

# Private Label 2017

The Evolution of Private Label in a Transforming Marketplace



# Executive Summary

- Economic indicators have been shaken by wild fall weather, but favorable trends prevail.
- Though the economy is fairly solid, many consumers are still struggling to make ends meet and uncertainty is pervasive.
- Private label is viewed as a viable CPG option and is outpacing industry-average growth, as well as national brands.
- The private label marketplace is evolving rapidly, as new market entrants turn “the old way” on its head.
- E-commerce private label is growing quickly, supported by the proliferation of click-and-collect models.
- Traction is solid across various consumer segments.
- Prospects for private label growth are good, but CPG marketers need to dial into consumer needs and wants—including premium-tiered solutions.

Unemployment fell in 2016 and retail sales climbed. Meanwhile, GDP slipped and inflation ticked up.

## ECONOMIC GROWTH

Economic Measure	2012	2013	2014	2015	2016
GDP (% Chg.)	4.1%	3.3%	4.2%	4.0%	2.8%
Unemployment (% , SA)	8.1%	7.4%	6.2%	5.3%	4.9%
Consumer Price Inflation (% Chg.)	2.1%	1.5%	1.6%	0.1%	1.3%
Retail Sales (% Chg.)	4.8%	3.8%	4.2%	2.6%	3.0%
Residential Permits, Total (Mil.)	3.3	3.9	4.2	4.7	4.8

Source: Moody's

A chaotic hurricane season has thrown off economic indicator trends; overall, sentiment appears positive.

**ECONOMIC  
GROWTH**

- Damage boosting car sales and inflating gas prices.
- Mixed impact on food sales, as out-of-home restaurants were depressed by damage/closed stores, but now seeing a boost as consumers eat out due to lack of power.
- U.S. Department of Commerce: sales at restaurants, retail stores and online-shopping platforms rose a seasonally adjusted 1.6% in September from the prior month, the largest one-month jump in more than two years.
- Despite tainted indicators, experts assessing largely positive economic movement.
- Expectation that U.S. Federal Reserve will raise short-term interest rates for the third time this year.

Source: The Wall Street Journal

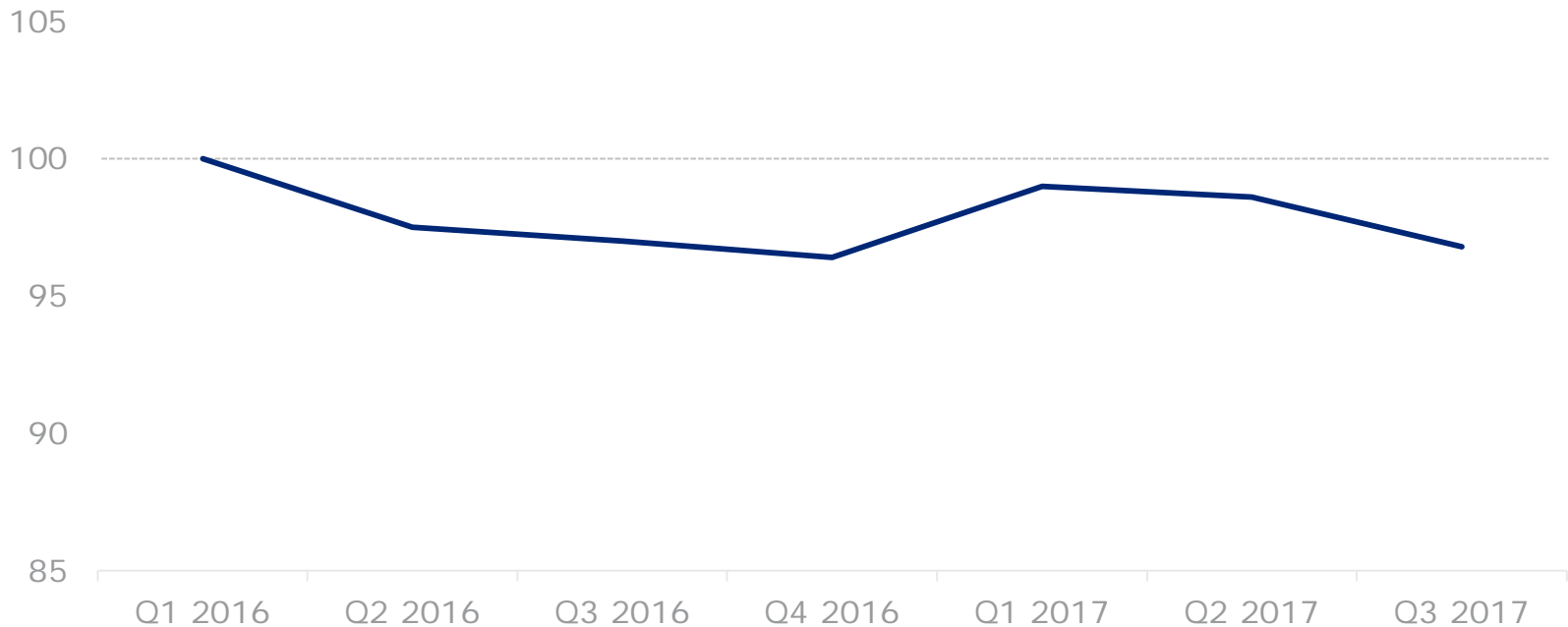
## Changing private label assortment dynamics and new market entrants are also impacting sales trends.

- Costco is focused on driving private label penetration from the current rate of about 25% of sales to 37% of sales; focus is on Kirkland Signature natural and organic products and increased scope of co-branded products.
- By 2022, major private label players, Aldi and Lidl, could have a combined 10% grocery share.
  - Hard-discount grocer Lidl entered the U.S. market in June 2017, with plans to open more than 100 U.S. stores by the end of 2018, and over 600 stores in five years.
  - Aldi is increasing its U.S. investment and is expected to become the third-largest U.S. grocer by 2022, with over 2,300 stores.
- Amazon.com's private label sales (all-inclusive) are expected to top \$4 billion this year, including \$700 million in private label sales from newly acquired Whole Foods.
- Online grocery retailer Brandless launched July 2017, offering a wide range of generic CPG items—including snacks, beverages, cleaning supplies, beauty products and more—for \$3 each.

Source: Company press releases; [www.fortune.com](http://www.fortune.com) (July 13, 2017); [www.cnbc.com](http://www.cnbc.com) (October 2, 2017); IGD Retail

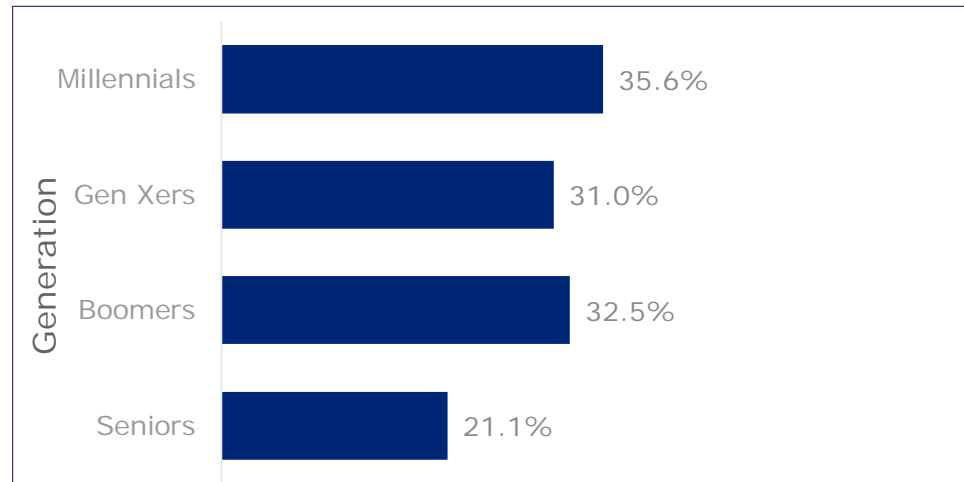
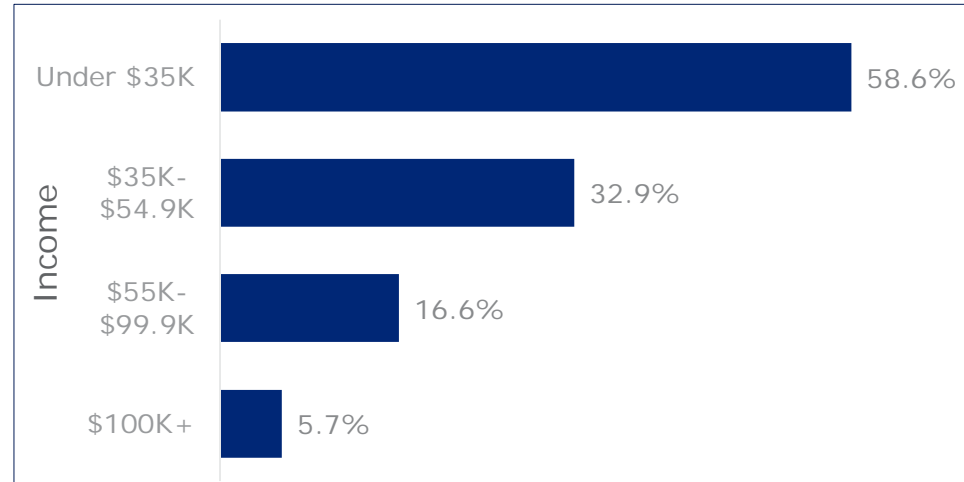
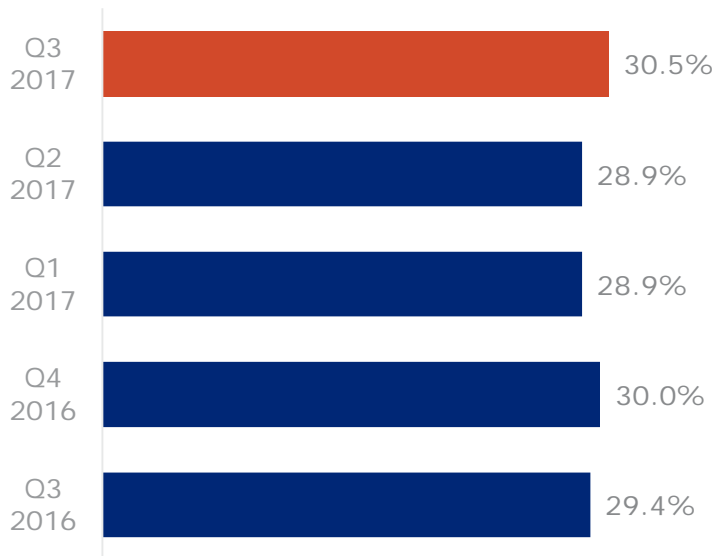
Despite favorable economic conditions, uncertainty has driven consumer sentiment down.

Consumer Connect Index  
Average = 100  
Total U.S.



# One-third of the population struggles to afford groceries; the struggle is more pervasive among lower-earning households.

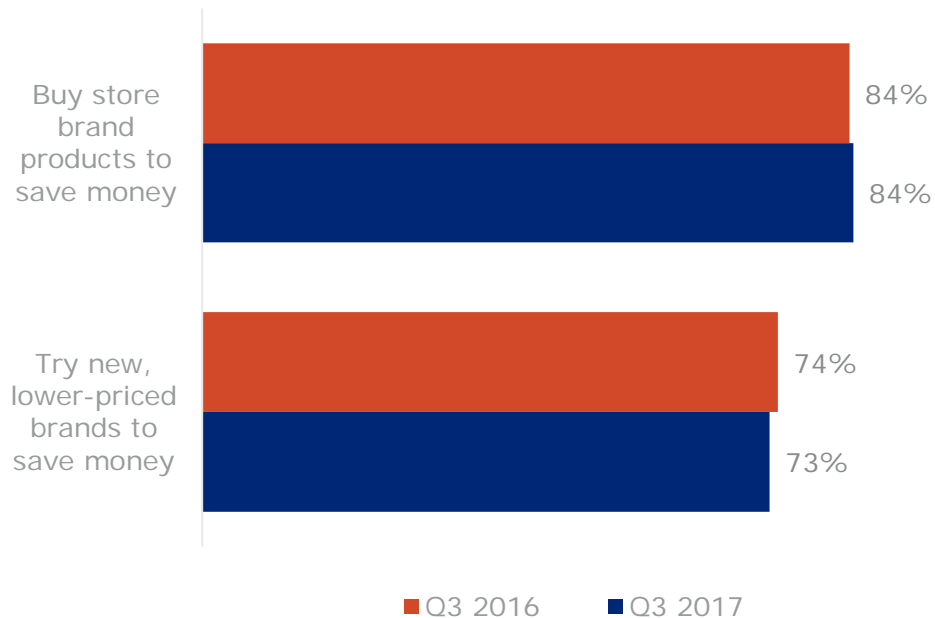
Households Having Difficulty Affording Groceries  
% of Households  
Total U.S.



