



TIMES AND TRENDS

Private Label: The Journey to Growth Along Roads Less Traveled

NOVEMBER 2016



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Executive Summary: Charting a New Path to Growth

The consumer packaged goods (CPG) industry is struggling to jump-start growth. Economic turmoil put a huge damper on volume momentum, but improving conditions have done little to spur momentum.

- CPG retailers and manufacturers are looking for new ways to drive excitement and engagement.
- National brands and name brands each have a pivotal role to play.
- Striking the right balance is the key to successfully providing a solid value proposition and a positive shopping experience.

The next wave of private label growth will be fed by diversification and premiumization. Retailers must rewire their private label strategies and begin to compete as true brands rather than “me too” players.

- Relying on distribution gains for growth is no longer a sustainable option.
- Slow private label losses across battleground categories with new competitive strategies.
- Jump on the growth bandwagon across opportunity categories, where private label is showing favorable growth trends.

Private label structure will be the same, but different.

Balancing assortment is critical, so it must be handled with a very deliberate and targeted approach.

- Opening price point products remain an essential option for customers across some geographies, channels, banners and trip missions.
- Mainstream innovation must evolve beyond traditional follower status.
- Premium innovation provides opportunity to offer exclusivity and increased share/margin.

Framework to win: Premiumization and differentiation set the stage for private label growth.

- Upstream innovation will breathe new life into mature private label categories.
- Outside-the-box innovation will allow retailers to ride the wave where private label growth is escalating.
- Effective price pack architecture is critical, particularly where private label is mature and differentiation is challenging.

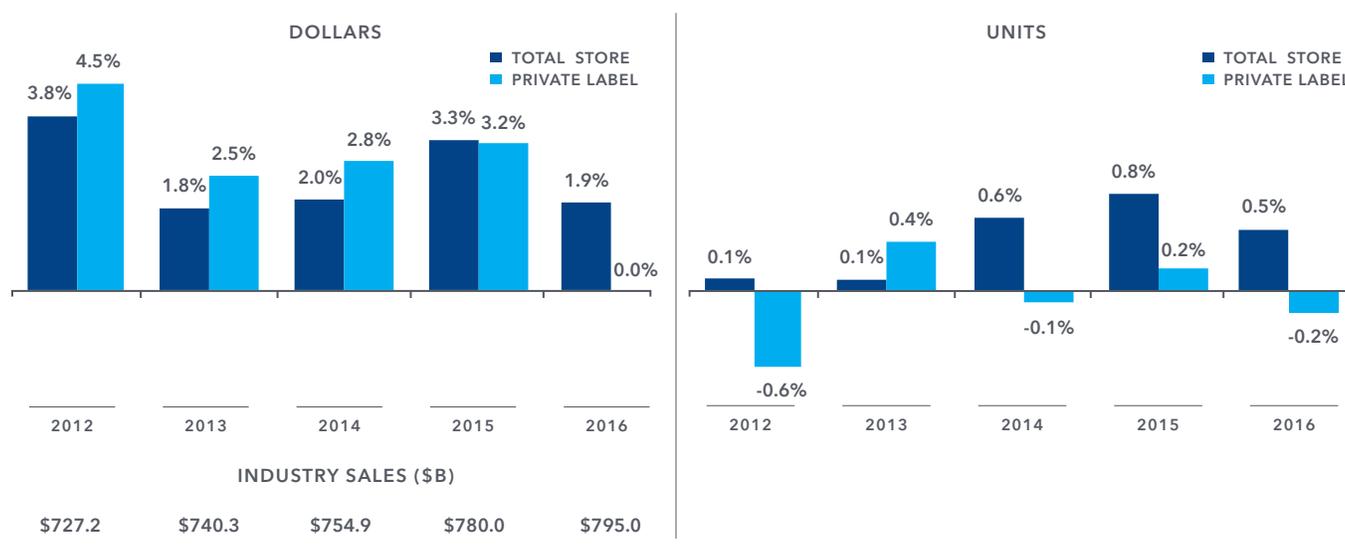
CPG Industry Growth Is Stagnant

Industry Growth Is Soft, with Dollar Sales Driven by Price and Promotion Changes

EXHIBIT 1

After outpacing industry average for several years, private label dollar sales growth declined during the past two years; unit sales are also lagging behind industry average.

