

Private Label 2018

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# THE EVOLUTION OF PRIVATE LABEL IN A TRANSFORMING MARKETPLACE

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**IRi**

Growth delivered.

## Executive Summary

Private label dollar sales grew 5.8 percent in 2018, outpacing national brands by a wide margin.

Private label accounts for 16 to 20 percent of CPG dollar spending across generations; share of spending is growing across generations but strongest among young millennials.

Private label has grown across rural regions. The Mid-South and Southeast regions are growing more quickly than others.

Retailer private label programs are taking off and transforming the CPG industry, providing consumers not only value, but also products that have high ethical, environmental and taste standards.

Private label trip and basket size growth is strongest in the club channel; grocery is also seeing growth, but not as strong.

E-commerce private label sales are seeing explosive growth across food and beverage and non-food categories.

Prospects for private label growth for the remainder of 2018 are solid; retailers and manufacturers have an opportunity to build basket size and margin by focusing on premium-tiered solutions.

# Unemployment Fell to 4.4% in 2017; Retail Sales Growth Was Strong

## ECONOMIC GROWTH

Economic Measure	2013	2014	2015	2016	2017
GDP (% chg.)	3.6%	4.4%	4.0%	2.7%	4.2%
Unemployment (% , SA)	7.4	6.2	5.3	4.9	4.4
Consumer Price Inflation (% Chg.)	1.5%	1.6%	0.1%	1.3%	2.1%
Retail Sales (% Chg.)	3.8%	4.2%	2.6%	2.9%	4.7%
Residential Permits, Total (Mil)	4.0	4.2	4.7	4.8	5.1

Source: Moody's

## The U.S. Economy Grew at 3.5% in Q3 2018

- **Growth driven by robust consumer and government spending**
- **GDP: 3.5 percent annual rate from July through September, to \$18.7 trillion, adjusted for inflation**
- **Consumer spending is being powered by plentiful jobs and impact of tax cuts**
  - **Unemployment rate fell to its lowest level since 1969**
  - **Spending up in many areas, including restaurants to recreational goods**
- **Government spending also up:**
  - **Defense outlays grew at a 4.6 percent annual rate in Q3**

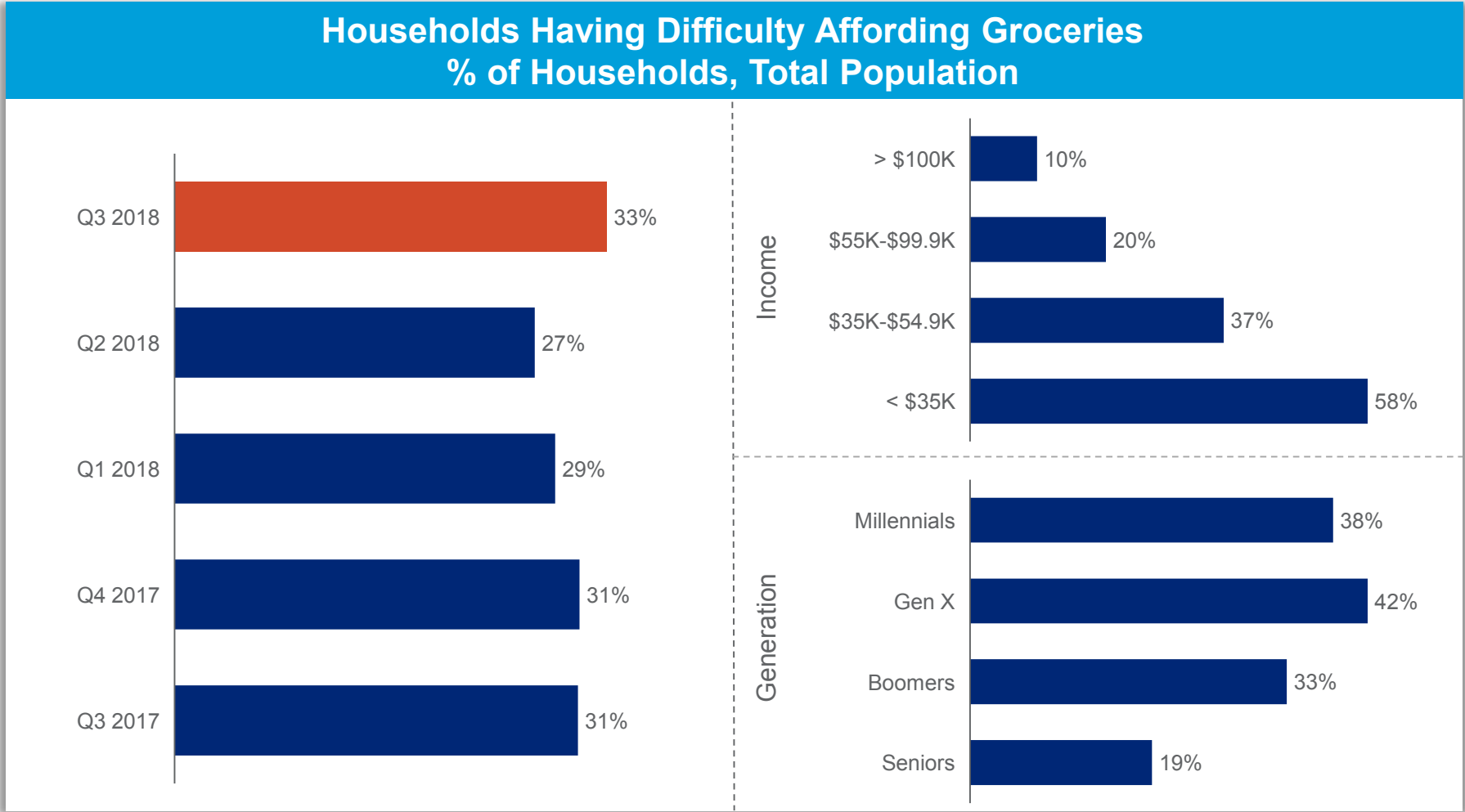
Source: <https://www.wsj.com/articles/u-s-economy-grew-at-3-5-rate-in-third-quarter-1540557378>

## Consumer Prices Were Moderate in Q3, Following Run-up Earlier in 2018

- For now, inflation poses little threat to the economy.
- August was the first month this year that the year-to-year price growth eased.
- To raise interest rates or not? There is an evolving view that the lowest unemployment rate in nearly five decades might not be creating excessive inflationary pressures. If inflation stays under control, it could bolster the case for suspending rate hikes in the near-term future.
- The personal-consumption expenditures price index rose 0.1 percent between in September, the fourth straight month in which the Federal Reserve's preferred inflation gauge fell short of the 0.165 percent monthly pace needed to meet its 2 percent annual target.
- Spending and income grew in September, a positive sign for the economy's main engine heading into the fourth quarter.

Sources: <https://www.wsj.com/articles/u-s-consumer-prices-edge-higher-in-august-1536842016>;  
<https://www.wsj.com/articles/u-s-personal-spending-ends-third-quarter-on-solid-footing-1540816526>