Source: Consumer Connect™, Q3 2017

# Consumers are open to brands that allow them to save money.

## Shopping Behaviors Top-2 Box Responses



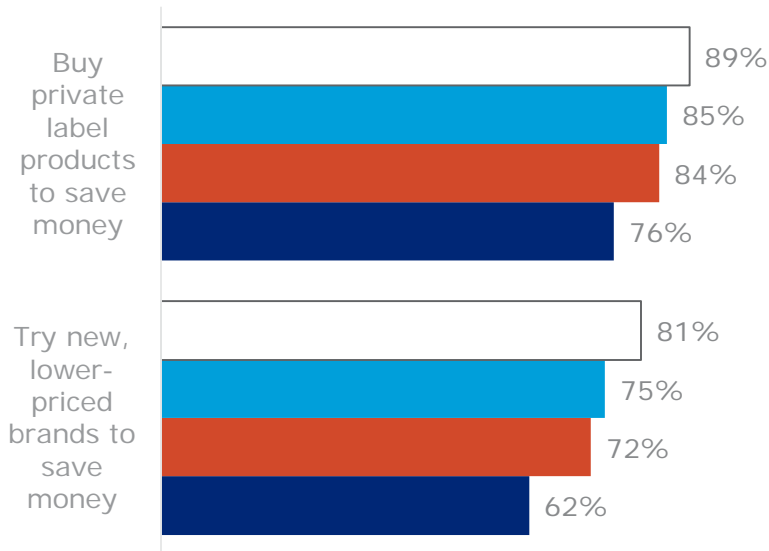
Source: Consumer Connect™, Q3 2017



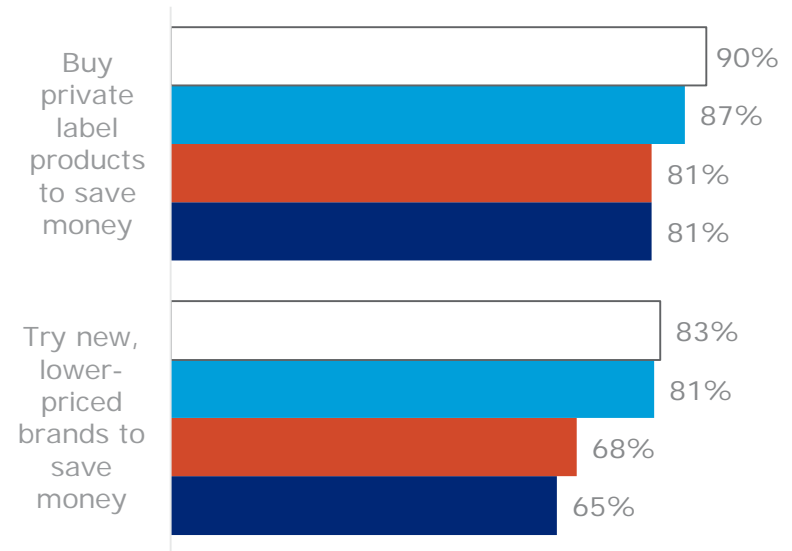
# Brand-switching for the purpose of saving money is more common among younger and less-wealthy consumers.

## Shopping Behaviors Top-2 Box Responses

Income



Generation



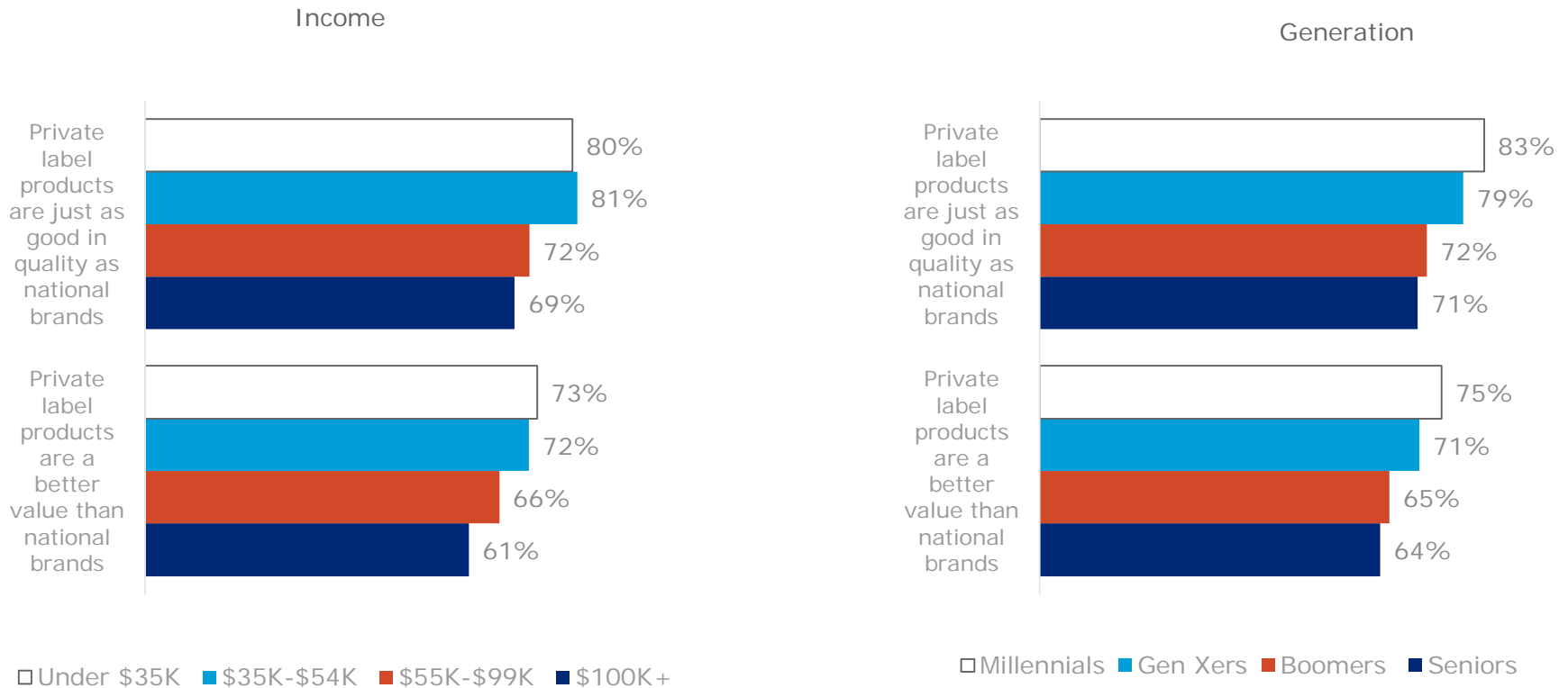
□ Under \$35K ■ \$35K-\$54K ■ \$55K-\$99K ■ \$100K+

□ Millennials ■ Gen Xers ■ Boomers ■ Seniors

Source: Consumer Connect™, Q3 2017

Consumers view private label brands as a good money-saving opportunity; millennials show a particularly strong affinity toward private label solutions.

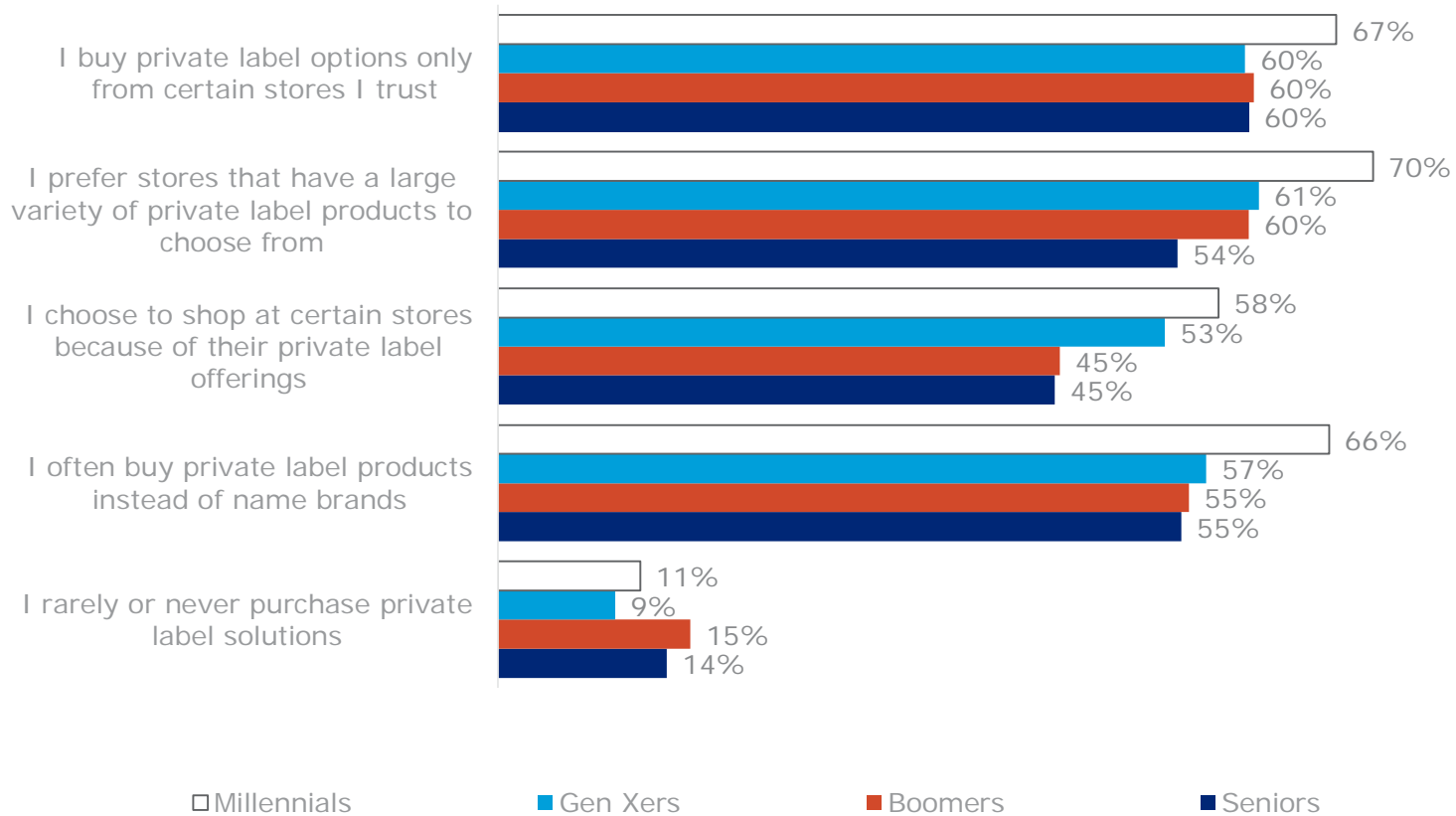
### Private Label Perceptions by Generation



Source: Consumer Connect™, Q3 2017

Seven out of 10 millennials prefer stores that have a wide selection of private label products, and nearly as many frequently choose private label options over name brands.

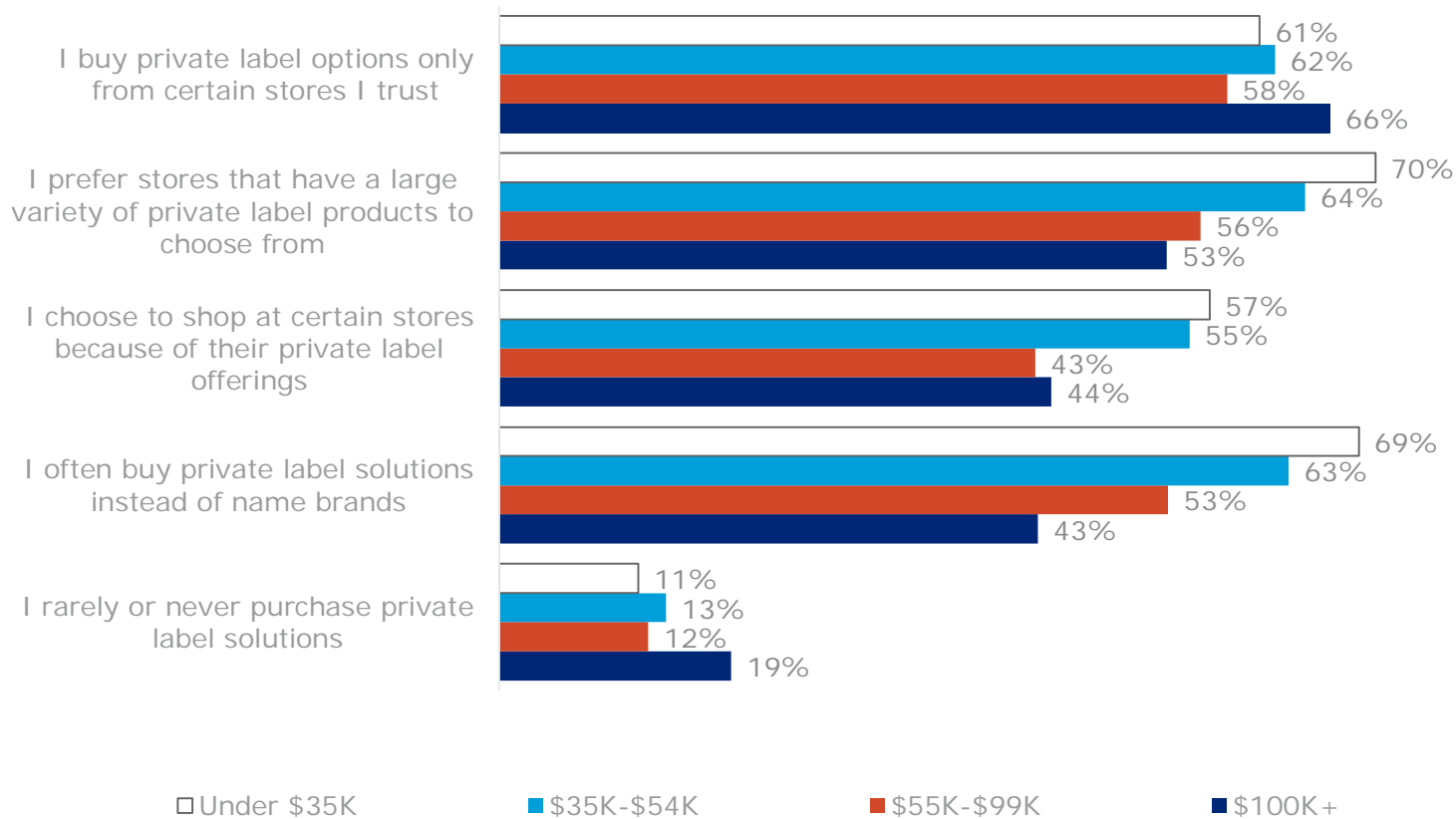
Private Label Behaviors, by Generation  
Top-2 Box Responses



Source: Consumer Connect™, Q3 2017

Brand trust is huge across income segments, but private label sentiment influences store choice more among lower-earning households.