Industry Growth Multi-Outlet Plus Convenience 2011-2016



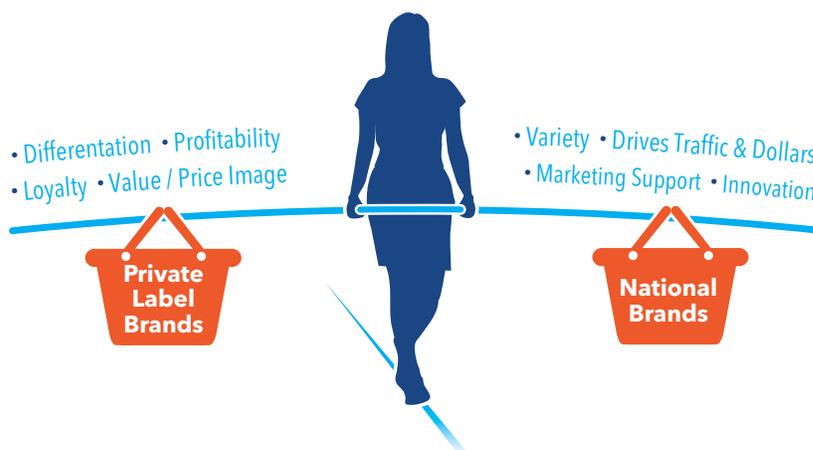
Source: IRI Market Advantage™ 52 weeks ended 9/11/2016 and same period prior years.

Lackluster growth has become a hallmark of the CPG industry during the past several years. All the while, consumers have become more discerning and competition has heated up, leaving CPG retailers and manufacturers looking for new ways to drive excitement and engagement that will bring true and sustainable growth.

Certainly, product assortment plays an important role in these efforts. National brand products drive traffic and variety. National brand manufacturers innovate to keep things exciting, and they provide essential marketing support.

Private label brands are also essential. They are critical to a retailer's value image; they support margin and profitability; and, when used effectively, private label products offer exclusivity and drive increased customer loyalty.

Balancing private and national brand products is a delicate task. It is essential in ensuring the consistent delivery of value in relation to price, product benefits and the overall shopping experience.

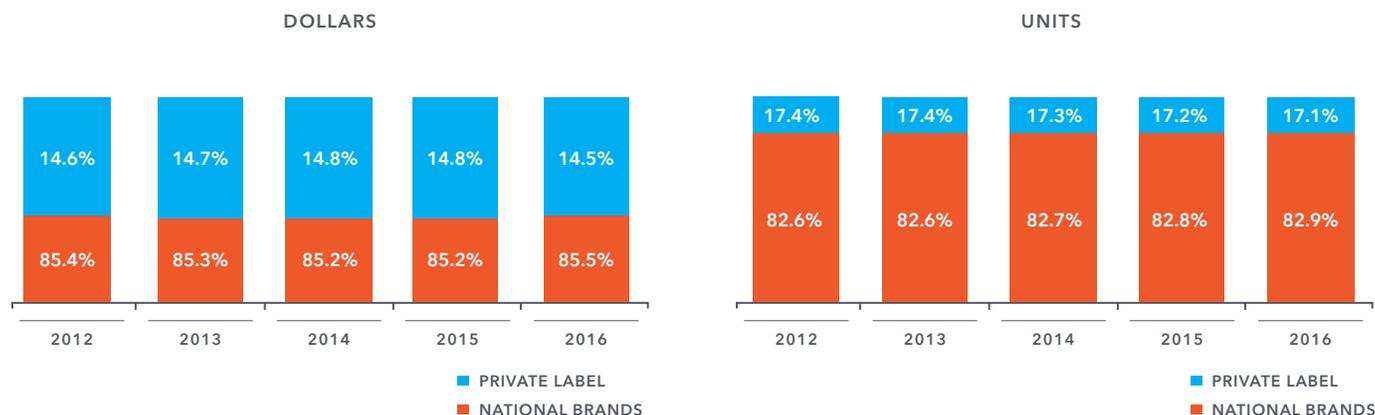


Private Label Share Has Changed Very Little During the Past Five Years

EXHIBIT 2

After several stagnant years, private label share is beginning show signs of declining.

Private Label Share Multi-Outlet Plus Convenience 2011-2016



Source: IRI Market Advantage™ 52 weeks ended 9/11/2016 and same period prior years.

The early 2000s were marked by solid private label momentum, supported by distribution gains, stepped-up innovation and conservative consumer buying habits. Today, private label brands account for 14.5 percent of CPG dollar sales and 17.1 percent of unit sales.

During the past several years, though, the momentum has shifted and private label share has become fairly stagnant. This past year brought continued declines in unit share and falling dollar share.

Unit stagnation is combining with what is predicted to become the longest stretch of falling food prices in more than 50 years, due to excess supply, low energy prices and lower demand across some major international markets.¹

These declines are driving national brand manufacturers to lower prices, which puts the squeeze on private label price benefits and encourages private label marketers to slash their prices to reestablish their low-price advantage, having a negative impact on private label share of dollar sales, as well as overall comp store sales and profitability.

This is a dangerous spiral—one that does not support the health and vitality of the private label sector or the CPG industry as a whole. Avoiding over-reliance on promotion is critical. Doing so will require diligent private label program management and execution.