# The Struggle to Afford Groceries Is Widespread, and More Prevalent Across Younger and Less-Wealthy Households

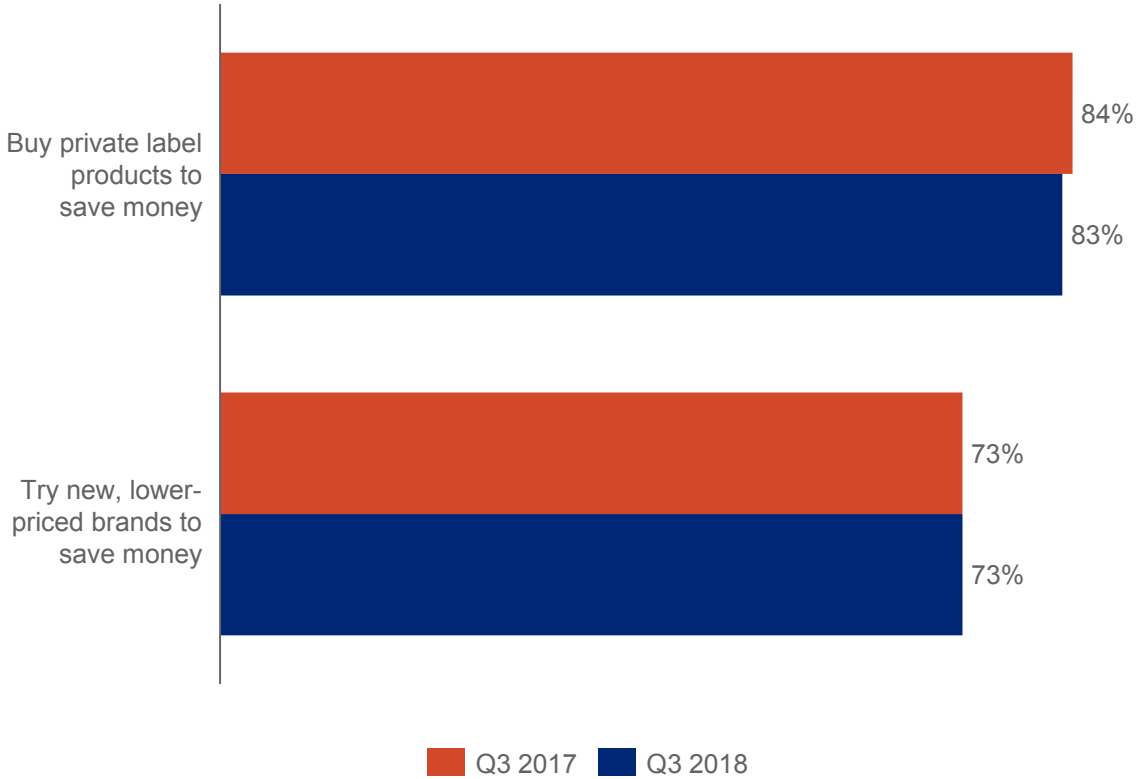


Source: IRI Consumer Connect™, Q3 2018



# Private Label Is Seen as a Viable Money-Saving Option

## Shopping Behavior, Total Population

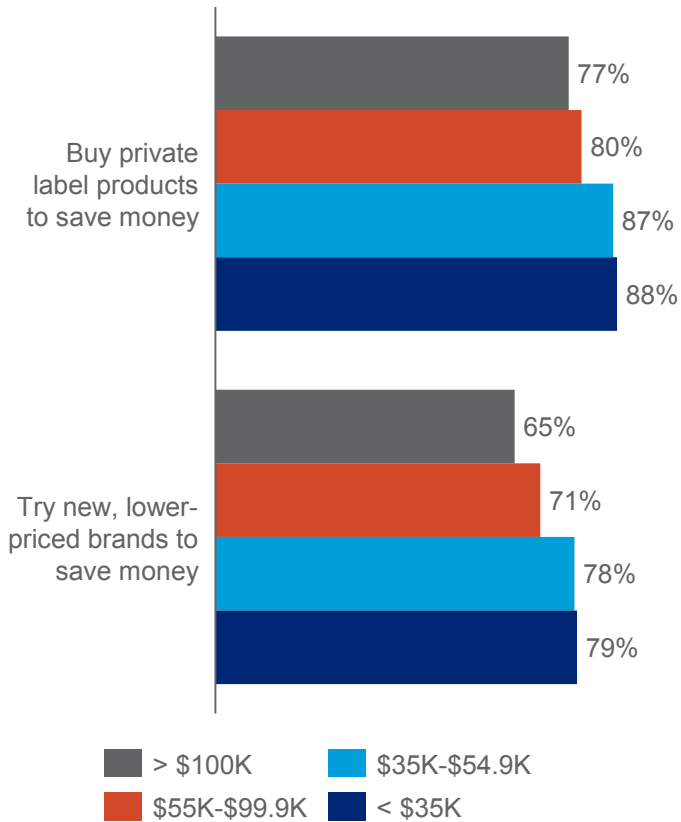


Top 2 Box Summary  
Source: IRI Consumer Connect™, Q3 2018

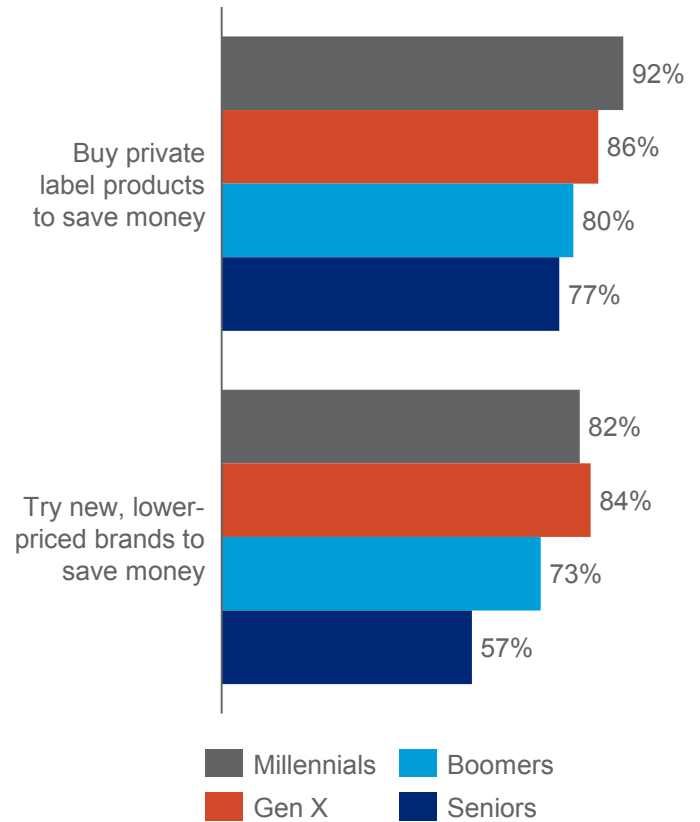


# Younger and Lower-Income Consumers Are More Likely to Turn to Private Label to Save Money

## Shopping Behavior, By Income



## Shopping Behavior, By Generation

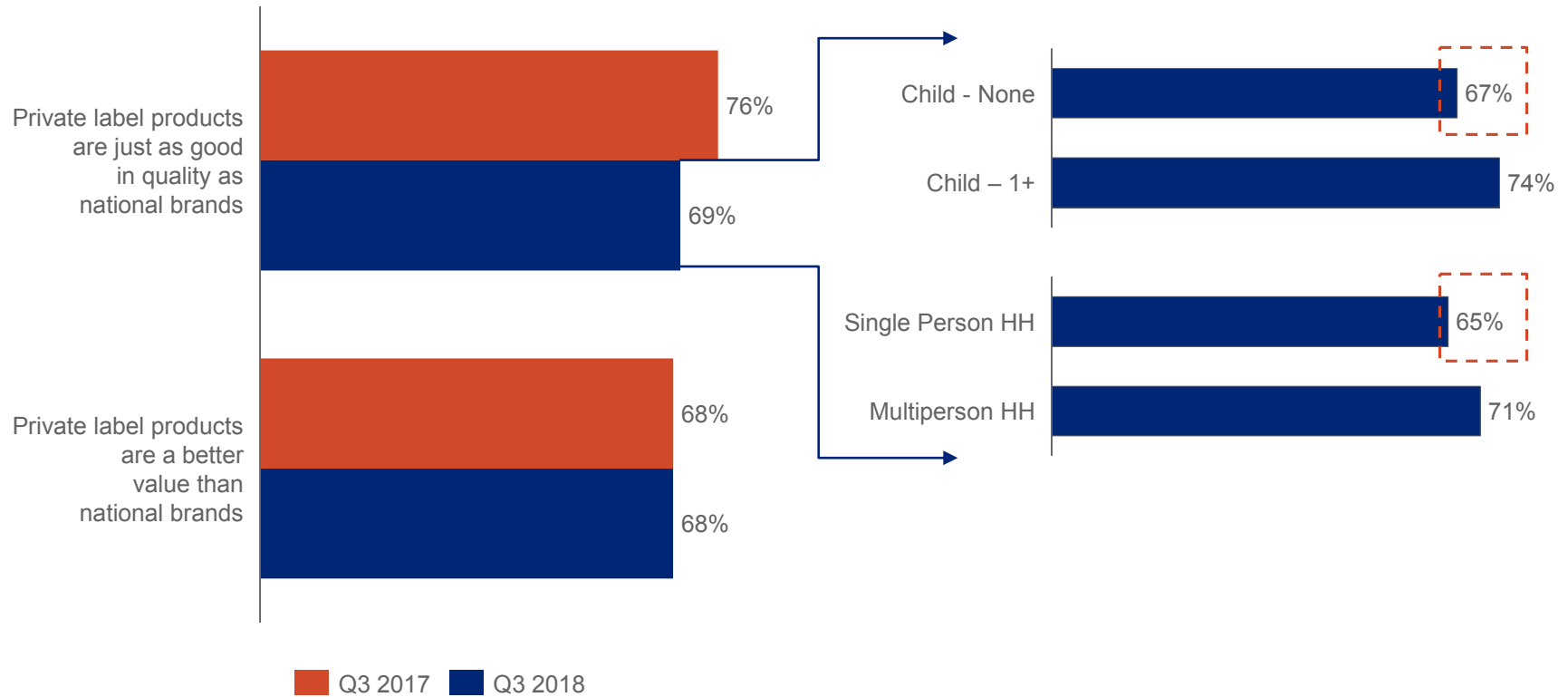


Top 2 Box Summary  
Source: IRI Consumer Connect™, Q3 2018



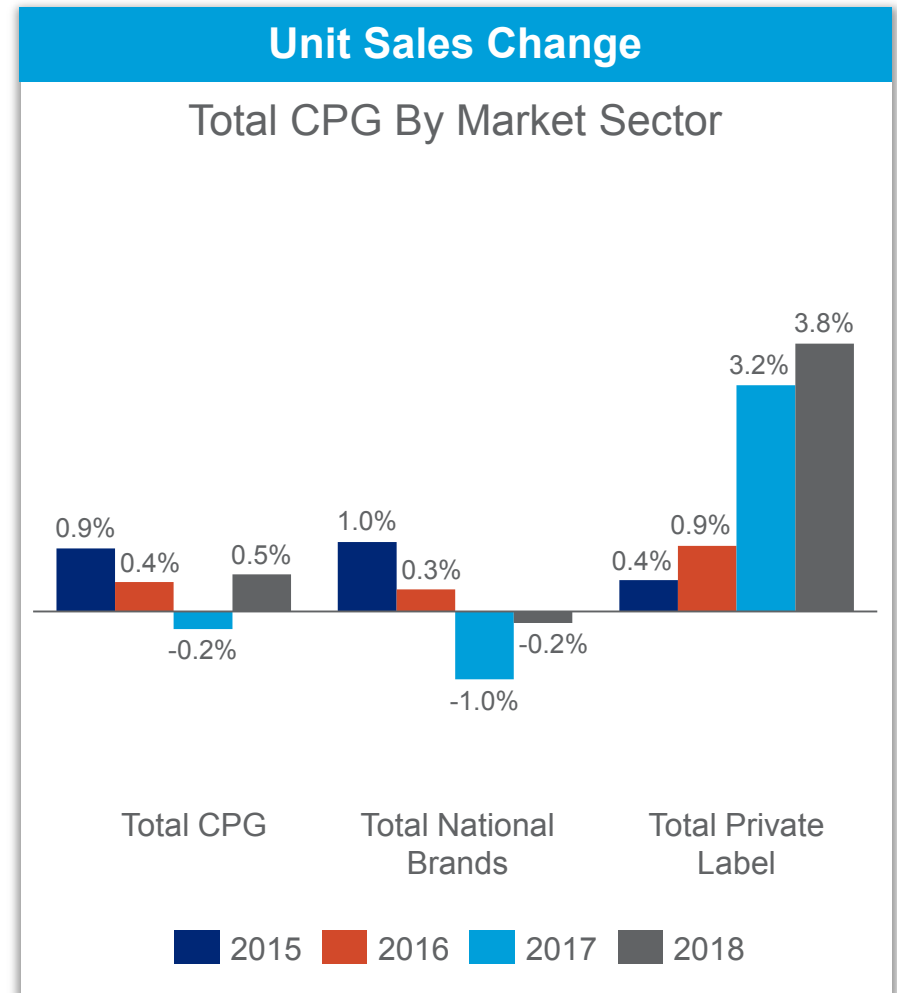
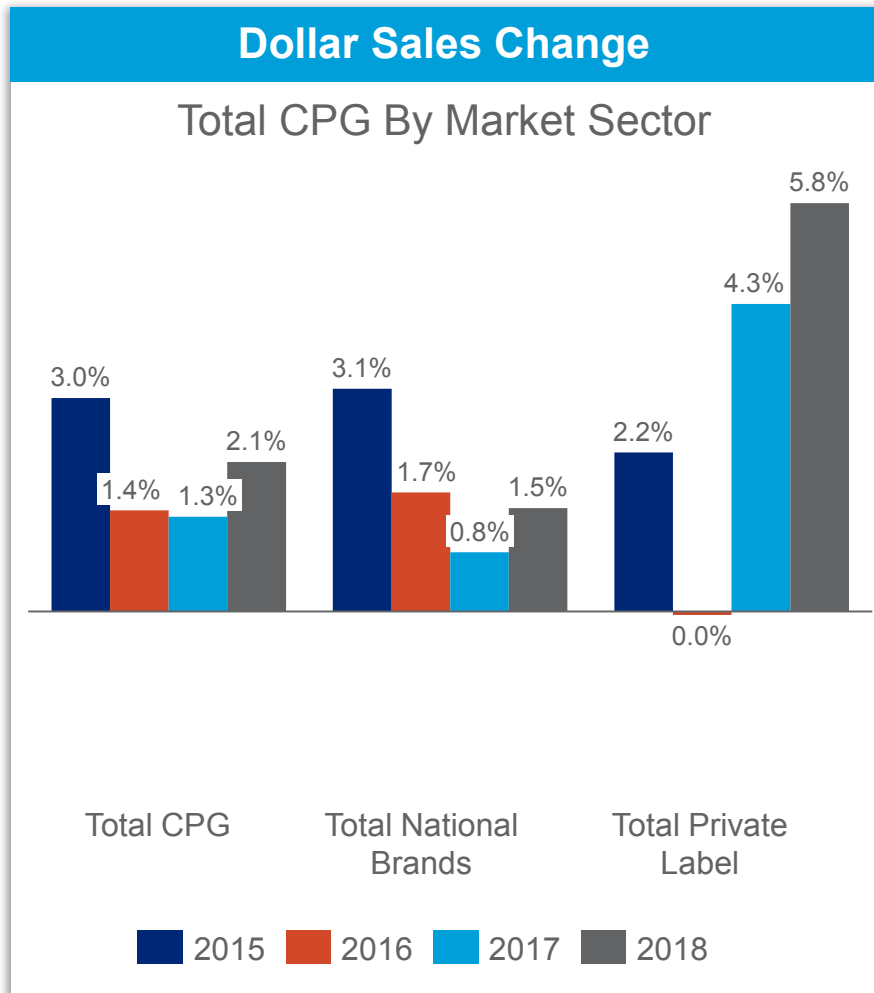
# This Year Has Seen a Small Decline in Private Label Quality Perceptions Across Childless and Single-Person Households

## Private Label Perceptions, Total Population



Source: IRI Consumer Connect™, Q3 2018

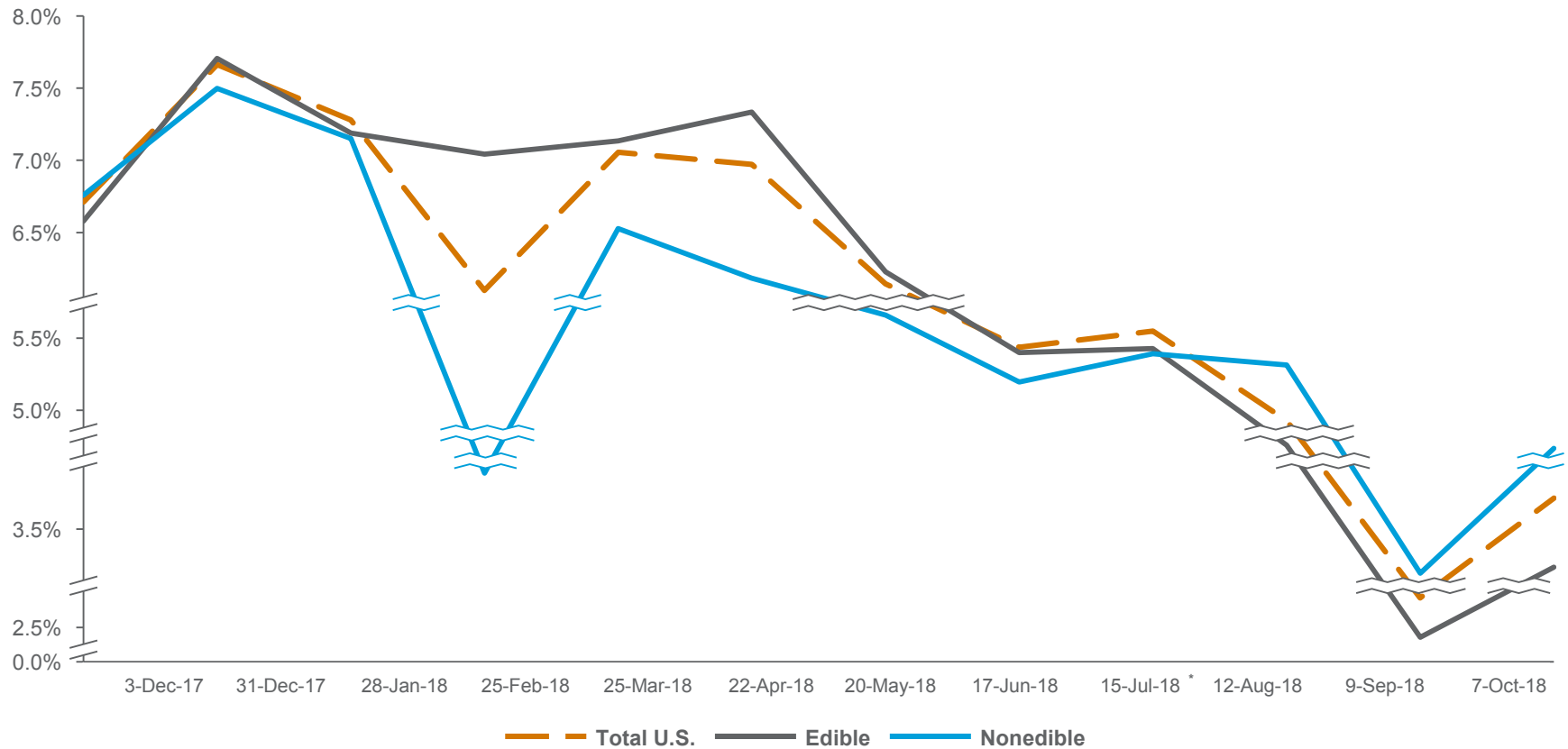