Private Label Behaviors, by Income  
Top-2 Box Responses

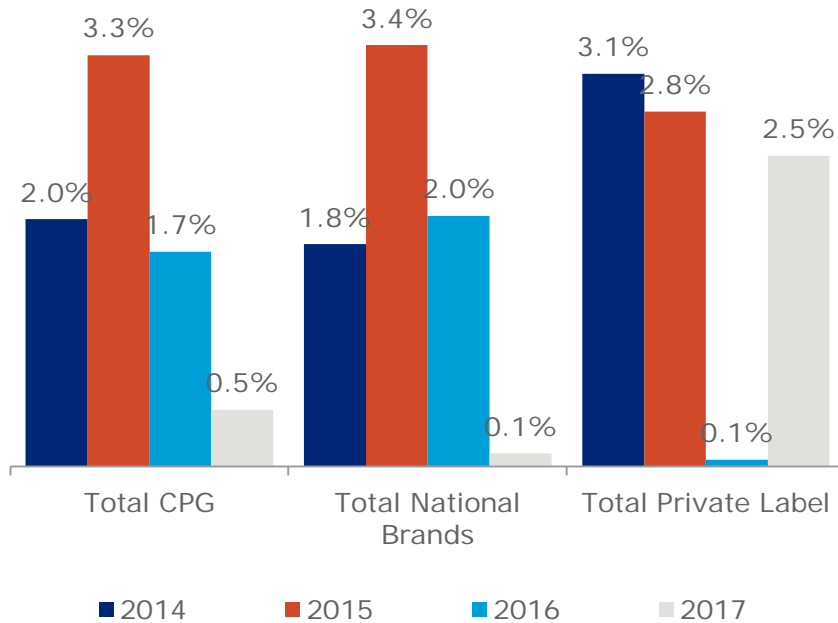


Source: Consumer Connect™, Q3 2017

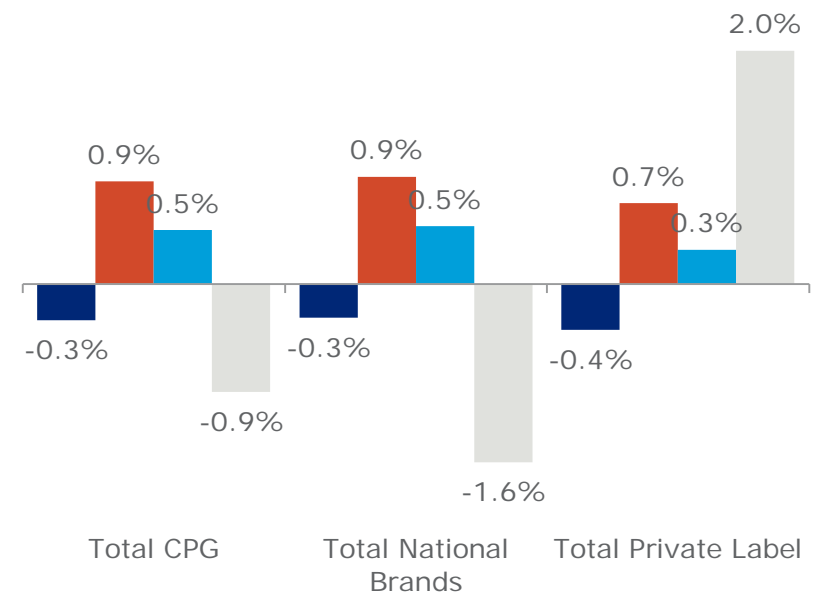
After underperforming the market and national brands in 2015 and 2016, private label has been an overperformer this year.

## PRIVATE LABEL PERFORMANCE

Dollar Sales Change by Market Sector



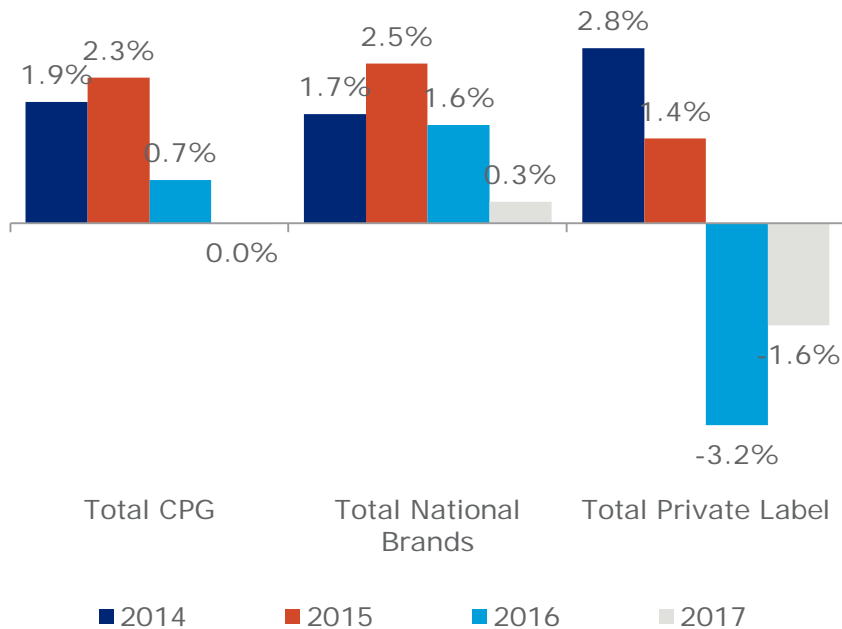
Unit Sales Change by Market Sector



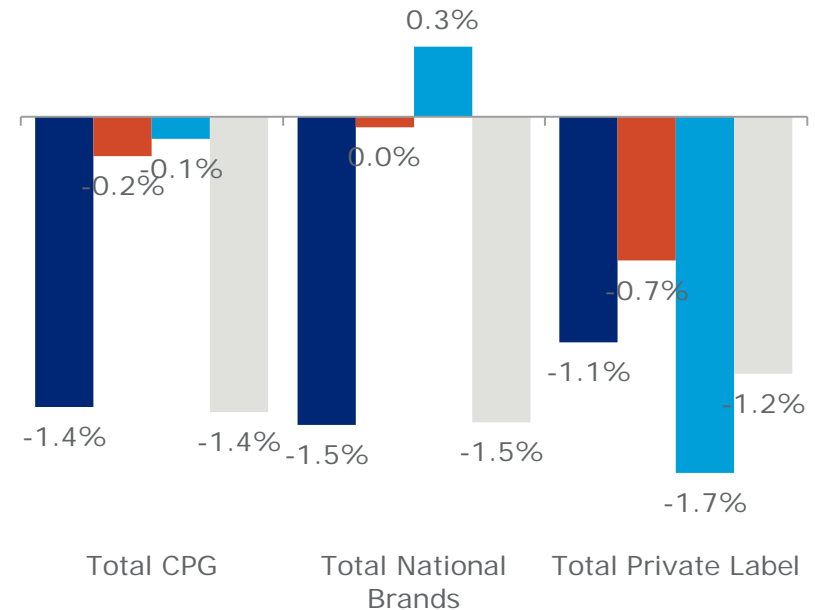
Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; MULOC.

Within grocery, private label sales fell, but declines are slimmer than industry average and the national brand sector.

Dollar Sales Change  
by Market Sector: Grocery



Unit Sales Change  
by Market Sector: Grocery

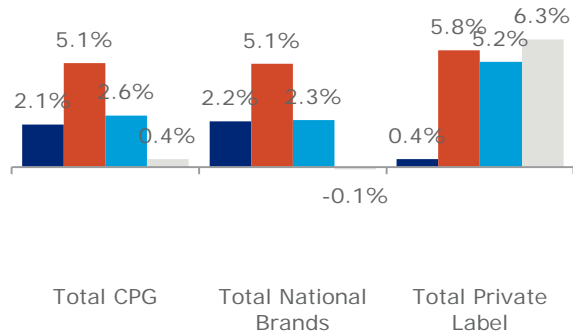


Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; Grocery.

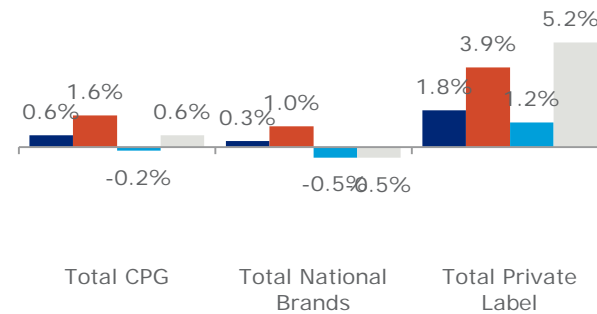
# Private label dollars are growing at an above-average pace across edibles departments.

## EDIBLES

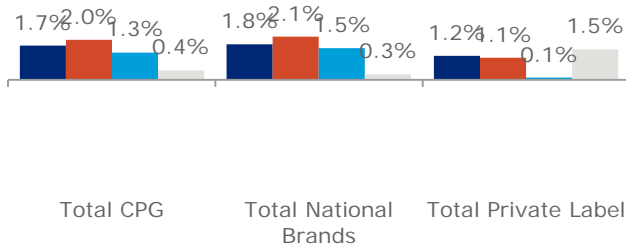
### Dollar Sales Change by Sector and Department



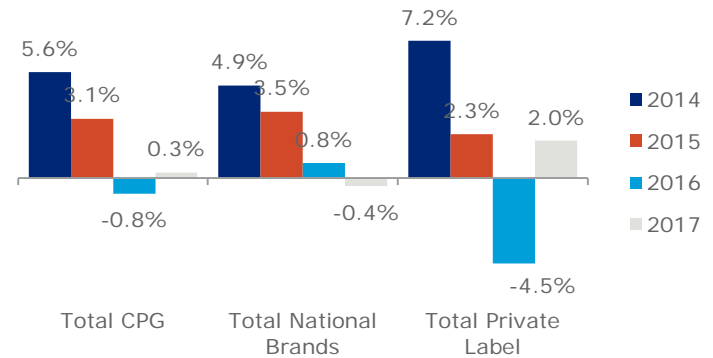
#### Beverage



#### Frozen



#### General Food



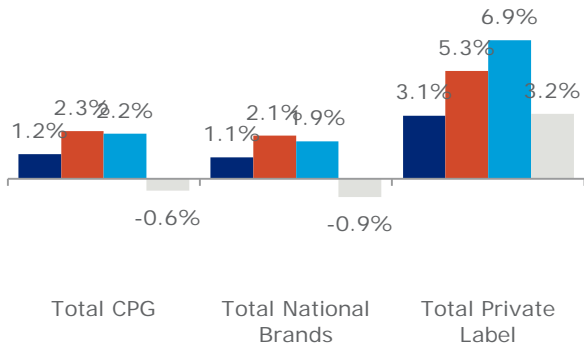
#### Refrigerated

Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; MULOC.

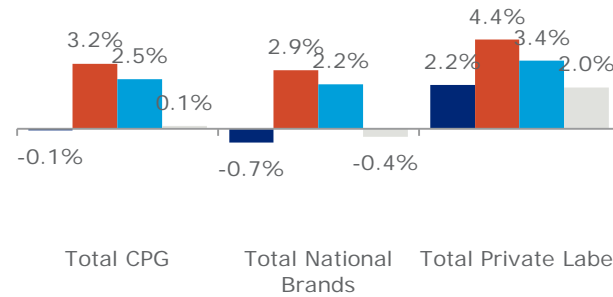
The non-food sector shows similar, though less pronounced, dollar sales trends.