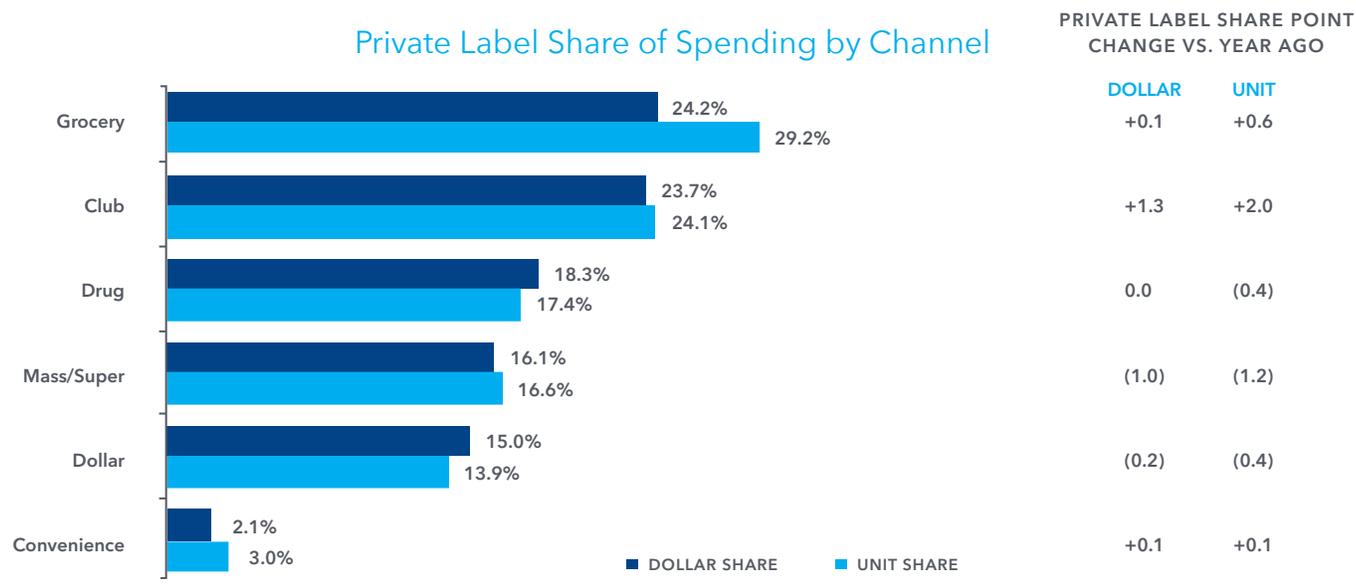
This report provides insights into trends that are shaping the private label sector and guidance on strategies that will help retailers optimize private label programs going forward, creating a strong foundation for consistent growth.

Source: ¹ Wall Street Journal, 8/29/2016

Sizable Share Shifts are Occurring Across CPG Channels

EXHIBIT 3

Private label share is highest in grocery, but club channel gains are strong.



Note: Walmart not included in grocery or mass/super.

Source: Grocery, club, drug, dollar & mass/super via IRI CSIA™ 52 weeks ending 9/4/2016 versus same period prior year (No NBD); Convenience via IRI Market Advantage™ 52 weeks ending 9/4/2016 and same period prior year.

This past year has seen some noteworthy shifts in channel-level private label trends. Grocery, club and convenience channels were able to maintain solid footing—even slight growth—in private label share, supported by a careful expansion of private label assortment across food and beverage and non-food ranges.

H-E-B introduced its new H-E-B Select Ingredients line, which brings cleaner ingredients across a number of sizable food categories.

Convenience retailer 7-Eleven is expanding the selection of its private label line to include healthier and more affordable snack options, including trail mixes, quinoa chips, kettle popcorn and snack bars.

Costco is expanding penetration of its private label products to 37 percent, from the current 25 percent level, adding new products and expanding the Kirkland Signature line. The retailer is also expanding depth of co-branded products.¹

The dollar channel saw private label lose ground, driven by strong pricing headwinds. As competing channels and banners cut prices, dollar channel retailers are responding with the same. Dollar General, for instance, just slashed prices on 450 top-selling items, with more cuts planned for the near-term future.²

The drug channel is struggling to maintain private label unit share, losing ground across private label edibles—including candy, bottled water and cookies—to competing channels, where selection is broader.

Detailed in IRI's recent [Times & Trends, The Omnichannel Journey: Translating Big Data into a Prescription for Growth](#), the battle for share of shopper spending is fierce and escalating. This is equally true in the private label sector, and it clearly emphasizes the need to carve out new paths to sustainable growth.