# Still, Private Label Dollar Sales Outperformed in 2018, Growing Four Times Faster Than National Brands



Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC

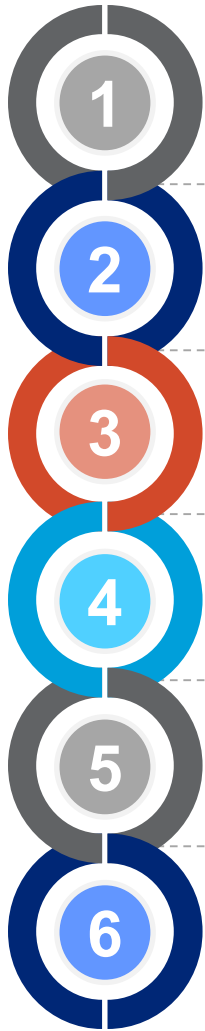
# Private Label Growth Rate Slipped During the Past Year, but Is Showing Signs of Turning Upward; the Non-Edibles Sector Has Been More Volatile

Private Label — Dollar Sales % Chg. vs. YA, By Edible/Nonedible



\*Note: Acculturated Hispanics are defined as Hispanics speaking only English or English more than Spanish  
 Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Oct. 7, 2018, and preceding, NBD aligned

# And Retailers Remain Focused on Growing Private Label Programs



1 Retailers are remodeling stores and developing new product ranges in an effort to attract a wider range of shoppers.

2 Unique private label ranges help retailers to differentiate from competitors and provide a compelling reason to visit.

3 The growth of e-commerce will also allow retailers to target shoppers in new markets and build trust in their private label lines.