**NON-EDIBLES**

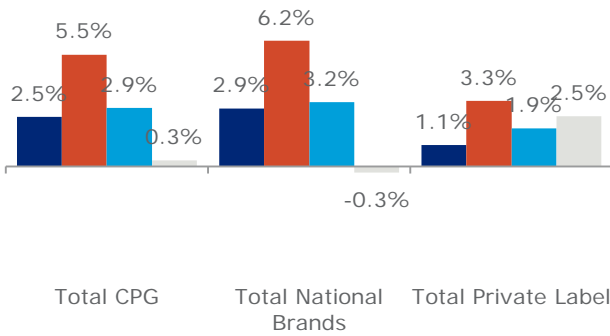
Dollar Sales Change by Sector and Department



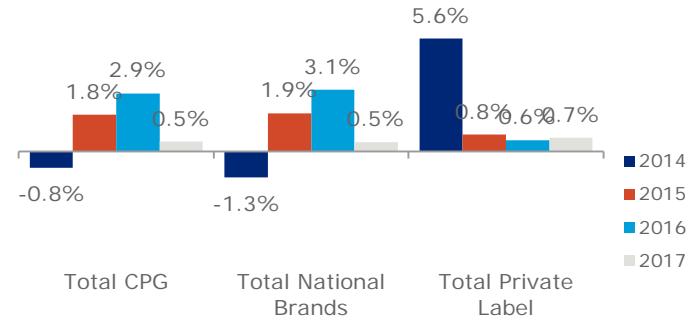
Beauty



General Merchandise



Health



Home Care

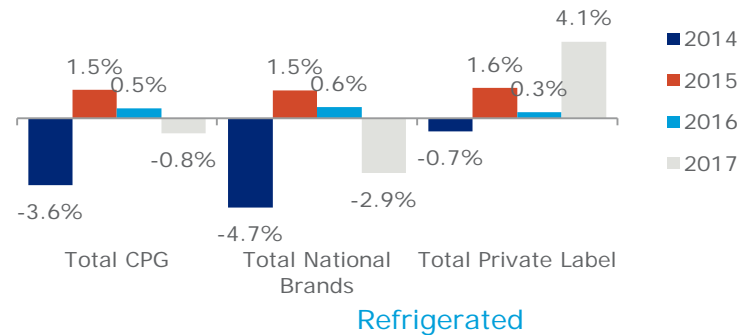
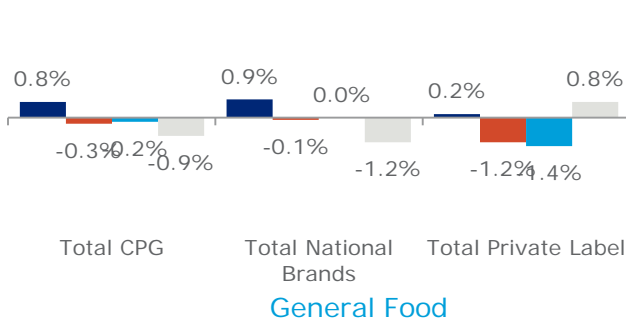
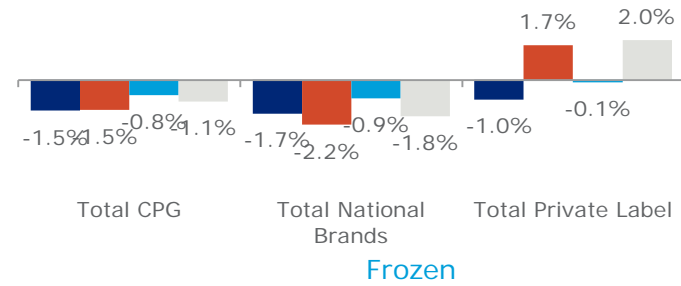
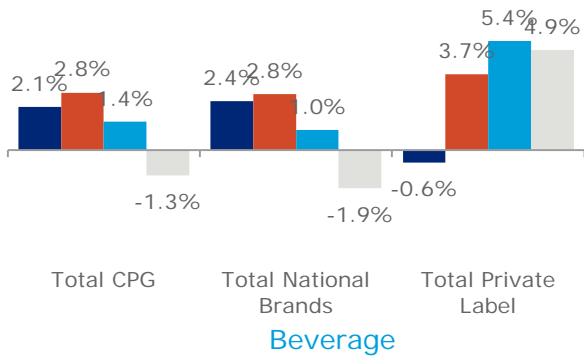
Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; MULOC.



# Edibles private label unit growth is far outpacing industry average and the national brand sector.

**EDIBLES**

## Unit Sales Change by Sector and Department

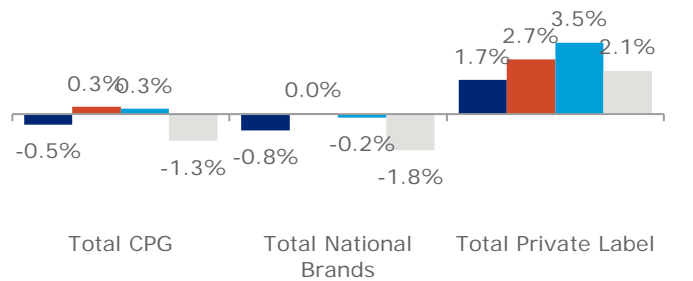


Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; MULOC.

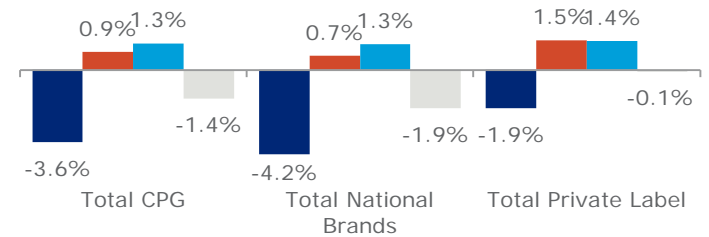
# Private label home care units are lagging, but other non-food sectors are performing relatively well.

**NON-EDIBLES**

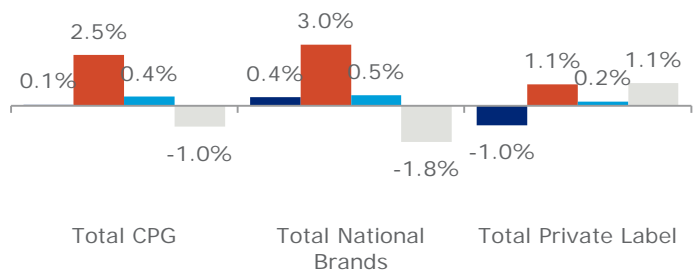
## Unit Sales Change by Sector and Department



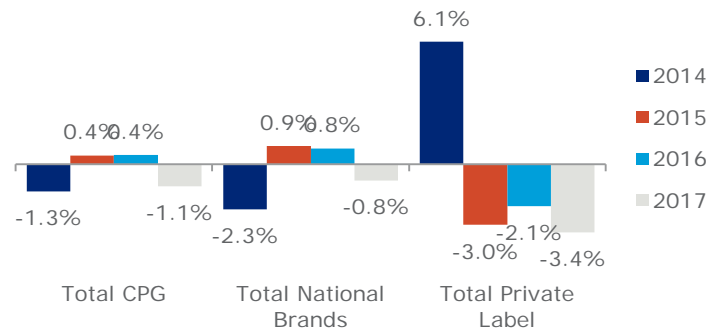
### Beauty



### General Merchandise



### Health

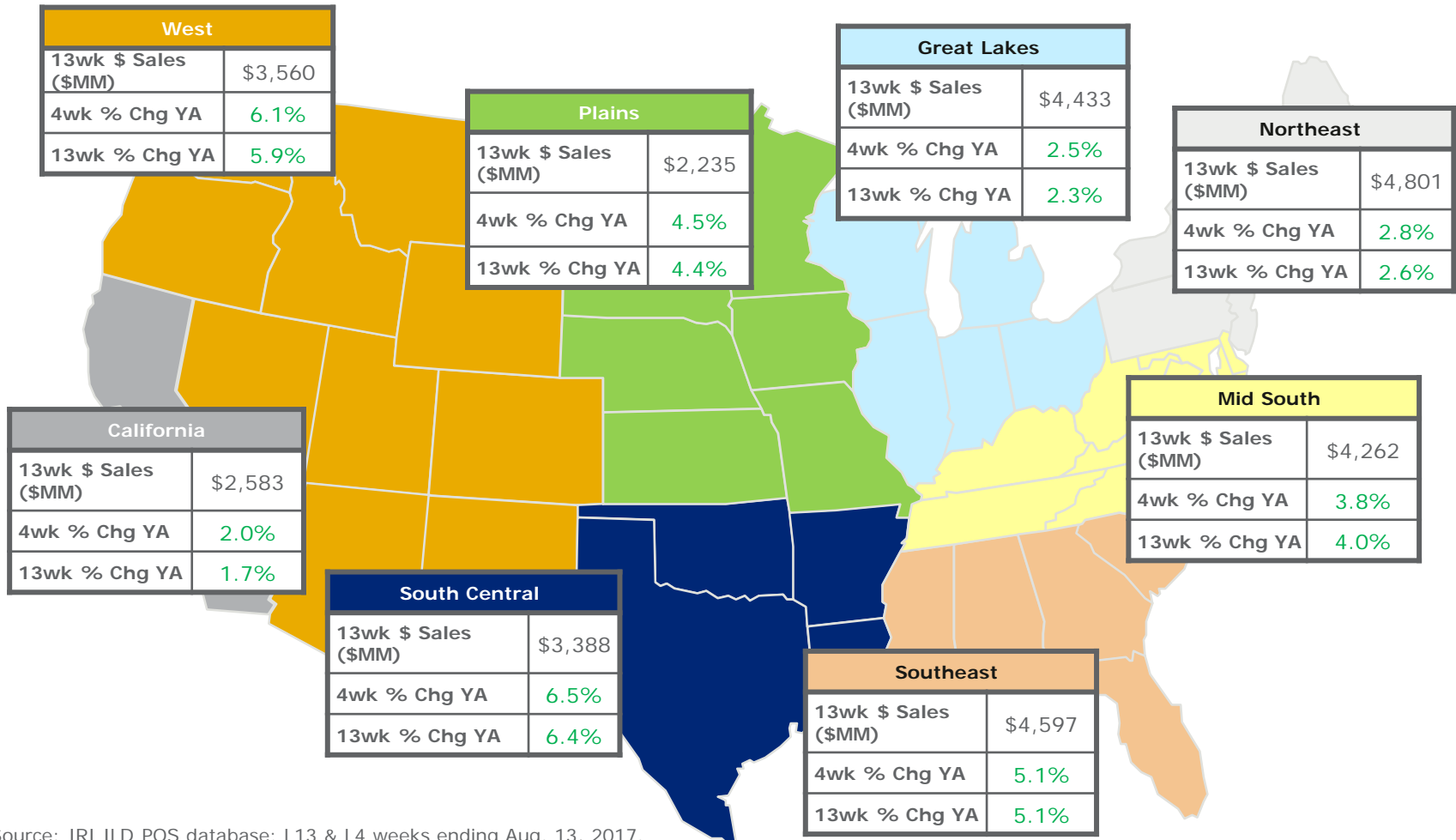


### Home Care

Source: IRI Market Advantage™, year-to-date ending 9/3/2017 and same period prior years; MULOC.

Private label has grown across regions; South Central and West regions are growing more quickly than others.

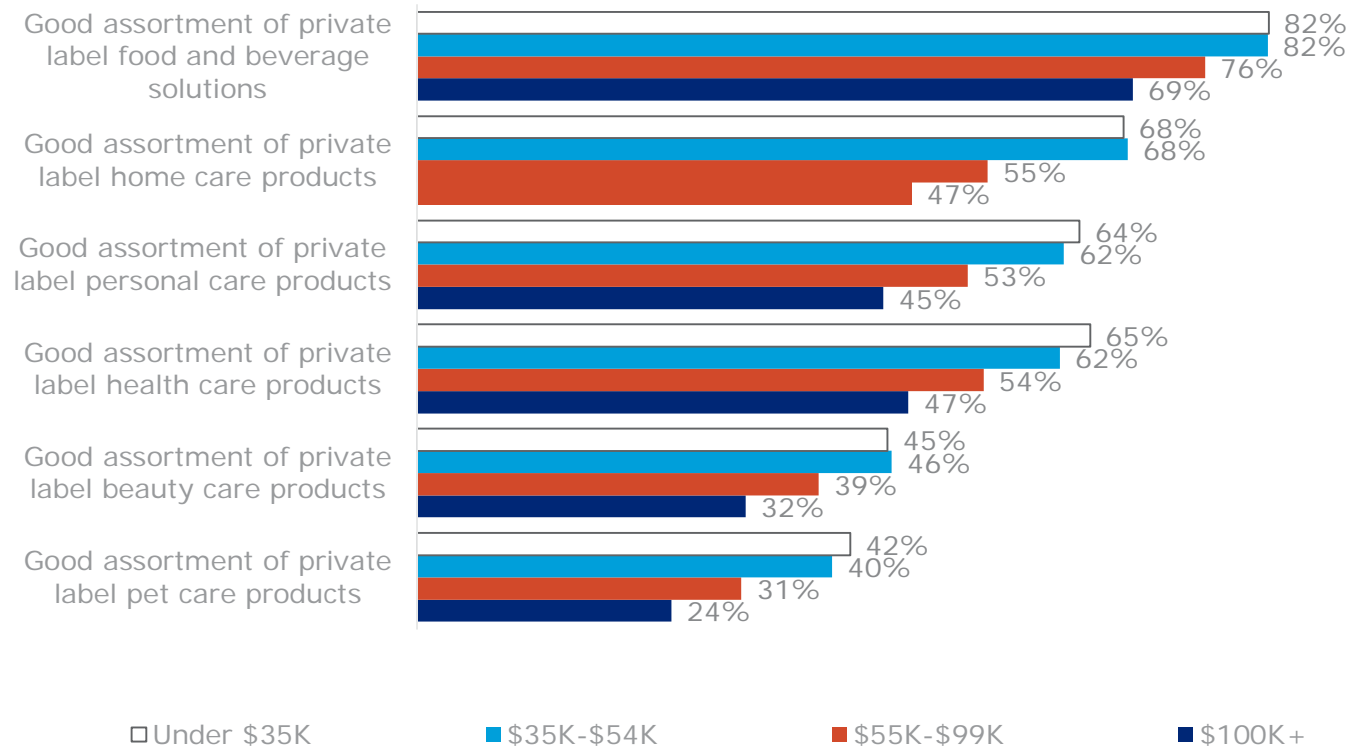
### Regional Trends for Private Label



Source: IRI ILD POS database; L13 & L4 weeks ending Aug. 13, 2017.