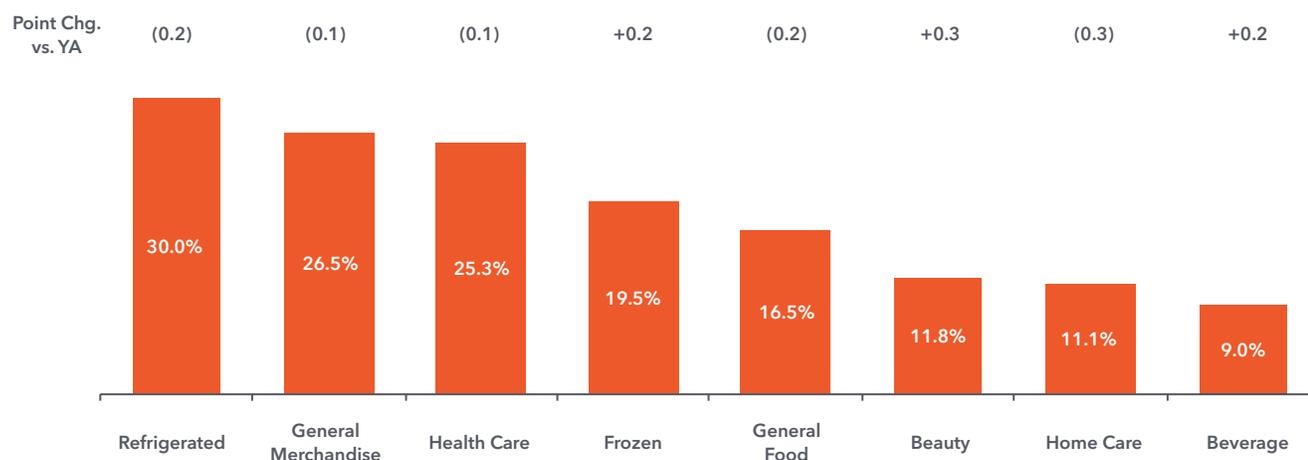
Sources: ¹IGD Retail, August 2016; ²IGD Retail, August 2016

Private Label Evolution Is Entering a New Phase

EXHIBIT 4

Share declines and associated revenue losses point to a dire need to find new private label growth avenues.

Private Label Share of Unit Sales By Department



Source: IRI Market Advantage™ 52 weeks ended 9/4/2016 and same period prior years.

Analysis of department-level private label share trends provides a glimpse into the next phase in private label evolution.

Private label share declines across some sizable departments, such as home care, are being brought about by private label losses across historically sizable and “stronghold” categories. For example, share slipped across half of home care categories, including fabric softeners (down 0.9 points) and household cleaners (down 1.2 points). Positive development occurred in other big private label categories, including

air fresheners and mops/tools, but these areas do not have enough momentum to offset losses.

Similar trends are occurring across several CPG departments. Retailers and private label manufacturers are looking for opportunities to build momentum, and some progress is being made.

For instance, while several core beverage categories, including carbonated beverages and energy drinks, have seen flat to declining private label performance during the past year, retailers are placing

more emphasis on expanding their private label beverage benefits beyond simple thirst quenching. By delivering against sought-after benefits, such as nutritional enhancement, workout recovery and energy enhancement, emerging private label beverage categories—liquid drink enhancers, bottled water and coffee—have seen private label share jump.

This type of forward-looking thinking and shopper-centric focus is key to reinvigorating struggling private label sectors and activating new growth levers.

The Next Wave of Private Label Growth Will Be Fed by Diversification and Premiumization

It's Time for Retailers to Take the Road Less Traveled

For years, distribution has been reinforcing the growth of private label packaged goods solutions. This path is no longer sustainable, as evidenced by close examination of distribution trends. Foretelling shifts are most evident across edibles aisles.

Between 2011 and 2012, 70 of the 100 largest private label edibles categories saw distribution increase, while 30 had falling distribution. By 2015, the tables began to turn. Thirty-seven of the 100 largest private label food and beverage categories saw distribution decline, while an additional seven saw no change in average distribution levels.

Trends are similar, albeit less sharp, in non-food aisles, where private label development is, on average, behind the food and beverage sector. During 2012, 12 of the 50 largest non-food categories saw private label distribution decline. By 2015, 28 of the 50 largest categories were in decline.

These shifts are having a significant negative impact on grocery revenues. In the refrigerated foods department alone, share losses topped \$34 billion during the past year. And, since margin reaped from private label sales is bigger than that on national brand solutions, impacts of these losses are even more distressing to retailers' balance sheets.

To stabilize private label and boost comp store sales, retailers must travel new paths to growth.

A critical first step to growth is to stem the tide across categories

EXHIBIT 5

Private label share losses deal a significant negative blow to sales revenues.



Retailers looking to find growth in private label must focus on making the most of categories where private label growth is accelerating while managing losses in large private label categories whose relevance is waning.

where private label share is high, but on a downward trend. These are **battleground categories**.

Understanding where the losses are coming from—dollars, volume or both—is an essential first step, since plans to protect and grow will depend on drivers of loss.

Success is also about taking a new direction. Across a wide swath of categories, private label growth is healthy. These categories bring great opportunity for retailers

that are willing to step outside the traditional private label box and diversify into new areas. Retailers cannot afford to miss the boat across these **opportunity categories**, especially where growth is accelerating.

On the following pages, IRI provides high-level insight into strategies that will spur private label growth. Deeper exploration of these opportunities will follow throughout 2017.

The Same Basic Private Label Structure Will Be Quite Different Under the Surface

Value Is the Lifblood of a Strong Private Label Program

Done correctly, private label programs play several very important roles for retailers. The hallmark of a private label program that effectively attracts and engages shoppers is a strong value proposition. These products must provide good quality and deliver against a shopper's most pressing needs at a reasonable price point.