4 Amazon has plans to dominate the private label market, aggressively moving into garden/outdoor, grocery, health/household and home/kitchen, as well as cross-category everyday commodity essentials.

5 Target views private brand development as a significant opportunity to drive differentiation, deliver unique experiences and build shopper loyalty. Key focus areas include an “Expect More” brand promise and a “Pay Less” value element.

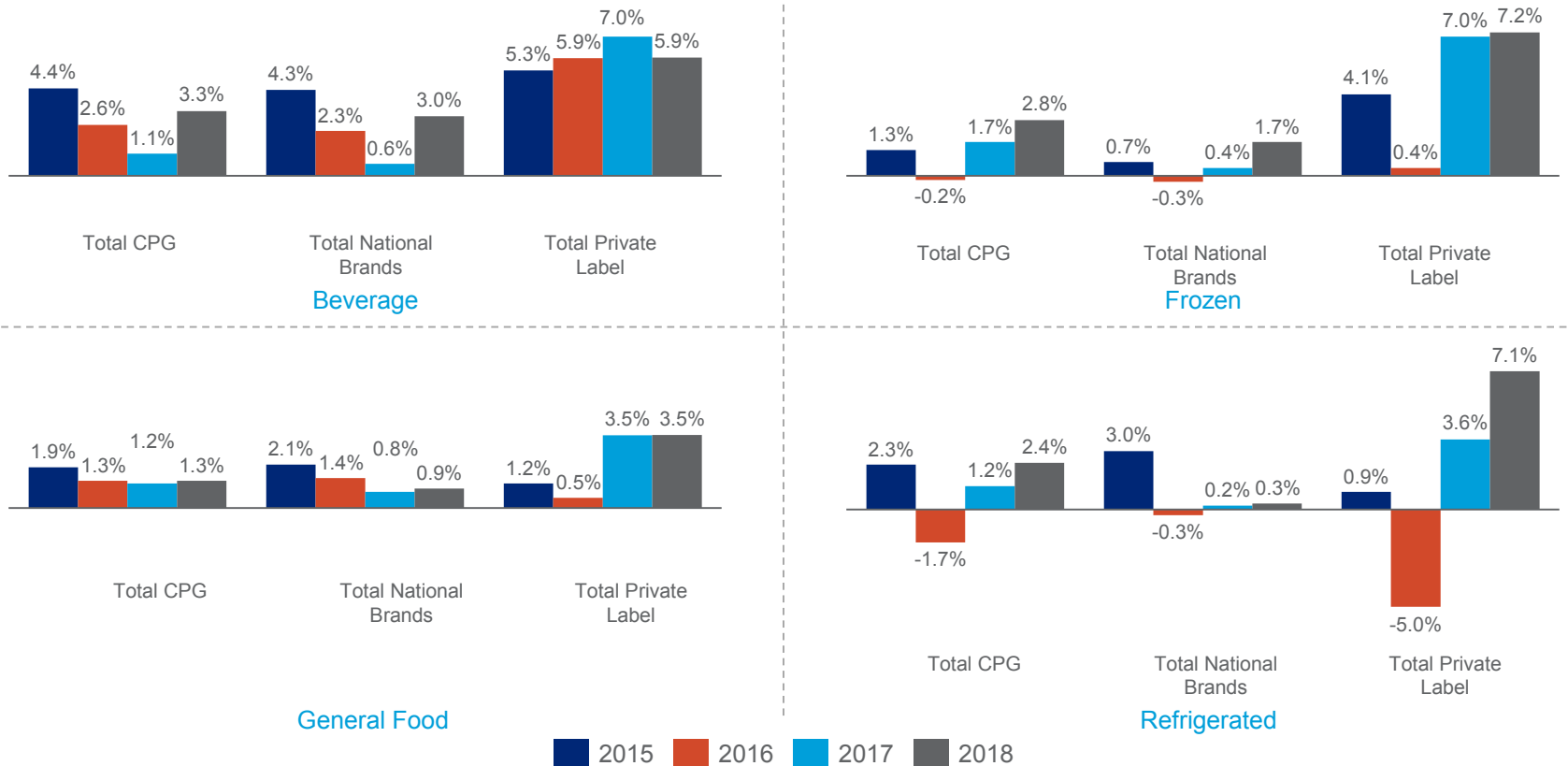
6 Following the acquisition of Safeway, Albertsons has become a private brands powerhouse, generating sales of over \$11.5 billion in 2017. It has partnered with Instacart to launch an online market, O Organics Market, featuring products from its O Organics and Open Nature private brands.

Sources: IGD Retail Analytics; Retail Dive

# Dollar Sales Have Been Solid Across Edibles, With Frozen and Refrigerated Departments Standing Out

## Dollar Sales Change

### By Edibles Sector and Department

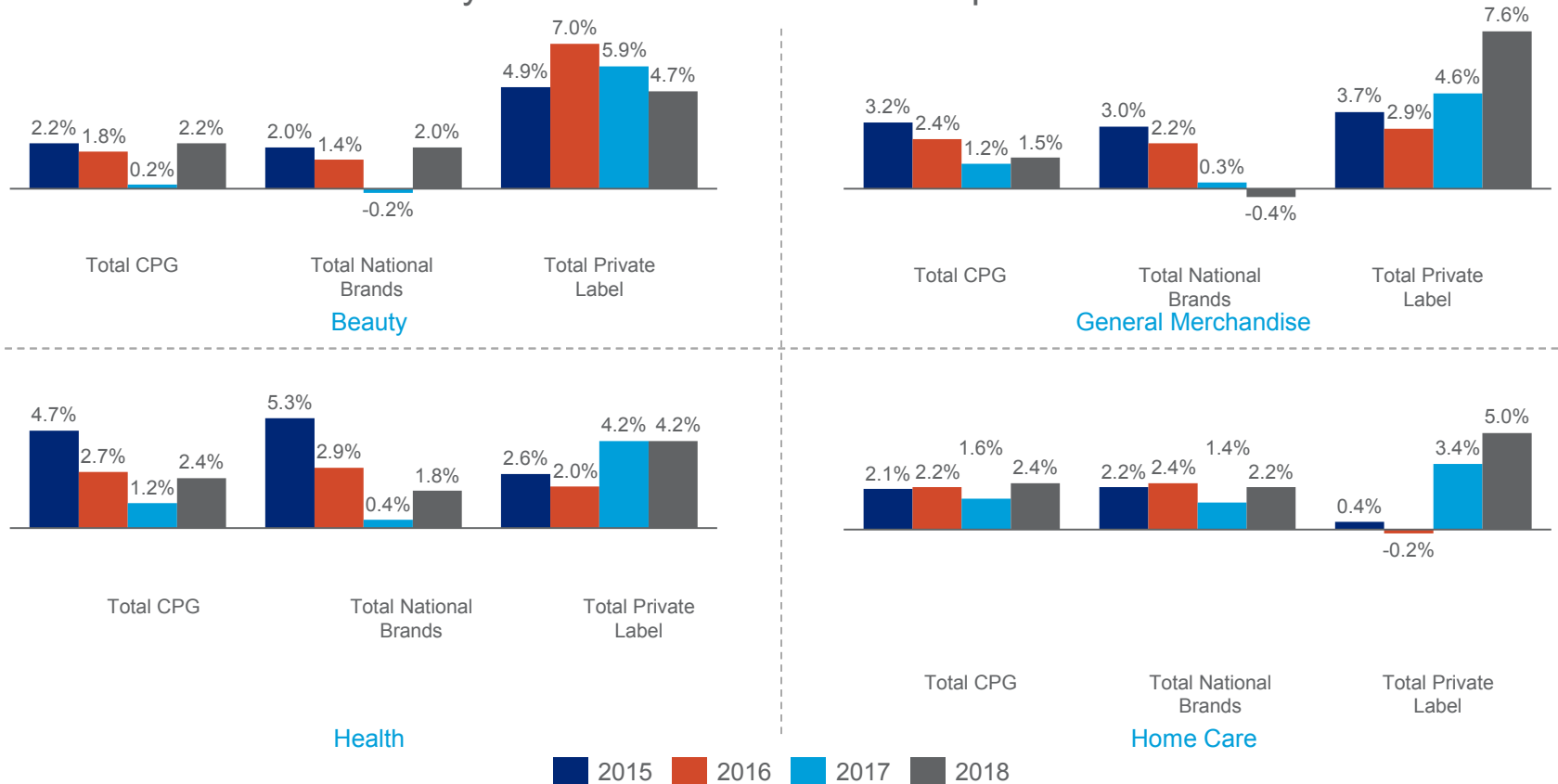


Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC

# Private Label Dollars Are Growing at an Above-Average Pace Across Non-Edible Departments; General Merchandise Is Particularly Strong