# Private label assortment is an important consideration in the store selection process for consumers across income segments.

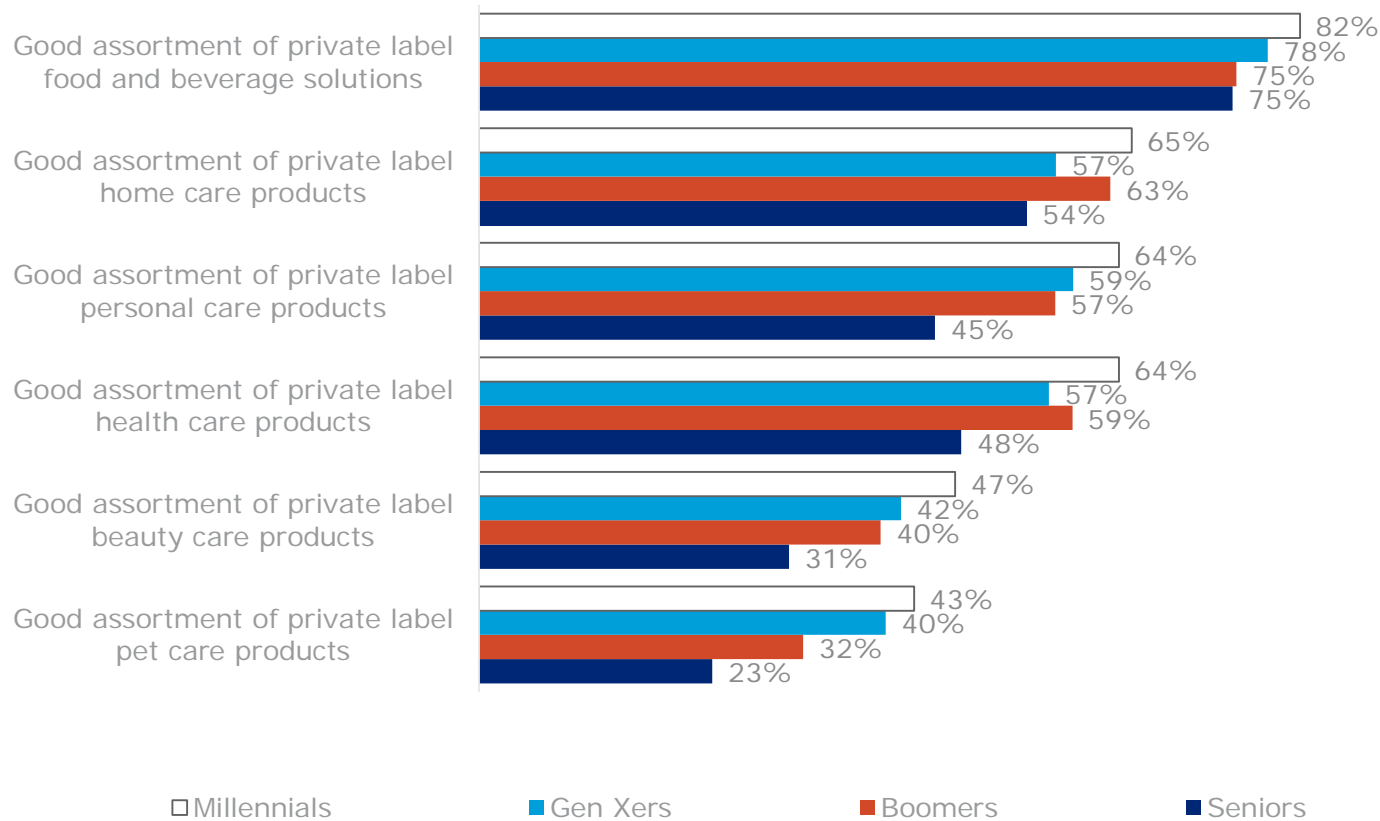
Store Selection Criteria, by Income  
Top-2 Box Responses



Source: Consumer Connect™, Q3 2017

Millennials are particularly influenced by private label assortment when making store selections, followed closely by Gen-Xers and boomers.

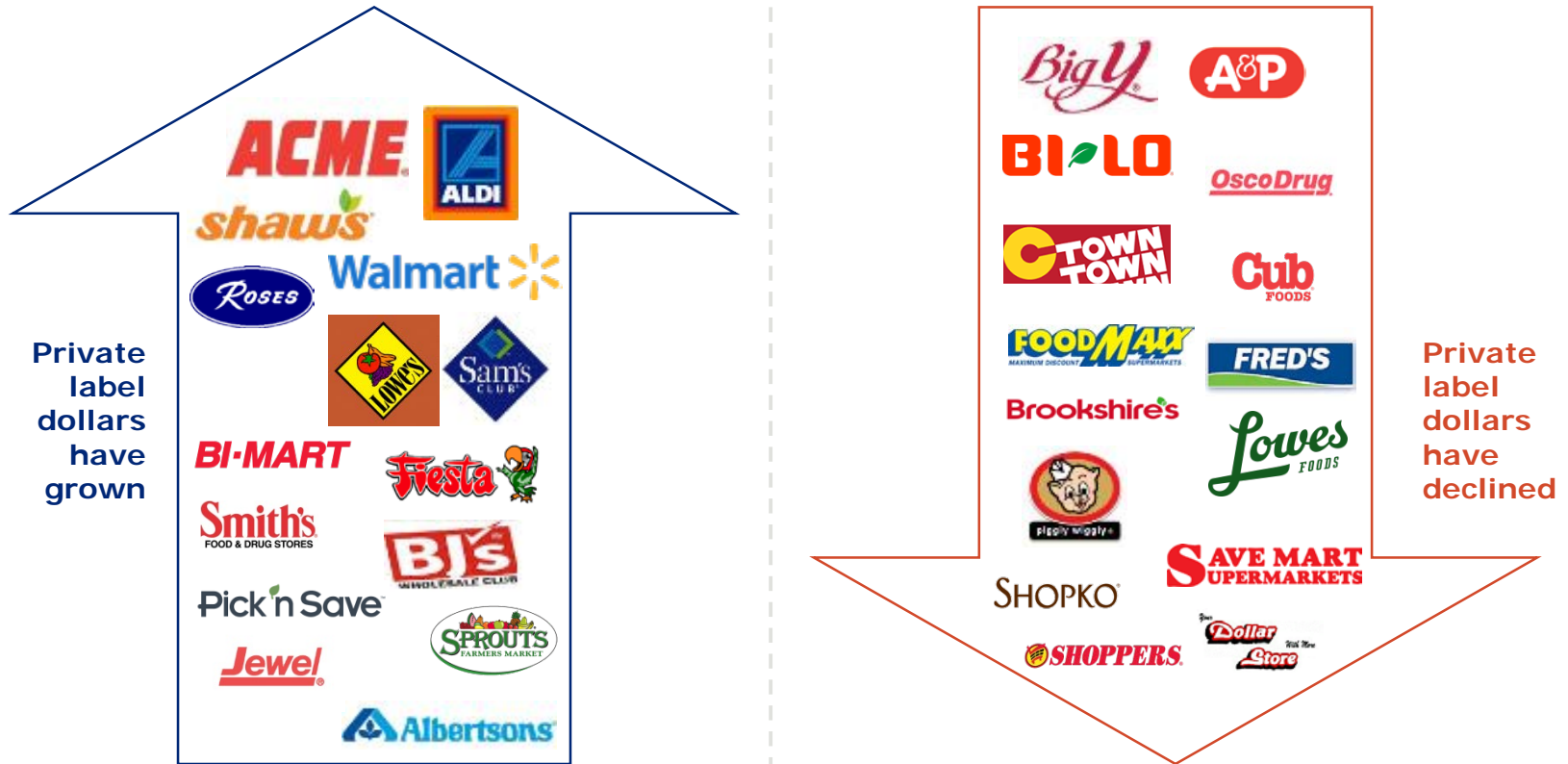
Store Selection Criteria, by Generation  
Top-2 Box Responses



Source: Consumer Connect™, Q3 2017

# Private label sales trends vary at the banner level.

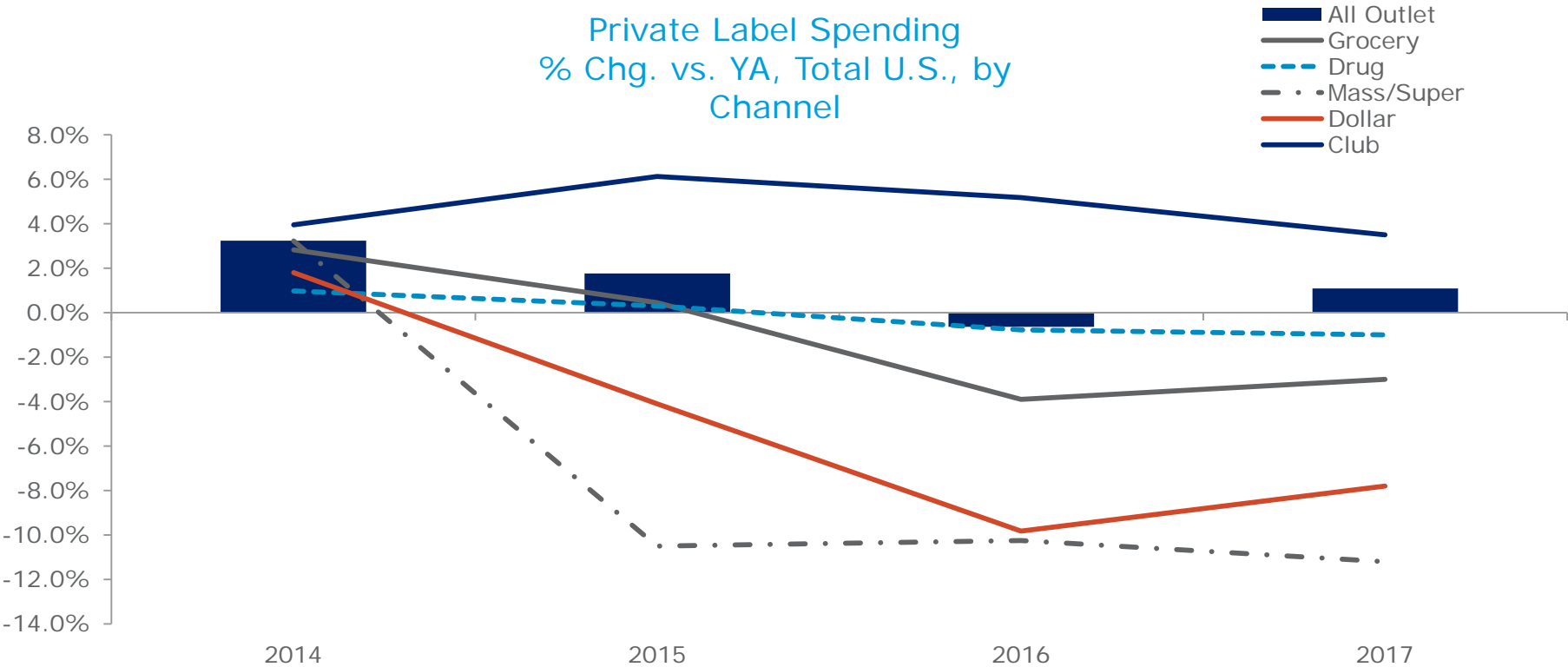
## Private Label—Dollar Sales Growth/Declines by Retailer



Source: IRI CSIA, All Outlets, 52 weeks ending Aug. 13, 2017 vs. YA, NBD aligned.

# Club-channel private label has been consistently outperforming industry average and competing channels for several years...

Private Label Spending  
% Chg. vs. YA, Total U.S., by  
Channel



Source: IRI Consumer Network™, CSIA – Total U.S. – All Outlets; 52 weeks ended 1/1/2017 and two years prior; 52 weeks ended 3/13/2017; NBD Aligned to Multi-Outlet, Grocery and Mass/Super exclude Walmart.



...due to momentum in basket size and trip frequency.