The "original" private label—generic products with black-and-white labels—has evolved, but these opening-price-point products still offer shoppers no-frills basic products at a bare-bones price point.

As private label evolved, the "me too" development of name brand equivalents took hold. Private label brands became more prevalent across aisles, and distribution gained speed. In an industry where the typical margin is razor thin and under constant pressure, these brands did and still do play a critical role in protecting and enhancing margin for retailers across CPG channels. It is this role that is in jeopardy across retailers that continue to rely overly on price-driven efforts to drive private label volume growth.

Today, a good portion of private label growth is coming from premium-tiered products. While premiumization and differentiation are not synonymous, both are essential, and retailers that bring premium products to market are often creating a unique draw for shoppers of that category. These are

EXHIBIT 6

Private label programs that span the price/value spectrum provide something for everyone at a price they are willing to pay.



PREMIUM

- Value-add
- Key to retailer differentiation

MAINSTREAM

- Name brand equivalent
- Key to margin enhancement

VALUE

- Opening price point option
- No frills, basic product

the brands that support customer loyalty and help capture a maximum share of customer spending.

All three levels of private label are important. Retailers must work hard to continue to optimize their private label strategies, finding the right assortment of value, mid-tier and premium solutions that, taken together with national brands, offer their customers the best value across CPG categories. The formula will vary—by category, channel, customer and even trip mission.

Getting it right requires keeping a close watch on the pulse of evolving customer needs and wants, as well as developing private label trends.

Protecting against leaks in maturing private label categories is an essential first step.

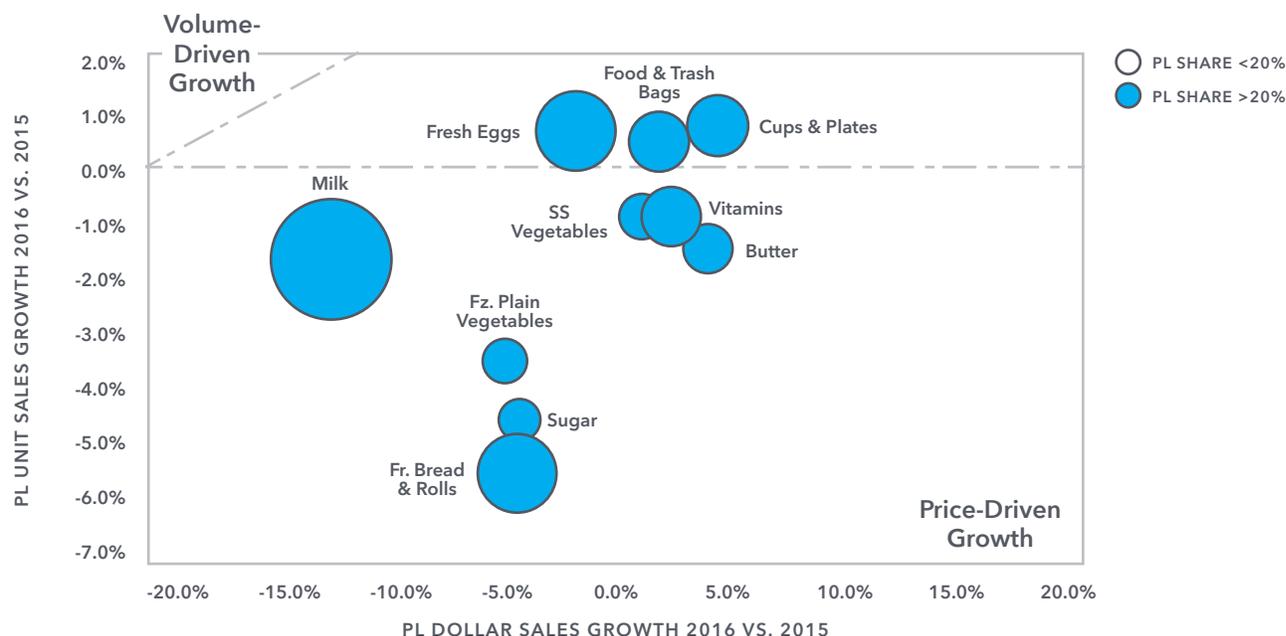
Plug the Leaks with Targeted Innovation

Protecting the Private Label Base Is an Essential First Step

EXHIBIT 7

Many of the largest private label categories are suffering from a decline in unit sales, placing downward pressure on sector growth.

Growth Contribution Among Largest Private Label Categories



Note: Across the top 100 private label categories.

Source: IRI CSIA™ 52 weeks ending 9/4/2016 versus same period prior year (NBD).

Private label sales are rather concentrated—the 50 largest private label categories account for an estimated two-thirds of private label sales. As illustrated in the chart at the top of this page, many high-share categories—those in food and beverage particularly—are seeing private label sales deteriorate. Across food and beverages, price compression is further exacerbating negative revenue trends.

Even without the compounding impact of price compression, these declines serve as obvious red flags for retailers. These categories are

worth hundreds of millions (even billions) of dollars, so revenue losses here will hit hard.