## Dollar Sales Change

### By Non-Edibles Sector and Department

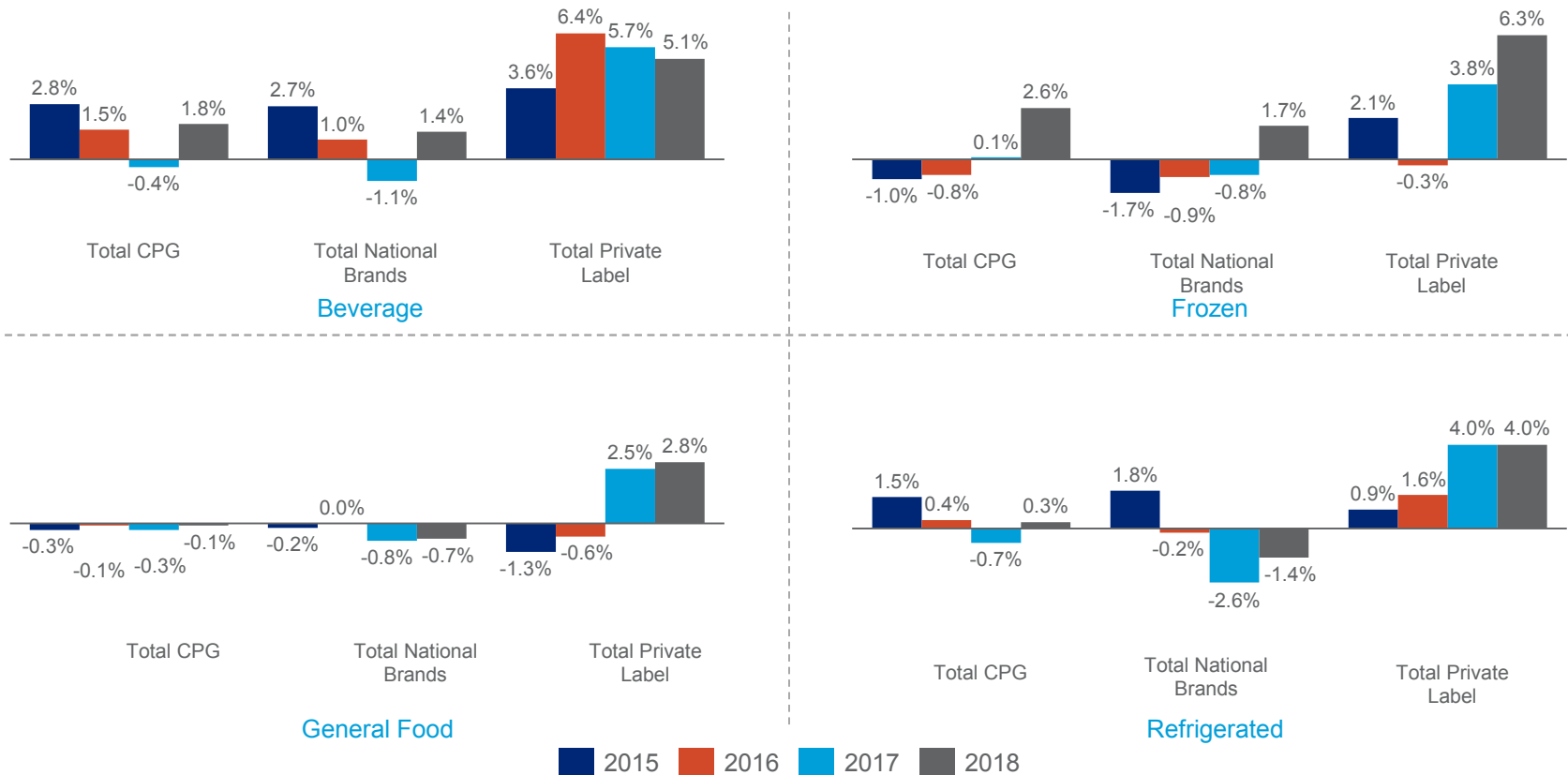


Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC

# Private Label Unit Sales Growth Is Steady Across Edibles Departments, With Beverage and Frozen Standing Out

## Unit Sales Change

### By Edibles Sector and Department

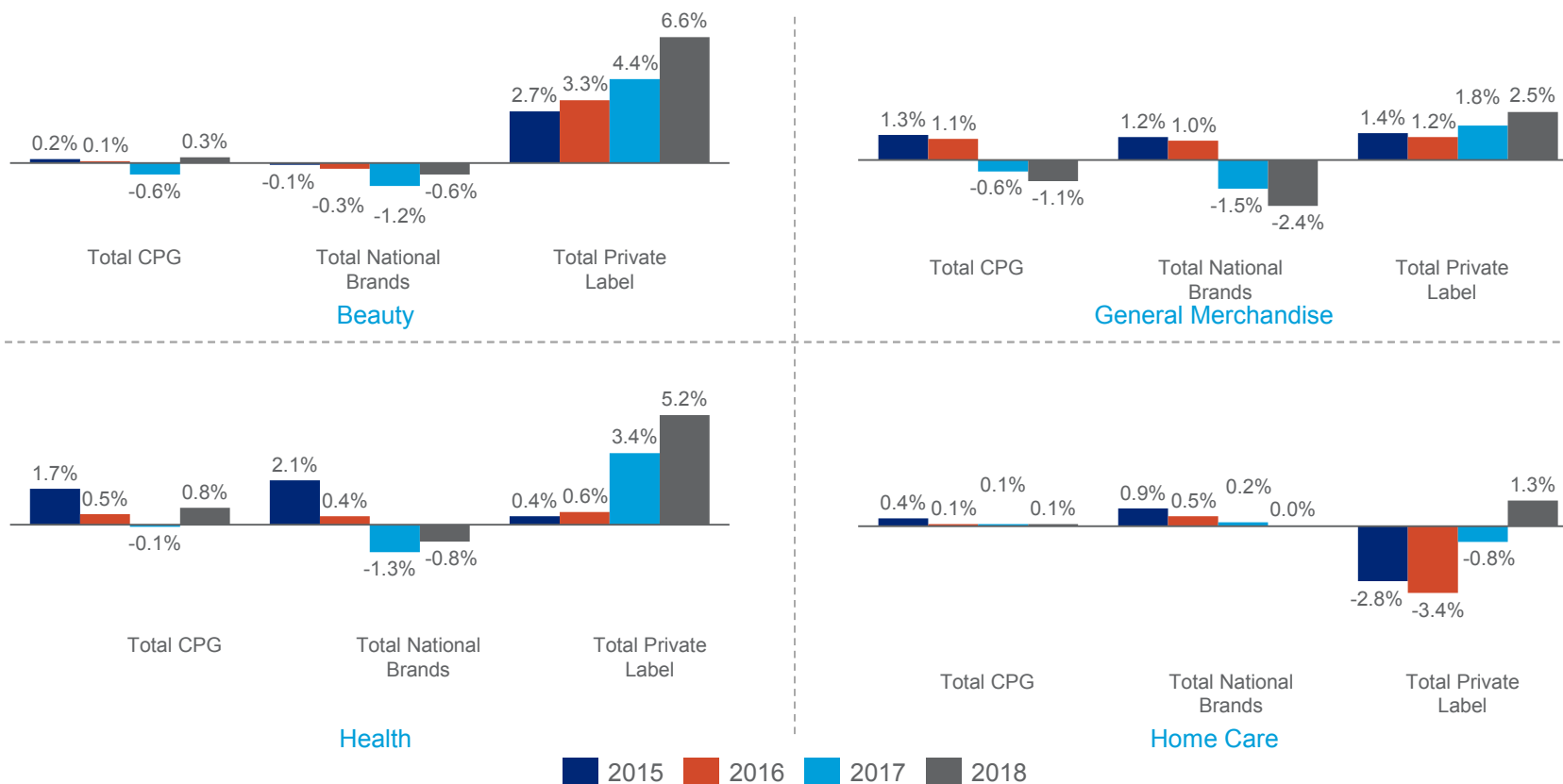


Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC

# Beauty Is Showing Strong Private Label Unit Sales Growth; All Non-Edibles Departments Are Seeing Solid Private Label Performance