### Private Label—Buy Rate, Trip Size and Trip Frequency by Channel

Channels	Dollars/Buyer		Dollars/Trip		Trips/Buyer	
	L52	% Chg. vs. YA	L52	% Chg. vs. YA	L52	% Chg. vs. YA
All Outlets	\$1,009.3	0.3%	\$12.0	1.5%	83.8	-1.1%
Club	\$261.7	1.8%	\$24.1	2.5%	10.9	-0.7%
Grocery	\$444.2	-3.4%	\$11.3	0.4%	39.2	-3.8%
Drug	\$106.6	0.1%	\$10.4	3.8%	10.2	-3.6%
Mass/Supercenter	\$67.4	-7.8%	\$10.3	-3.9%	6.6	-4.1%
Dollar	\$40.8	-5.7%	\$4.7	-1.2%	8.6	-4.6%

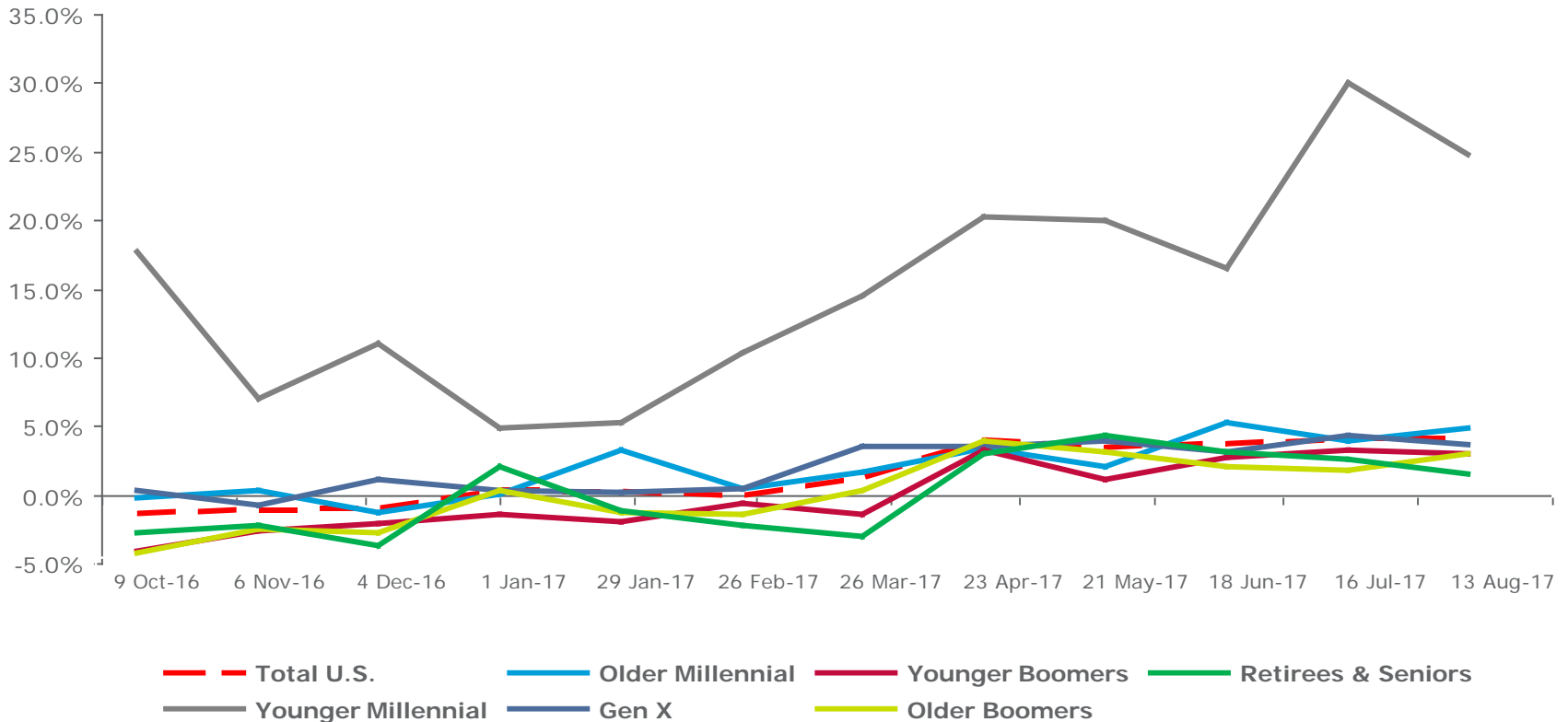
Note: Walmart not included in grocery or mass/super.

Source: IRI CSIA, All Outlets, 52 weeks ending Aug. 13, 2017 vs. YA, NBD aligned.



# Private label sales have momentum across age groups; younger millennials are a standout.

Private Label Dollar Sales % Chg. vs. YA, by Generation



Source: IRI CSIA, All Outlets; Quad Week Data Ending Aug. 13, 2017 and preceding; NBD Aligned to Multi-Outlet.

Online private label sales are more established across non-food categories and still account for a small percent of overall sales.

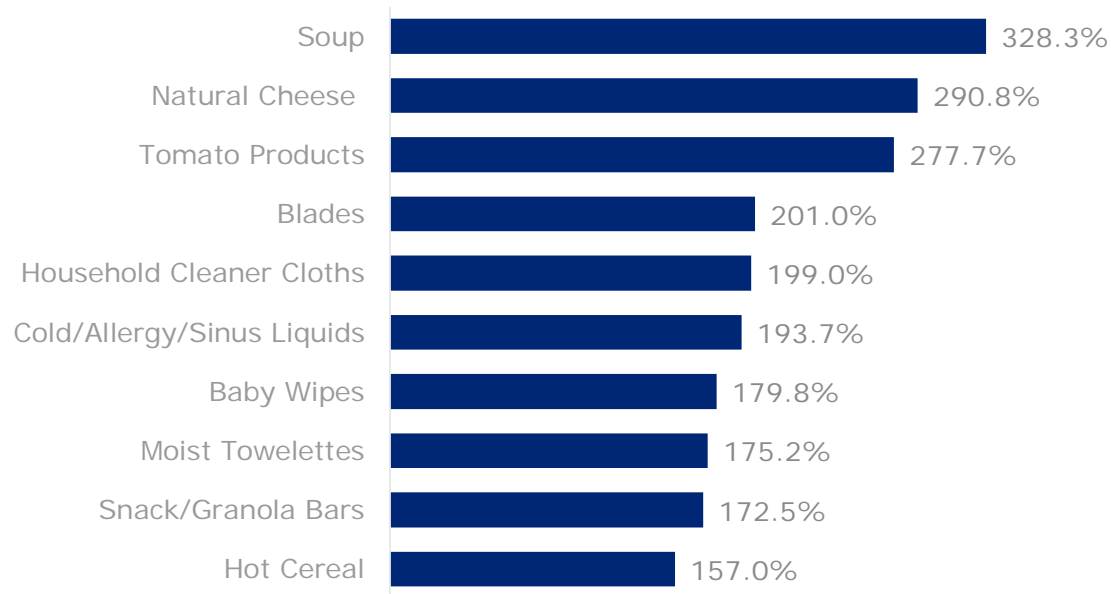
Largest Private Label Categories, Based on Online Dollar Sales  
\$ Million

Category	Dollar Sales (\$ Million)	% Chg. vs. YA	PL Share of Category Sales
Vitamins	\$48.7	5.8%	1.8%
Food & Trash Bags	\$26.5	65.3%	11.5%
Natural Cheese	\$21.3	290.8%	17.6%
Gastrointestinal Tablets	\$21.2	27.3%	13.8%
Toilet Tissue	\$16.7	41.0%	3.2%
Cups & Plates	\$12.9	39.4%	8.8%
Baby Wipes	\$11.8	179.8%	5.8%
Pet Food	\$10.3	31.9%	1.2%
Paper Towels	\$9.7	14.7%	2.3%
Bottled Water	\$9.6	60.4%	5.3%

Source: IRI e-Market Insights™, Q2 2017

Private label growth strong in the online realm, supported by the proliferation of click-and-collect models.

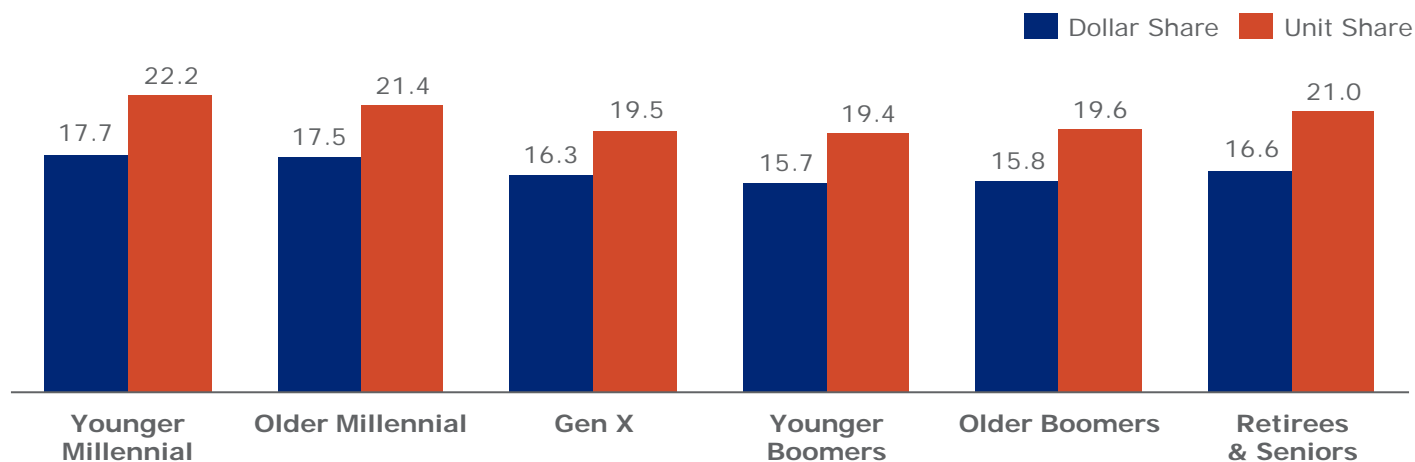
### Fastest-Growing Private Label Categories Online Dollar Sales % Chg. vs. YA



Source: IRI e-Market Insights™, Q2 2017

Younger consumers allocate more of their CPG spending to private label solutions than their older counterparts; share is on the uptick, particularly among millennials.

Private Label—Dollar and Unit Share by Generation

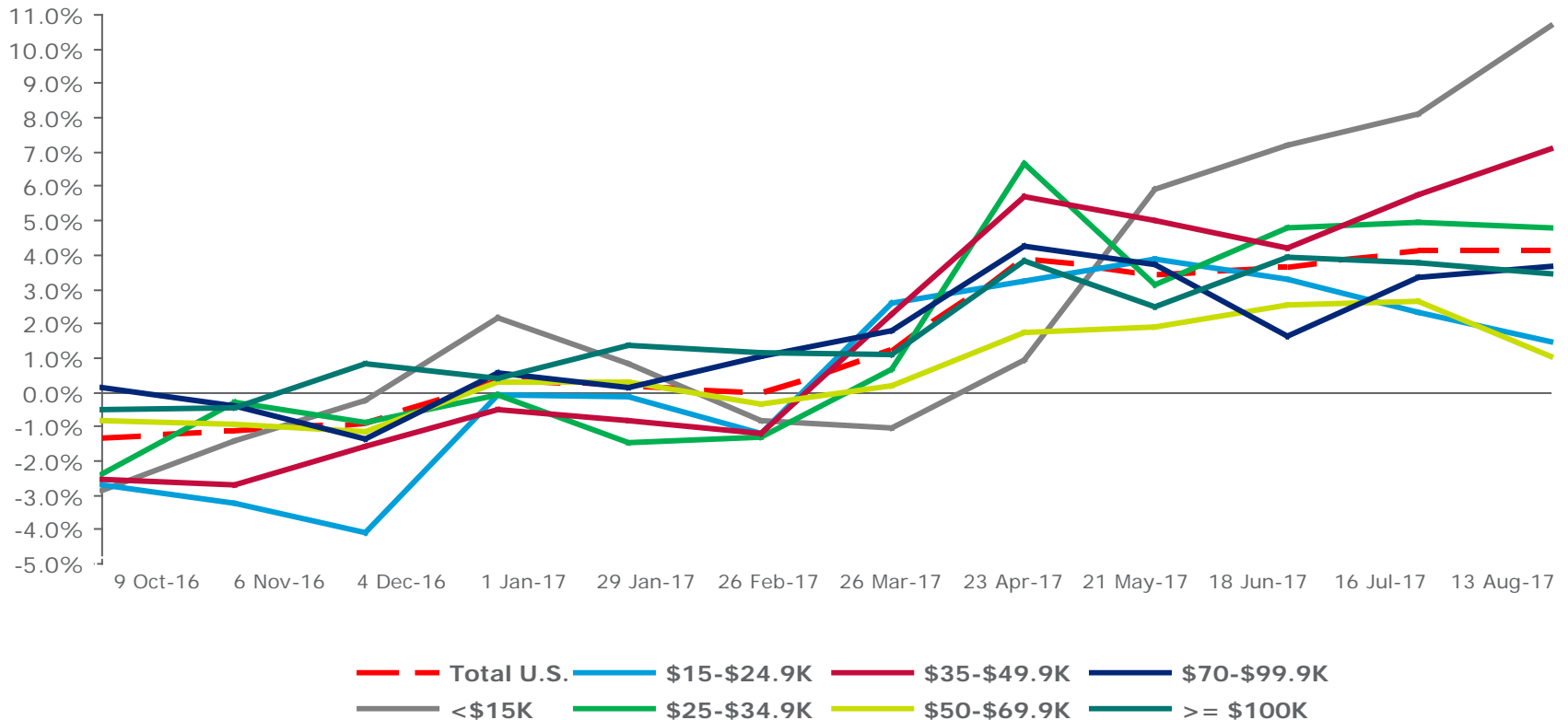


Share Pt. Chg. Vs. YA						
Dollar Share	0.9	0.4	0.2	0.1	0.2	0.0
Unit Share	1.7	0.8	0.5	0.5	0.5	0.3

Source: IRI CSIA, All Outlets, 52 weeks ending Sep. 10, 2017 vs. YA, NBD aligned.