To prevent an ongoing slide, retailers must take action now. Breaking out of the “me too” box is essential here, and retailers are working hard to make that happen. Plant-based milks, nutrient-enhanced eggs, etc., bring differentiation and opportunities to compete beyond the core of these commodity categories and the opening price point segment of the sector.

In addition to actively innovating, retailers also need to take a granular look at evolving private label challenges and opportunities, including changing eating behaviors, new technologies and ingredients, distribution logistics, and a wide range of other considerations.

Broad private label umbrellas make it more difficult for retailers to address myriad considerations, as well as more confusing for shoppers. Breaking that brand down into bite-size pieces allows for more tailored strategies—from innovation and distribution to pricing and promotion.

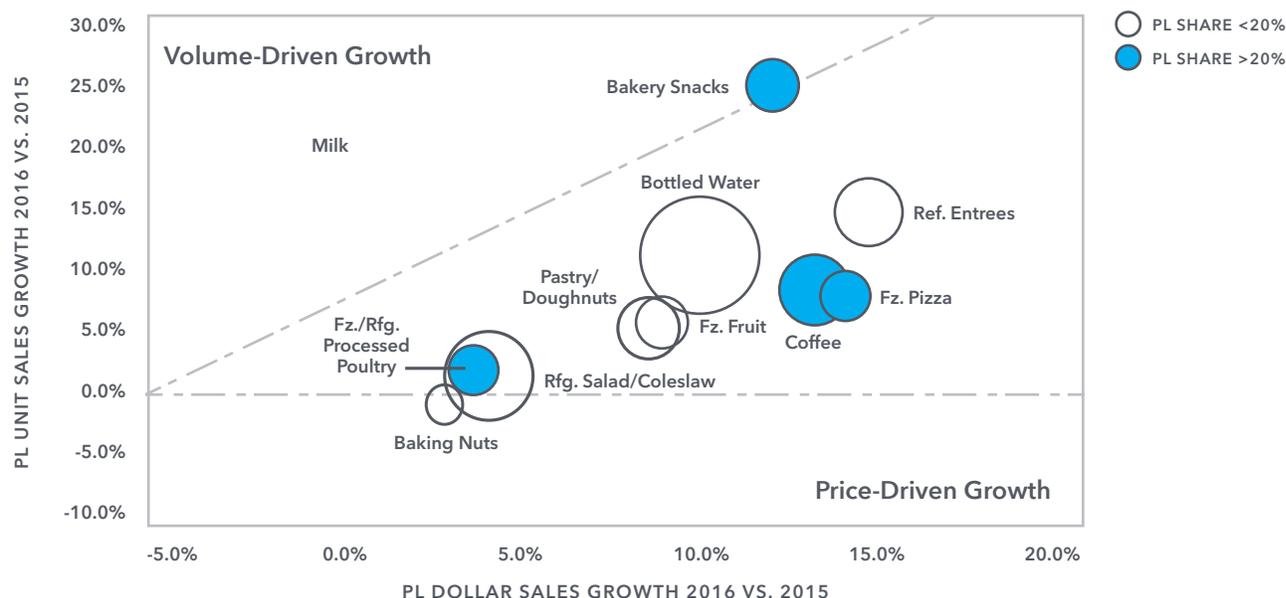
Expand the Competitive Set with a Consumer-Centric Lens

Boost Volume and Dollars Across Food and Beverage Aisles with Outside-the-Box, Consumer-Centric Innovation

EXHIBIT 8

Nearly all food and beverage private label growth is driven by price, and price compression is only amplifying the negative pressure.

Top 10 Contributors to Growth: Food and Beverage



Note: Across the top 100 private label categories, CAGR > 0, Fair Share Index > 200.
Source: IRI CSIA™ 52 weeks ending 9/4/2016 versus same period prior year (NBD).

As detailed in [IRI's New Product Pacesetters: Harvesting the Fruits of Innovation Done Right](#), retailers that adopt a new lens—a lens that views the CPG landscape in terms of usage/consumption occasions and fulfilling needs and wants, as opposed to CPG marketers' long-standing practice of working within conventional category definitions—will engage and excite shoppers and create differentiation that will help retailers enhance their value proposition and capture increased private label share.

Exhibit 8 illustrates a handful of food and beverage categories that are demonstrating solid private label momentum. Private label share in many of these categories is quite low, so there is plenty of upside potential for retailers looking to shake things up.

But, to prevent these categories from becoming oversaturated and drive sustainable organic growth, retailers must reframe the competitive set and innovate accordingly.

These efforts must be supported with a tailored and cohesive market story that is developed around a strong value proposition. Only then will retailers be able to escape overly price-driven growth.