## Unit Sales Change

### By Non-Edibles Sector and Department

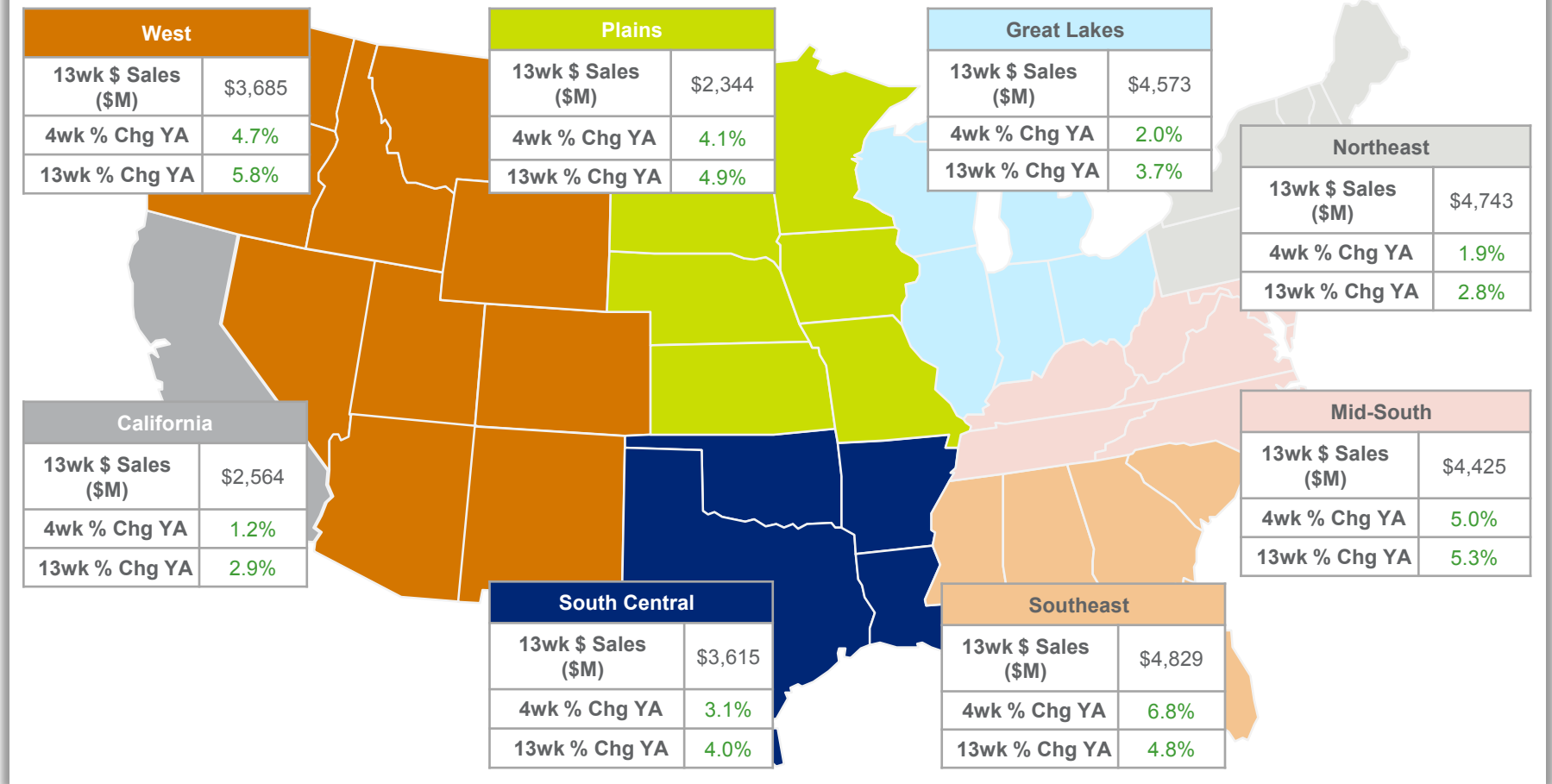


Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC



# During the Past Quarter, Private Label Has Grown Across Regions; West and Mid-South Regions Grew Faster Than Other Regions

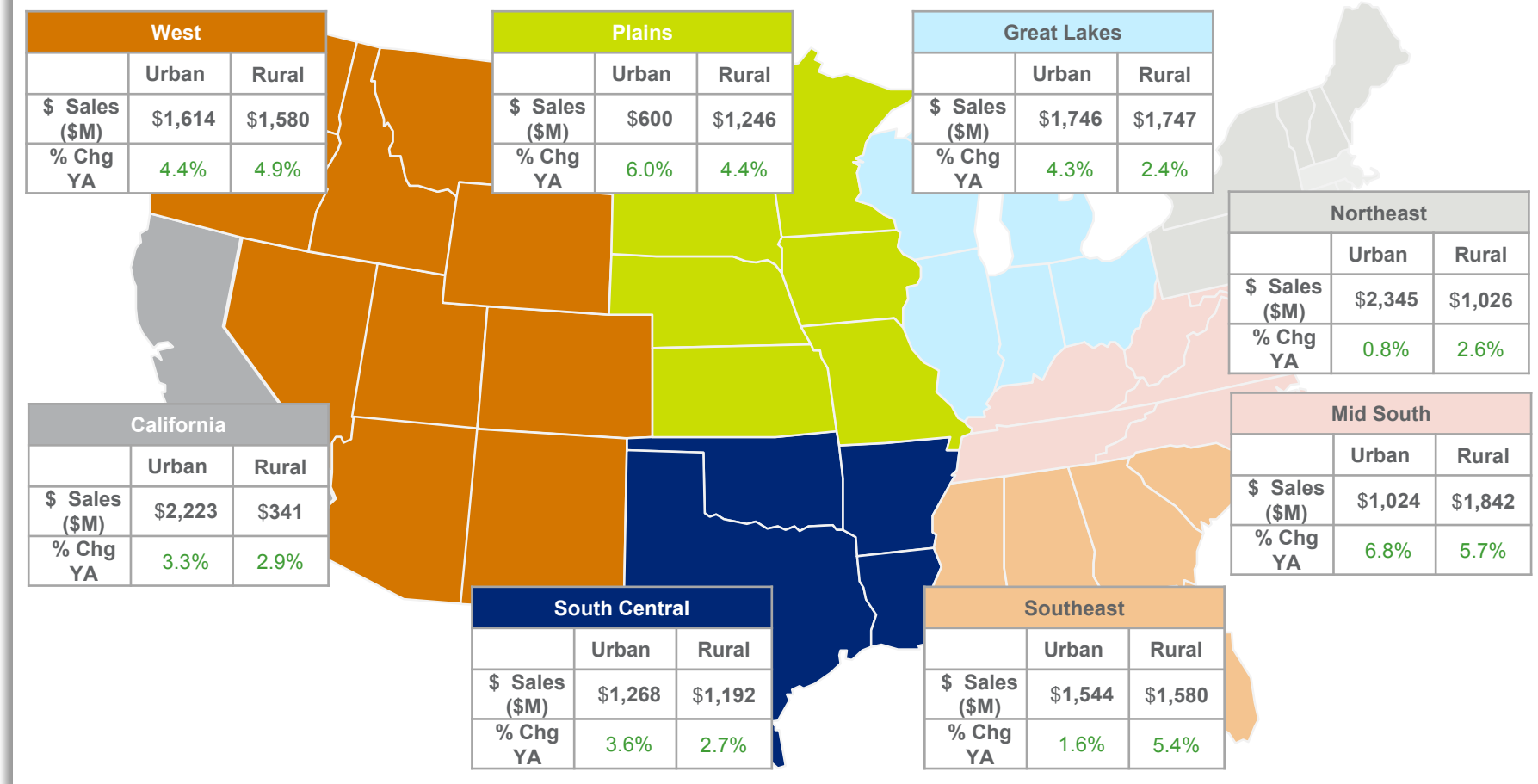
## Region Trends, Private Label



Source: IRI Market Advantage™, L13 & L4 weeks ending Oct. 7, 2018, MULOOC Regions

# Private Label Is Outperforming in Rural Markets in the Southeast and New England, but Is Stronger in Urban Areas of the Plains and Great Lakes Regions

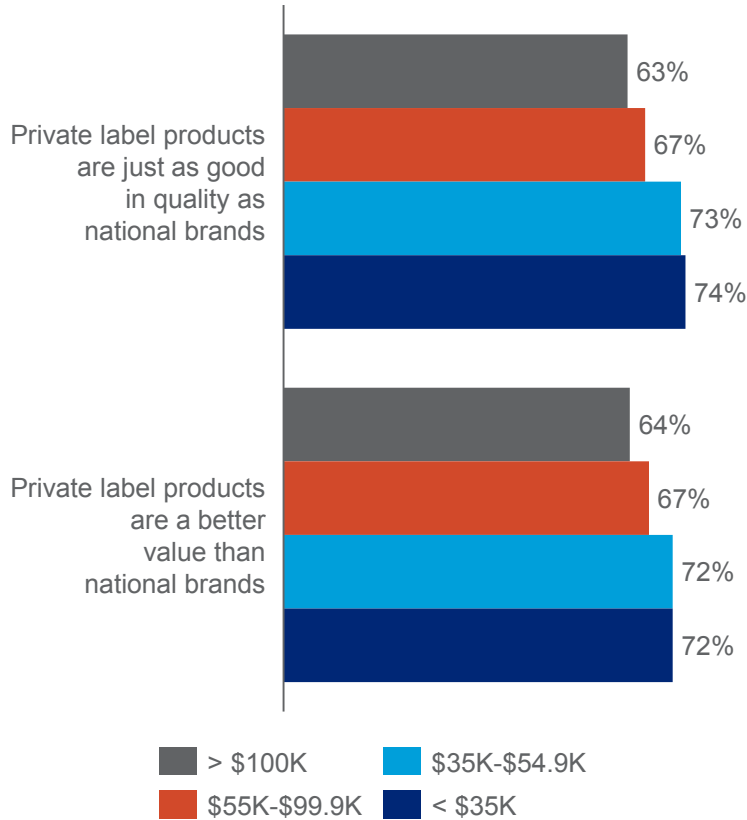
## Region Urban/Rural Trends, Private Label