Private label sales are up across most income brackets, in particular across households earning less than \$15,000 per year.

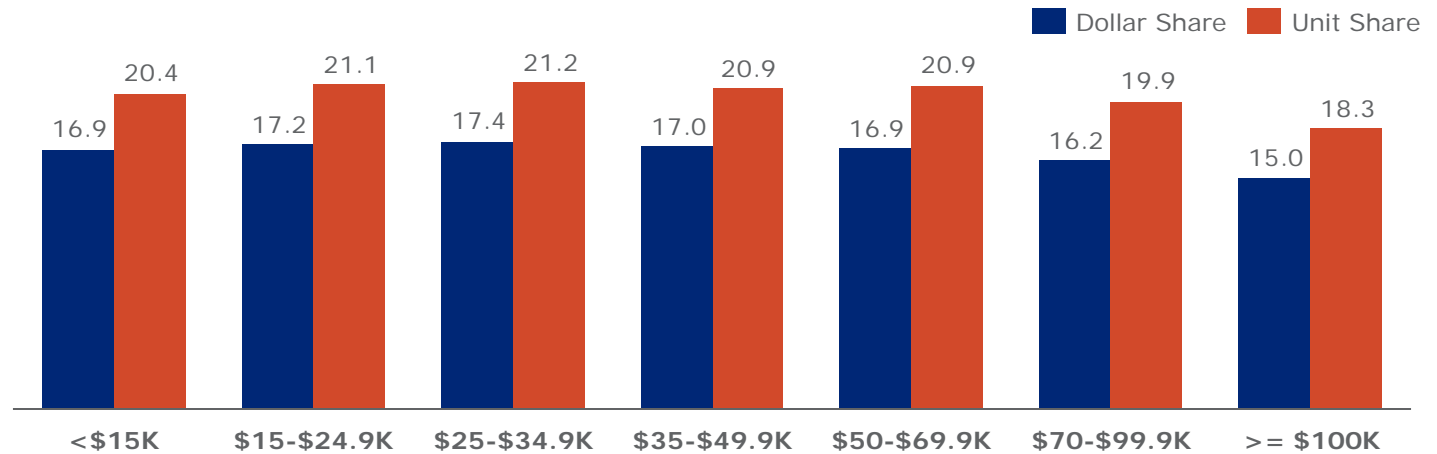
Private Label Dollar Sales % Chg. vs. YA,  
by Household Income



Source: IRI CSIA, All Outlets; Quad Week Data Ending Aug. 13, 2017 and preceding; NBD Aligned to Multi-Outlet.

Private label share dips as income increases, but unit share is showing momentum across middle- and upper-income shoppers.

Private Label—Dollar and Unit Share by Income

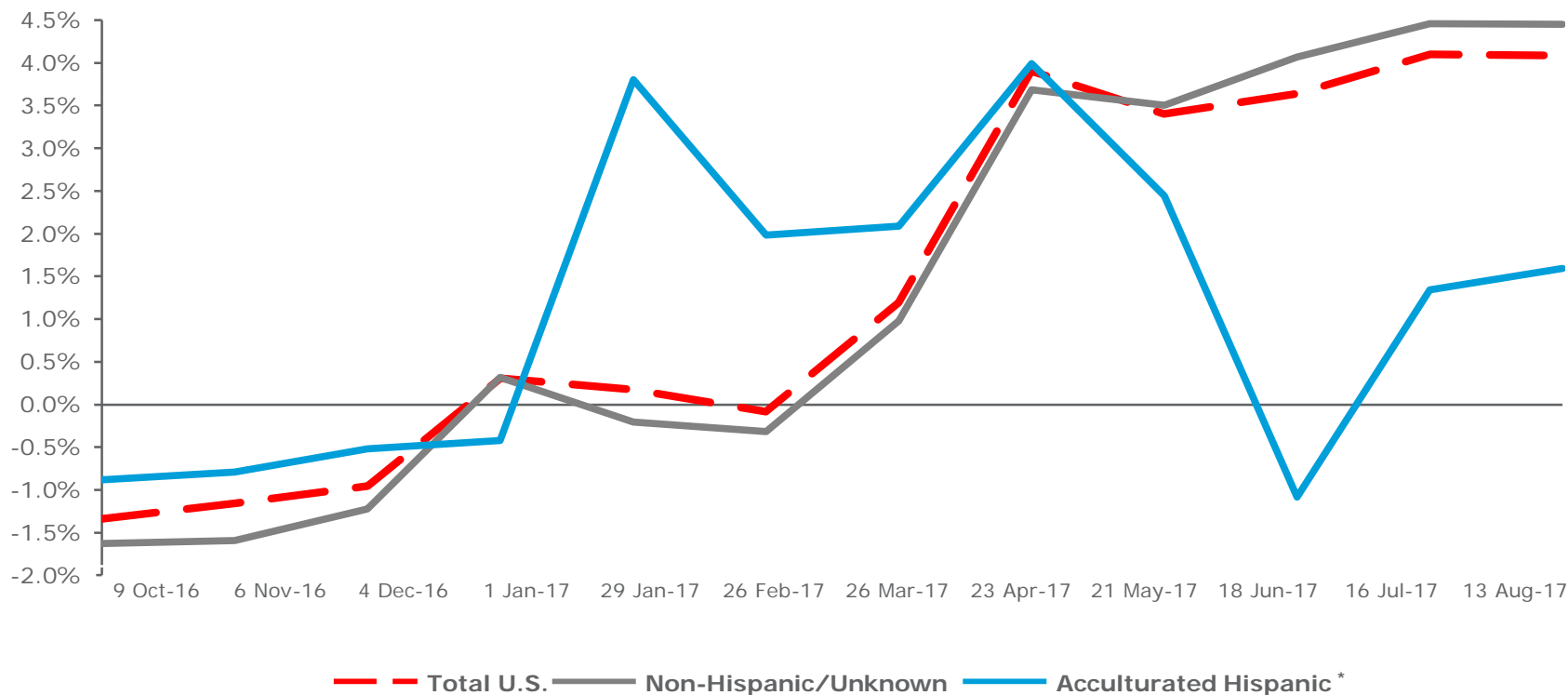


Share Pt. Chg. Vs. YA							
Dollar Share	0.0	-0.1	0.3	0.1	0.2	0.2	0.3
Unit Share	0.2	0.3	0.7	0.4	0.7	0.5	0.8

Source: IRI CSIA, All Outlets, 52 weeks ending Sep. 10, 2017 vs. YA, NBD aligned.

# Private label spending by Hispanic shoppers is relatively volatile.

Private Label Dollar Sales % Chg. vs. YA, by Ethnicity



\*Note: Acculturated Hispanics are defined as Hispanics speaking only English or English more than Spanish.  
 Source: IRI CSIA, All Outlets; Quad Week Data Ending Aug. 13, 2017 and preceding; NBD Aligned to Multi-Outlet.

Q2 growth ticked up, encouraged by increased personal consumption expenditures; Q2 2017 GDP is on par with 2016 but still lower than 2014 and 2015 levels.

Real GDP: Percentage Change from Preceding Quarter



- Negatively impacted by downturn in residential fixed investments and deceleration of exports
- Positively impacted by uptick in personal consumption expenditures

Source: Bureau of Economic Analysis



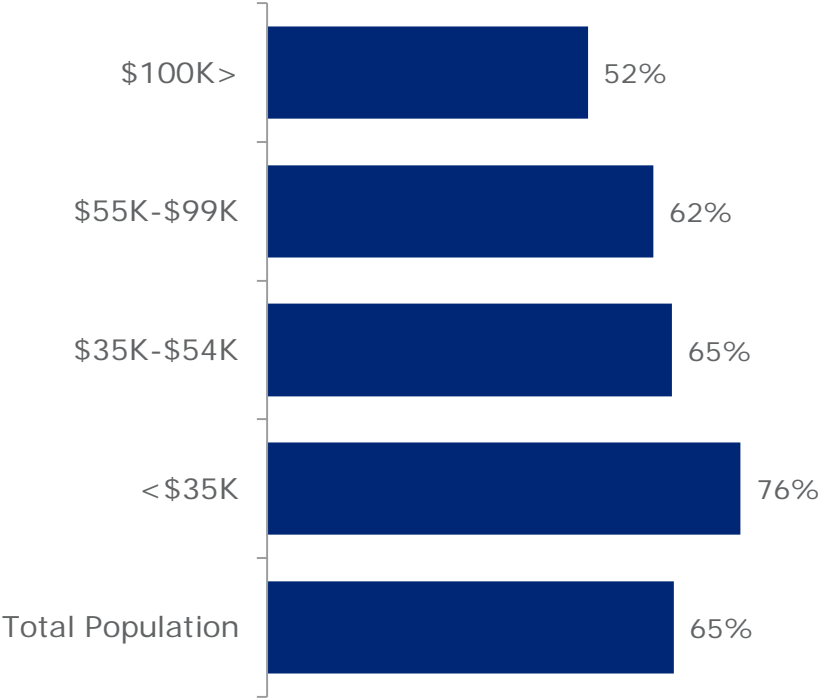
While economic growth is expected to continue in 2017, inflation is predicted to reach its highest point since 2012.

Economic Measure	2013	2014	2015	2016	2017P
GDP (% Chg.)	3.3%	4.2%	4.0%	2.8%	3.9%
Unemployment (% , SA)	7.4%	6.2%	5.3%	4.9%	4.4%
Consumer Price Inflation (% Chg.)	1.5%	1.6%	0.1%	1.3%	2.0%
Retail Sales (% Chg.)	3.8%	4.2%	2.6%	3.0%	4.0%
Residential Permits, Total (Mil.)	3.9	4.2	4.7	4.8	5.1

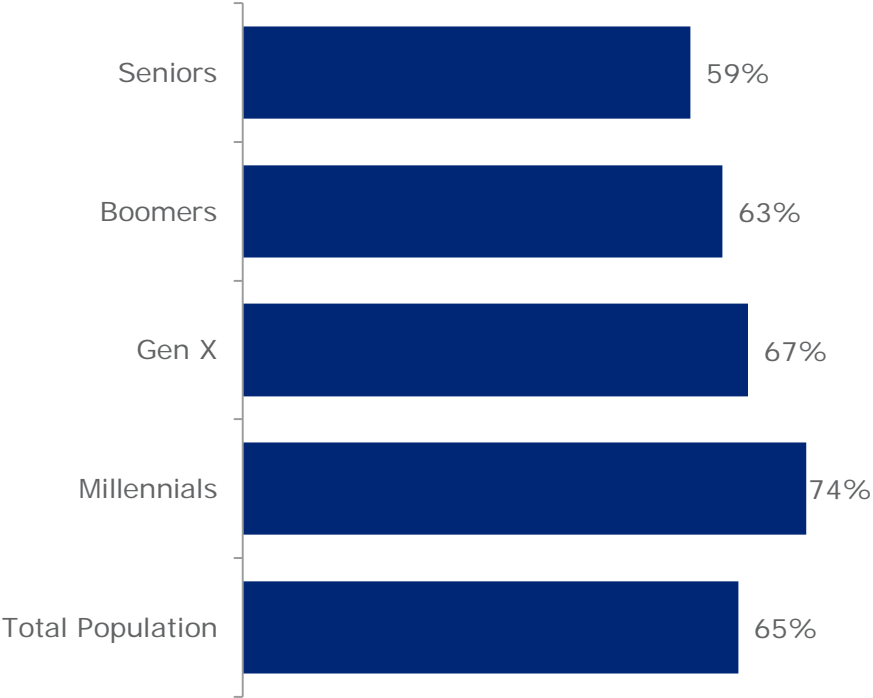
Source: Moody's

A majority of consumers anticipate purchasing private label options more frequently in the coming months, particularly millennials and lower-income consumers.