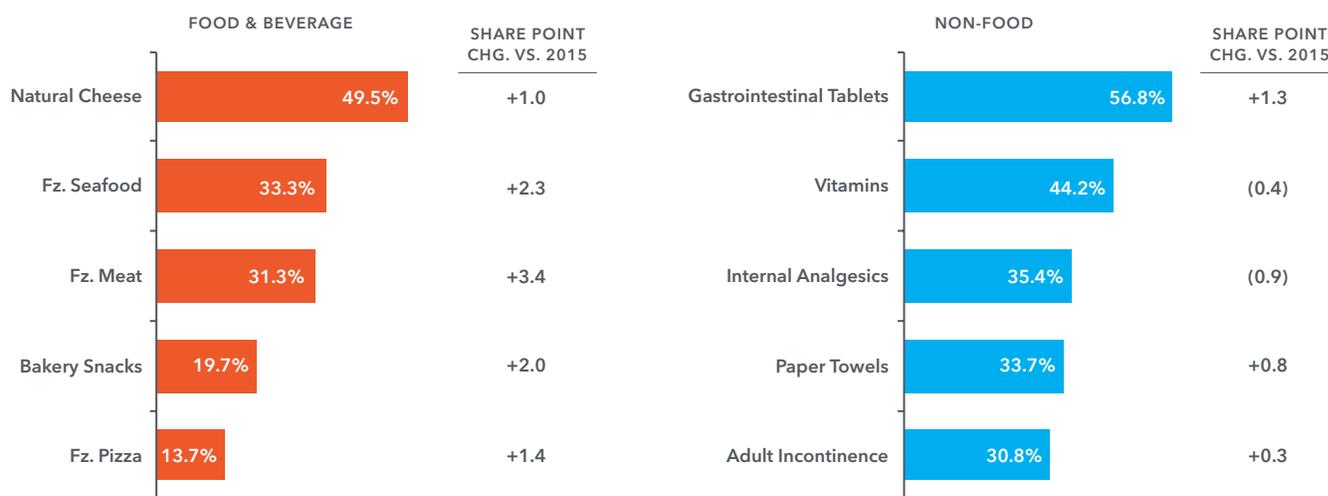
Of course, managing resources is a challenge. Where traditional brand manufacturers have one or a handful of categories to consider, retailers are faced with many more. Retailers will need to be selective about where to invest their time, money and energy.

Get on the Growth Bandwagon

EXHIBIT 9

Accelerating categories offer significant growth opportunities for retailers that effectively dial in to market and consumer trends.

Private Label Volume Share Trends Across Categories Where Volume Sales Growth Is Accelerating



Note: Among the top 100 private label categories that are experiencing accelerating volume sales growth. 2016 volume sales growth compared to CAGR 2012 - 2015. Source: IRI Market Advantage™ 52 weeks ending 9/4/2016 and same period prior year.

Because retailers must be selective, it is critical to remain vigilant in order to identify the emerging growth opportunities. Categories where private label growth is accelerating provide ample access to upward momentum.

Private label enjoyed volume and volume share growth across the five most rapidly accelerating edibles categories. In the non-food sector, volume growth grew across all five, and volume share was up in three of the five. As illustrated earlier, each share point translates to billions of dollars across a department—millions within a single category. These growth bandwagons cannot be missed.

Growth across many private label categories is being fanned by prevalent consumer trends. Shoppers, for instance, are looking for convenient and healthy food and beverage solutions. Natural cheese, frozen seafood and frozen meat simplify mealtime by providing quick and easy solutions. Customers seek non-food products that work longer, are more efficient, and provide better results. Vitamins, gastrointestinal tablets and paper towels all fit this bill.

By investing time, money and attention to understand these emerging trends and how they impact key shoppers, retailers will be able to tailor their private label solutions and associated communications to shoppers in a more personalized and engaging manner.

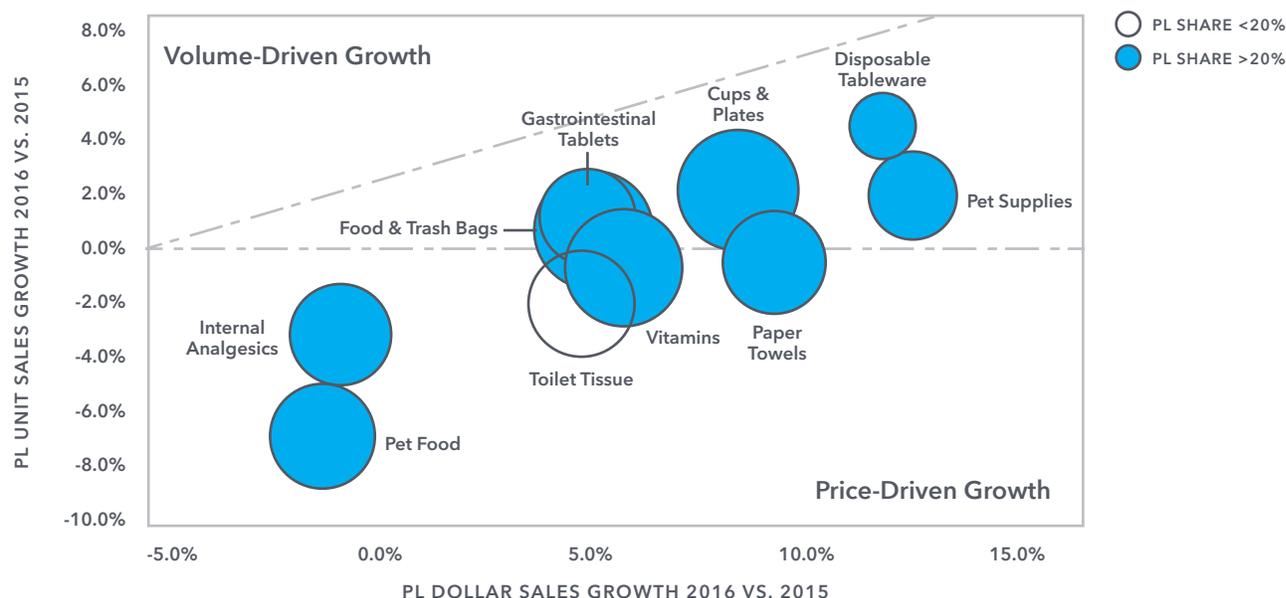
Effective Price Pack Architecture Is Essential