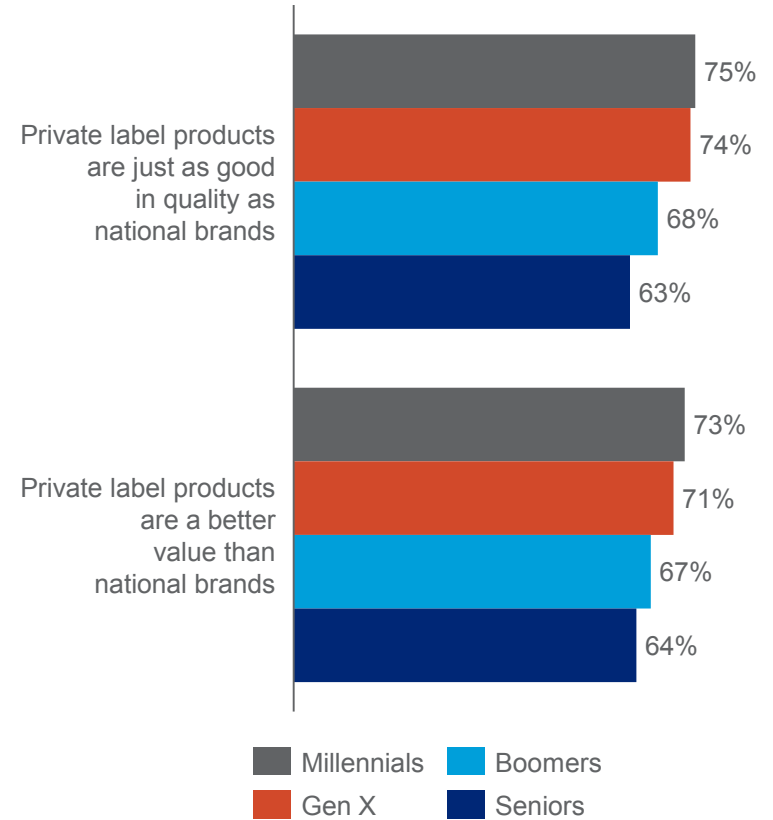
Urban Definition - County Size A Top 25 Markets, Rural Definition - County Size C/D  
 Source: IRI Consumer and Shopper Insights Advantage™, All Outlets Regions, 13 weeks ending Oct. 7, 2018, vs. YA, NBD aligned

# Millennials, Boomers and Lower-Earning Households Hold More Favorable Private Label Value and Quality Perceptions

## Private Label Perceptions, By Income



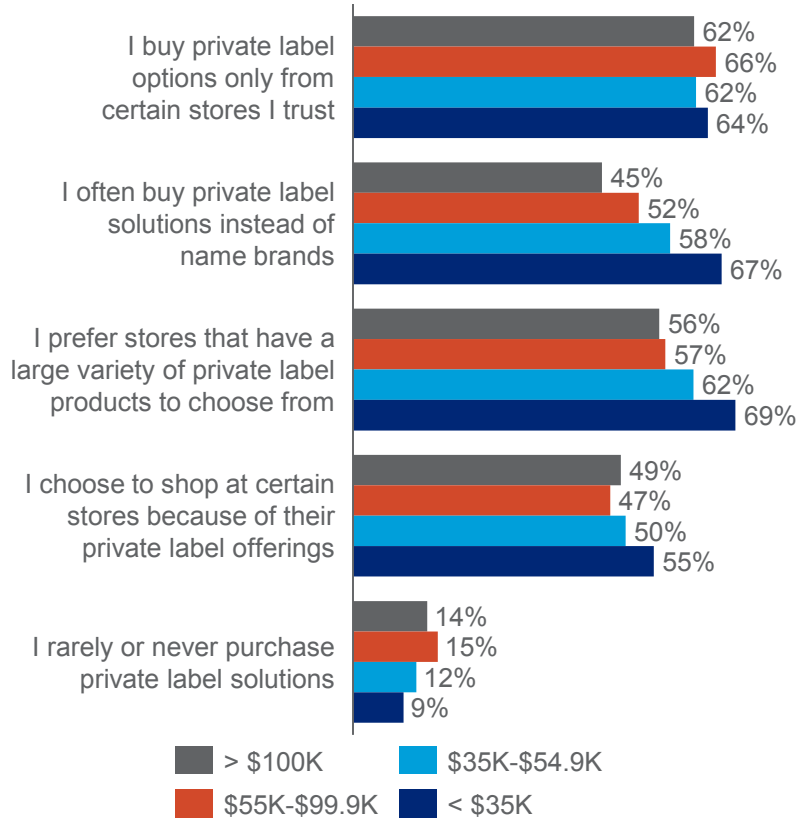
## Private Label Perceptions, By Generation



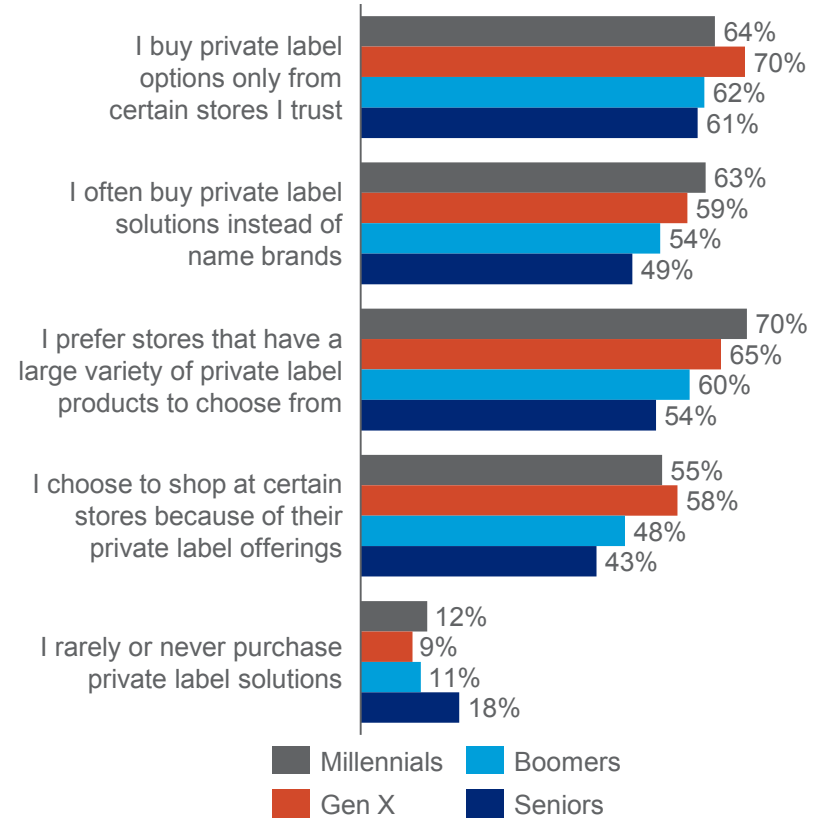
Source: IRI Consumer Connect™, Q3 2018

# Private Label Can Be a Key Driver of Store Selection, Particularly Among Younger Shoppers

## Private Label Behaviors, By Income



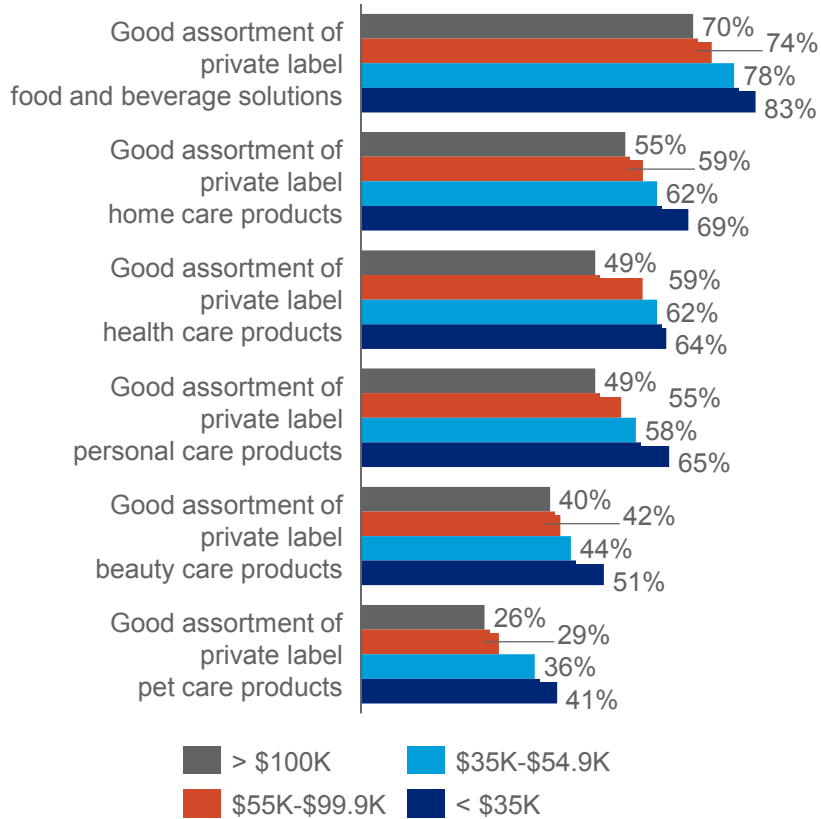
## Private Label Behaviors, By Generation



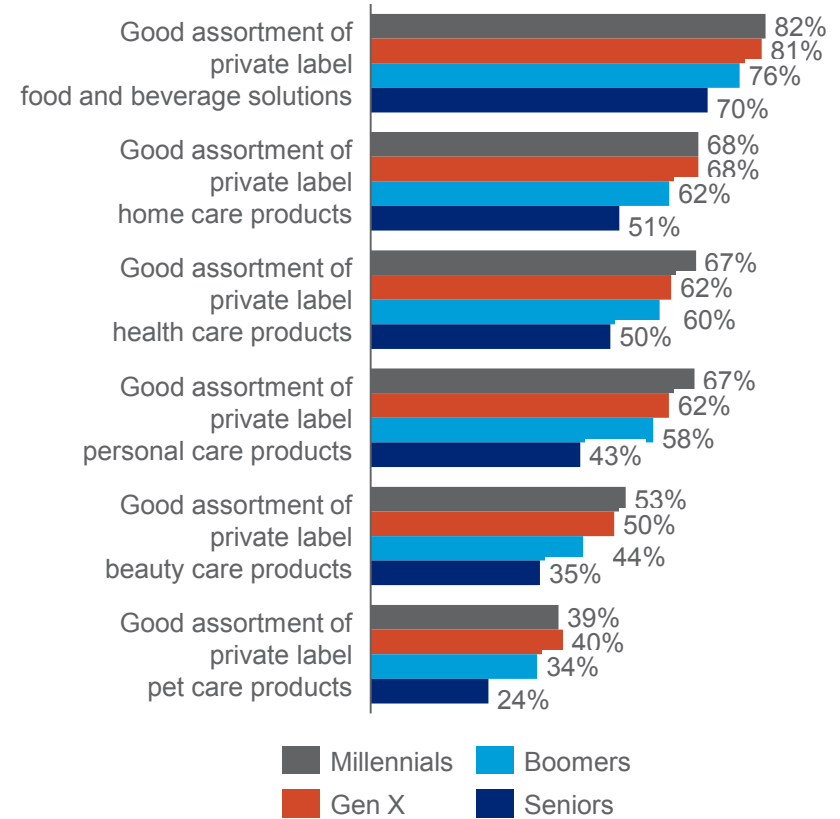
Top 2 Box Summary  
Source: IRI Consumer Connect™, Q3 2018