Expect to Purchase More Private Label During the Next Six Months, by Income



Expect to Purchase More Private Label During the Next Six Months, by Generation

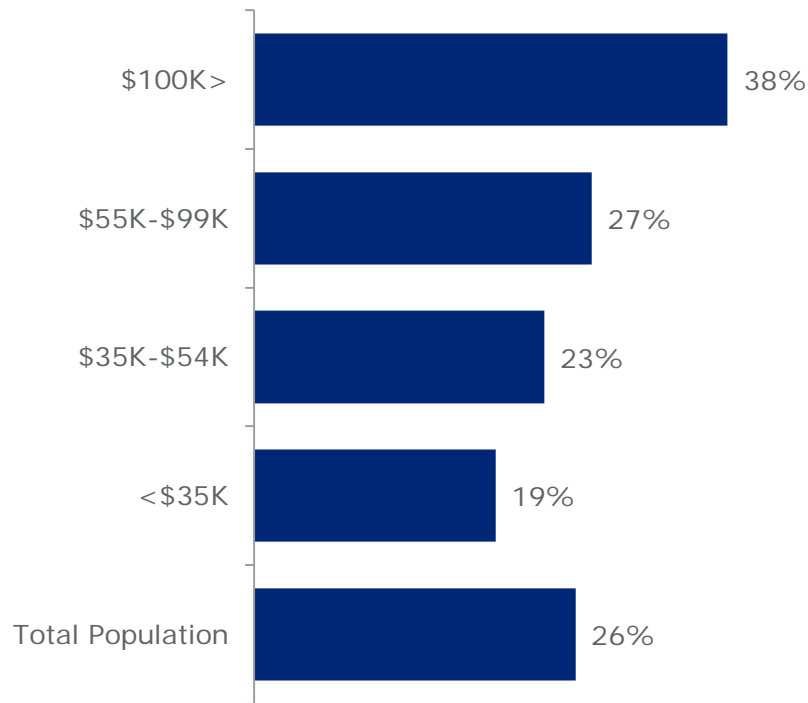


Source: Consumer Connect™, Q3 2017

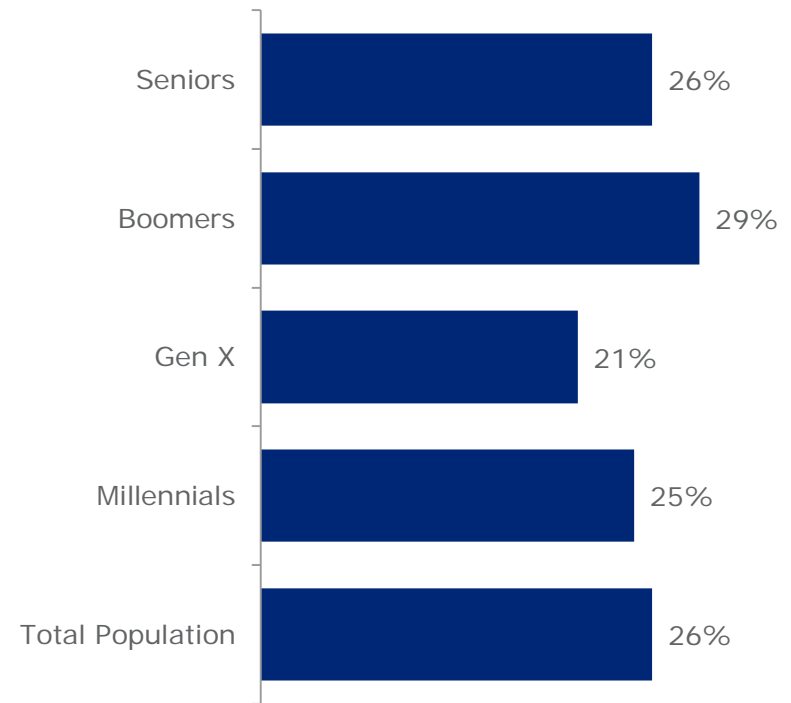


# Premium-tier private label solutions offer opportunity to capture the attention of older, wealthier consumers.

## Expect to Purchase More Premium Brands During the Next Six Months, by Income



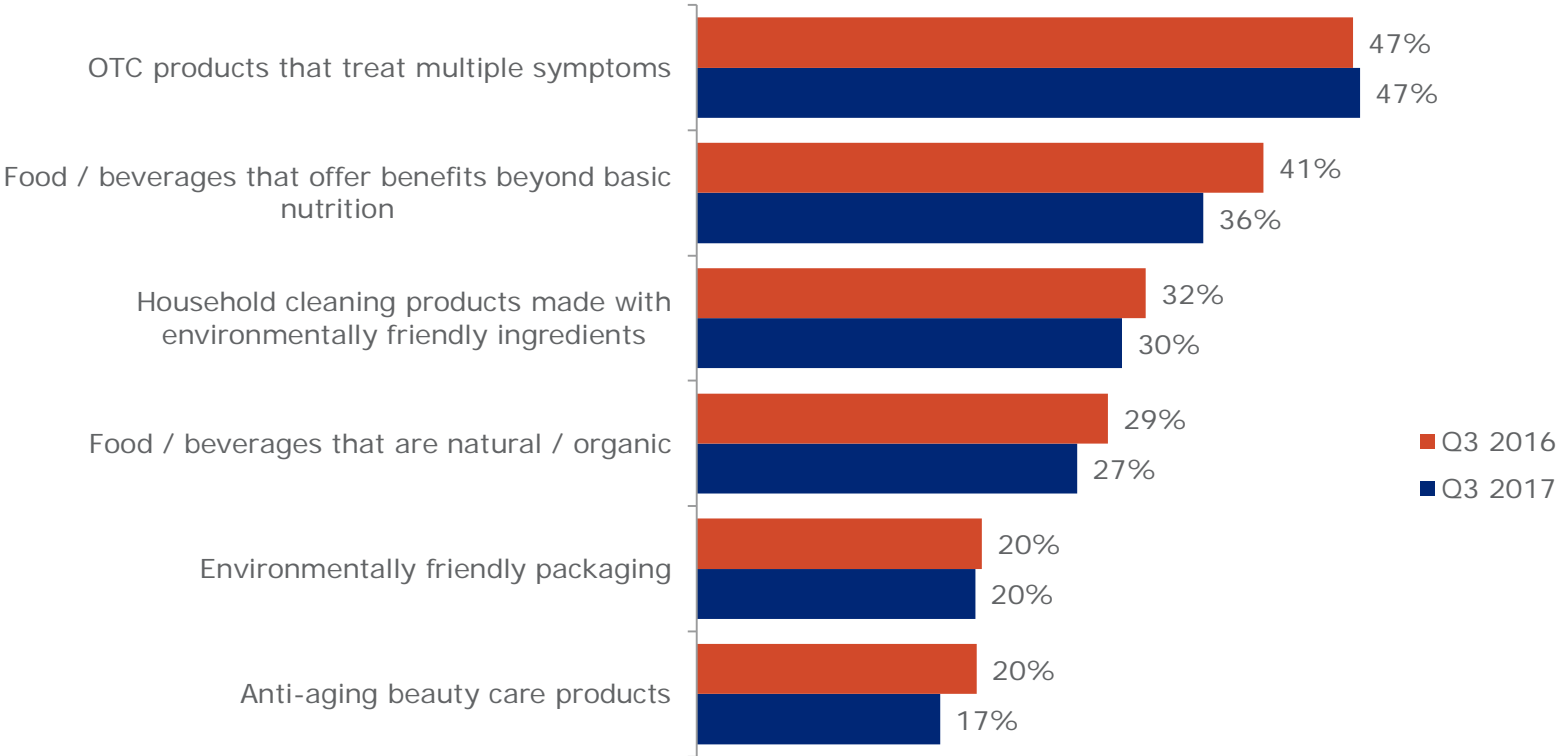
## Expect to Purchase More Premium Brands During the Next Six Months, by Generation



Source: Consumer Connect™, Q3 2017

# Consumers will pay a premium for CPG solutions that address core needs and wants.

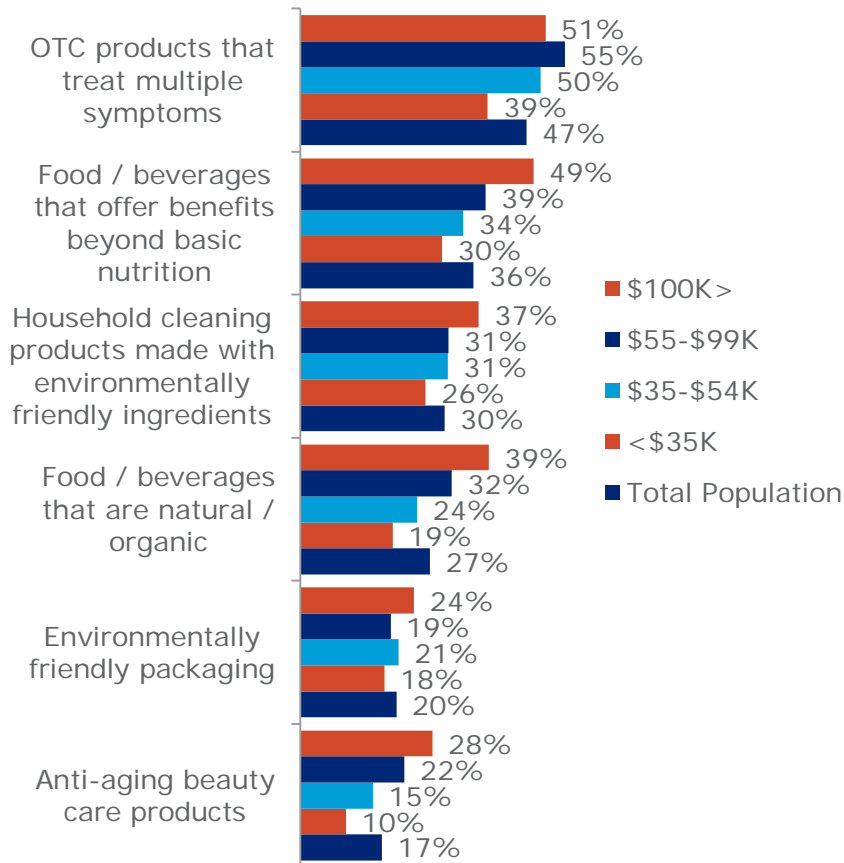
## Consumer Willingness to Pay a Premium for... Total Population



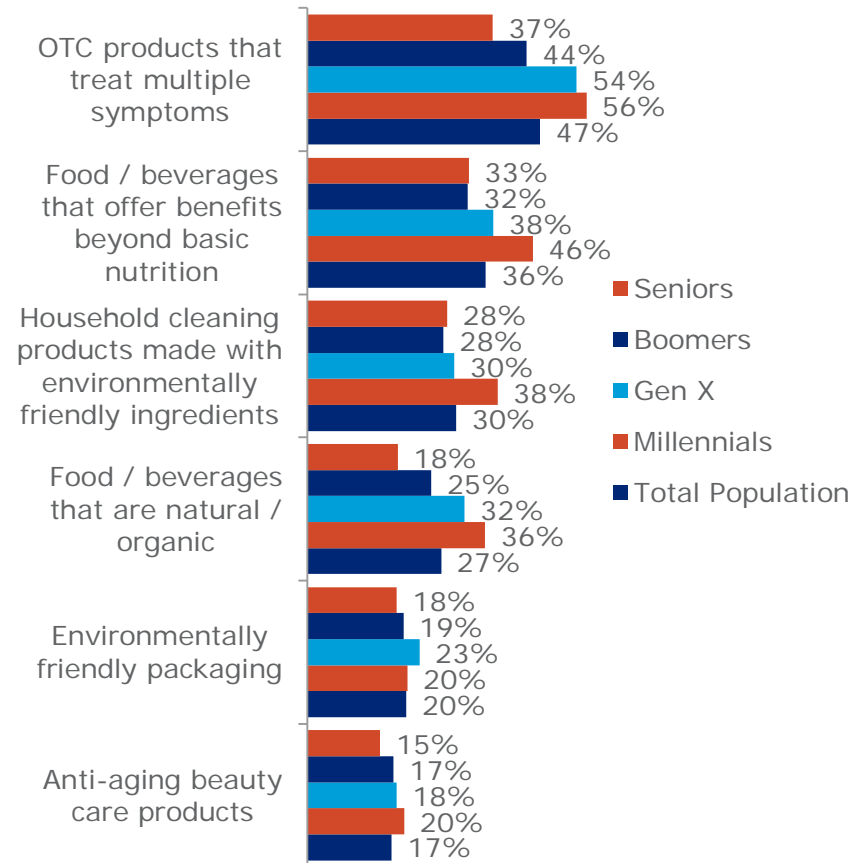
Source: Consumer Connect™, Q3 2017 & Q3 2016

# Targeting against high-potential consumers is critical. Millennials and wealthier consumers are more commonly moved by added benefits, but the market for “more” is fairly widespread.

Consumer Willingness to Pay a Premium for...  
by Income



Consumer Willingness to Pay a Premium for...  
by Generation



Source: Consumer Connect™, Q3 2017

# For more information on IRI's Market Shift Study: Lidl

## Answers

- What do shoppers think about Lidl? What do they like/not like?
- Which retail stores are at highest risk as a result of Lidl?
- Which markets will likely experience the largest impact?
- Which categories are being impacted by Lidl's entry?
- How is pricing being impacted across the market?
- How are national brands and private label being impacted?



## Value

- Since Lidl is not releasing POS data, IRI's Impact Study is the best way to understand Lidl's emerging impact from the view of the shopper.
- Gain insights from (1) custom shopper surveys, (2) store-level impact analyses, and (3) market-level pricing comparisons.
- Study available as one-time report, with quarterly updates and with pricing impact analyses.
- Add your custom questions to the next Lidl survey.
- Study available October 30, 2017.

For more information, contact your IRI representative or email us at [Customer.Interaction.Center@IRIworldwide.com](mailto:Customer.Interaction.Center@IRIworldwide.com).