Battleground Categories Are Ripe for Differentiation

EXHIBIT 10

Non-food categories are seeing mixed private label development trends, with signs of overreliance on price-driven growth.

Top 10 Contributors to Growth: Non-Food



Note: Across the top 25 private label non-food categories, CAGR > 0, FSI > 200.
Source: IRI CSIA™ 52 weeks ending 9/4/2016 versus same period prior year (NBD).

Though the non-food sector is slightly behind food and beverage in terms of private label development, this is another area that will greatly benefit from premiumization and/or diversification.

Exhibit 10 illustrates dollar and unit sales growth trends across non-food categories that are demonstrating the strongest private label growth. In each of these categories, private label's fair share index is over 200, indicating that private label is contributing more than its fair share to the growth of the category.

These categories—many of which are quite large—have private label momentum.

Still, much of the growth across these important categories is being driven by price. Though low prices are moving units in some of categories, this is not a sustainable solution.

Overreliance on price undermines brand equity and strangles margin. And in private label, where price gap is already under significant pressure, the race to the bottom among those that compete on price will be swift.

The struggle to maintain an effective price pack architecture is nothing new for name brand manufacturers. Now, as private label is maturing, private label marketers must take on the same challenge. It's a daunting task, particularly across some of the non-food categories—toilet tissue, cups and plates—where differentiation is difficult to achieve. But, by tactically choosing where to compete on opening price point and where to use higher-end attributes and premiumization to entice customers to trade up, retailers can grow the category and their private label brands simultaneously.

Resources

If you enjoyed this report, you may be interested in the following IRI products and services, which provide customizable insights into important trends that are impacting the private label marketplace:

For sales and channel management that goes beyond the “what” to deliver the “how” and “why,” tap into **IRI Market Advantage™**

Powered by IRI Liquid Data, IRI Market Advantage™ enables better, faster decisions with a broader level of marketplace insight than ever before by delivering all edible and non-edible categories in multiple business views, ranging from total store, departments and aisles to eating occasions, corporate portfolio and brand franchise—all drillable to the individual UPC level—as well as the ability to customize category definitions and detailed product segmentations.

For insights generated by longitudinal consumer purchasing, shopping, attitudinal, demographic and geographic information, turn to **IRI Consumer Network™**

This nationally representative panel of households tracking purchases with handheld barcode scanners or a mobile smartphone delivers extensive demographic profiles to enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.

To gain a comprehensive understanding of your product’s price sensitivities, gaps, thresholds and behavior in comparison to your competitors, rely on **IRI Price & Trade Advantage™**

IRI Price and Trade Advantage™ is a market-proven solution that enables leading consumer goods manufacturers to improve pricing and promotion strategies by providing predictive results through a series of web-based diagnostic reports and simulated plans. Powered by sophisticated analytical pricing models, which have been honed over 20 years of client experience, the solution provides an end-to-end application that enables planning and evaluation of alternative price and promotion scenarios, analysis of price points and thresholds, and review of success of past events.

To fuel iterative consumer and shopper analyses on the fly, turn to **IRI Consumer and Shopper Insights Advantage™**

Leveraging IRI’s revolutionary Liquid Data Platform, CSIA serves up Trial & Repeat, Product Switching, Basket-Level Co-Purchase, Category Leakage and other key consumer analyses to better inform brand marketing decisions and protect and grow business at retail.

About the Practice:
Retail Productivity

IRI’s Retail Productivity maximizes effectiveness of in-store execution by identifying how to boost sales through optimizing assortment, merchandising and space by using easy-to-use decision-making solutions that drive granular planning and activation.

Related Materials

Private Label in Western Economies

Losing share

IRI Special Report



Tim Fales
Director of Strategic Insight, IRI



June 2016

FOR MORE INFORMATION

Please contact John Porter at John.Porter@IRIworldwide.com or Susan Viamari at Susan.Viamari@IRIworldwide.com with questions or comments about this report.



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