capture market share.
4. Millennials now make up 25% of the consumer population, and they are much more driven by value and transparency than Boomers traditionally were.

The leap is not as scary as it might seem. Retailers have some inherent advantages when launching private brands

- They can place their private brands in the store strategically to compete with global brands
- They have direct contact with shoppers and access to shopping data—purchasing trends across all the products in their stores



## The premium and organic niche is thriving

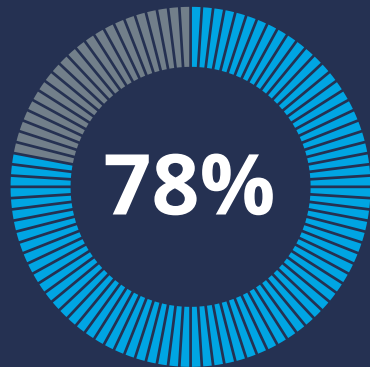
# Private Brands

According to a Nielsen report, premium private label sales account for nearly one-third of dollar volume and drove 8% of the growth in the segment in 2017.<sup>vi</sup>

Nielsen's data makes it clear that consumers are interested in private brands offering more premium and organic products. But with many retailers already playing in this space, it's important to understand the trends.

### SHOPPERS

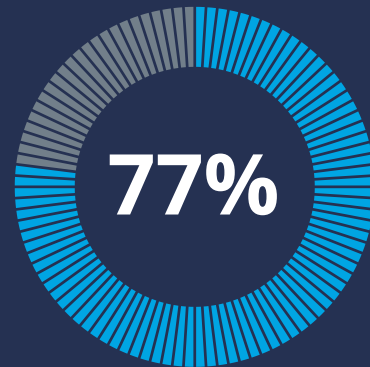
#### SUSTAINABLE SOURCING



**78%**  
feel that sustainable sourcing of ingredients is important

-Daymon<sup>vii</sup>

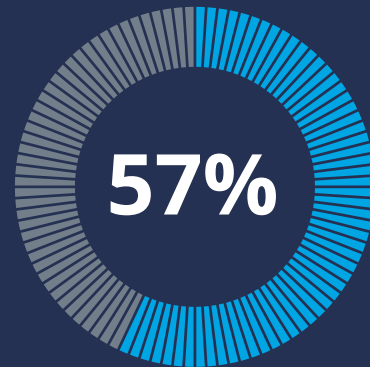
#### SELF CARE



**77%**  
maximize purchases of products that will help them be healthier

-Daymon<sup>vii</sup>

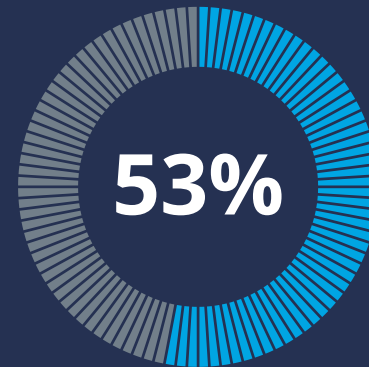
#### GOOD FOR THE PLANET



**57%**  
believe it's worth paying more for a product that's environmentally safe

-Daymon<sup>vii</sup>

#### SUPPORTS A WORTHY CAUSE



**53%**  
are more likely to purchase brands that support a cause they care about

-Daymon<sup>vii</sup>





Though the worldwide success and momentum of private brands is undeniable, retailers can't afford to get complacent.

For those with a portfolio of their own brands, it's important to remember that national CPG companies have taken note of private label growth and are mobilizing to maintain market share. While over half of shoppers say they're patronizing certain stores specifically for their private labels, they won't continue to do so if they don't find interesting, new products on the shelves. It's critical to continue to launch unique products and find new ways to attract Millennial and Gen Z shoppers.

For retailers who haven't yet committed to private brands in a big way, the time is now. Big retailers like Costco and Target have broken down barriers and paved the way for smaller chains. The stigma of generic brands is gone. In its place are consumers eager to see what kinds of innovative products retailers will produce.





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## WHO IS QUAD

Quad is a worldwide marketing solutions partner dedicated to creating a better way for its clients. Our data-driven, integrated marketing platform helps clients reduce complexity, increase efficiencies and enhance marketing spend effectiveness. With a client-centric approach, leading-edge technology and single-source simplicity, Quad has the resources and knowledge to help a wide variety of clients in multiple vertical industries, including retail, publishing and healthcare.

### Citations

- <sup>i</sup> The Atlantic, "How Brands Were Born: A Brief History of Modern Marketing," October 3, 2011
- <sup>ii</sup> Nielsen Retail Measurement Services, 2019
- <sup>iii</sup> Wall Street Journal, "Big Food's Next Big Problem: Supermarket Brands," March 5, 2020
- <sup>iv</sup> Nielsen Total Consumer Report 2019
- <sup>v</sup> FMI
- <sup>vi</sup> nielsen.com, "It Pays to Be Premium," April 3, 2018
- <sup>vii</sup> Daymon, "What's Next in Innovation: Private Brand Intelligence Report 2019

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See how we can help.

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