# Private Label Assortment Is a Key Driver of Store Selection Across Consumer Segments

## Store Selection Criteria, By Income



## Store Selection Criteria, By Generation

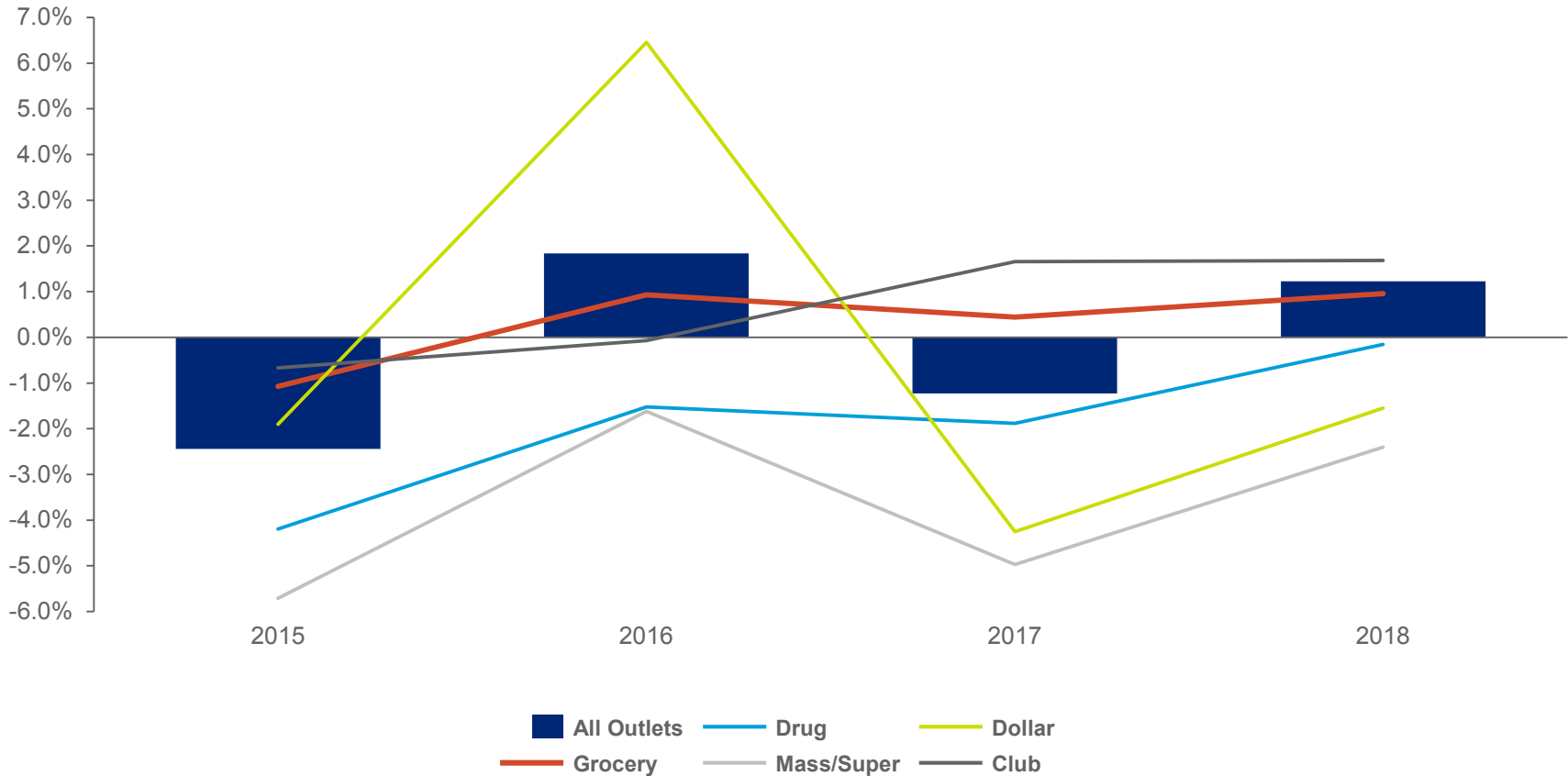


Very/Somewhat Important Summary  
 Source: IRI Consumer Connect™, Q3 2018



# Dollar and Mass/Super Channels Have Seen Volatile Private Label Performance in Recent Years; Other Channels Are Largely Trending Up

Private Label — Spending % Chg. vs. YA, By Channel



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Calendar year 2017 and two years prior, 52 weeks ending Oct. 7, 2018, NBD aligned  
 Note: Walmart not included in Grocery or Mass/Super

## Trip Frequency and Buy Rate Are Driving Private Label Spending at Club; Grocery Is Also Positive, But Showing Less Strength

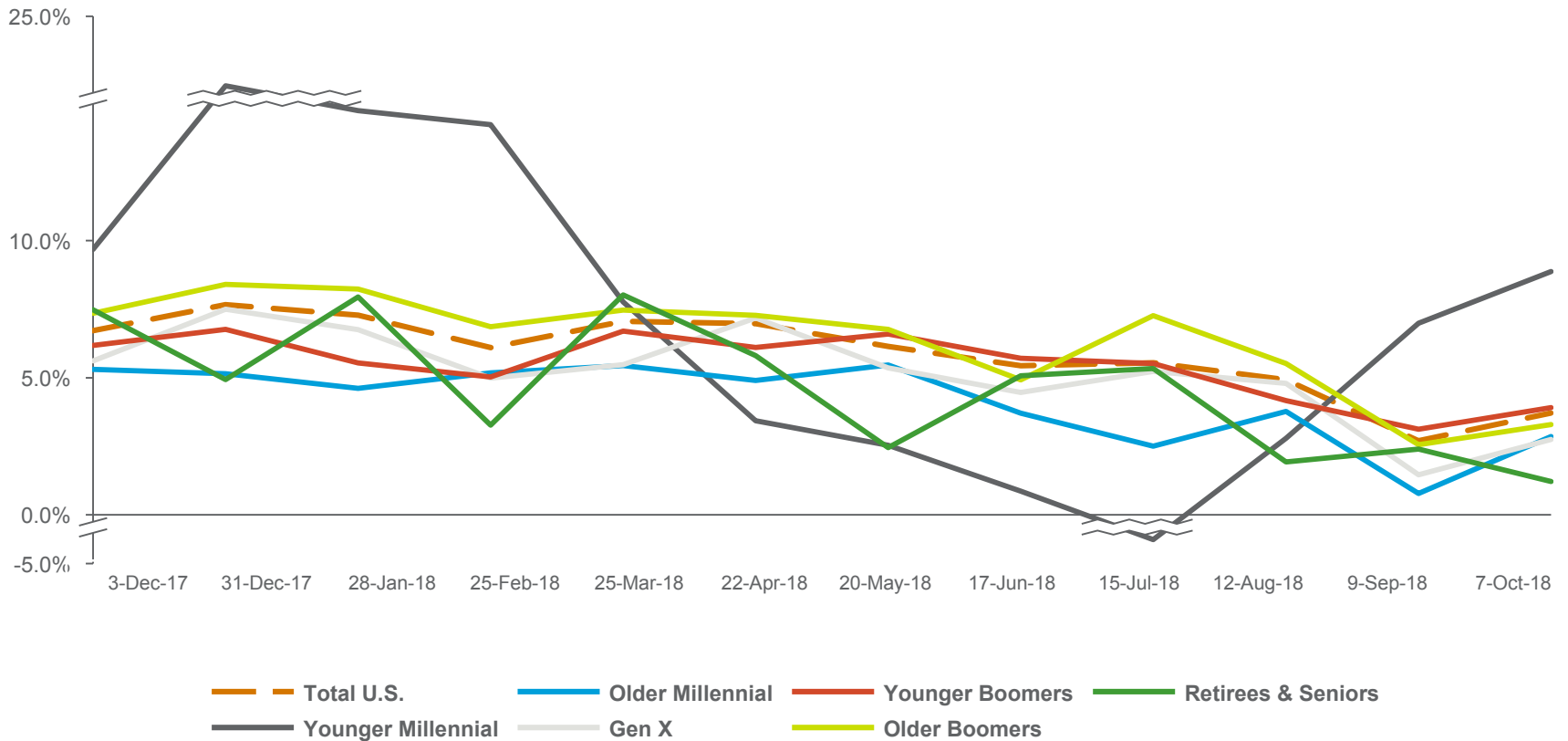
### Private Label — Buy Rate, Trip Size and Trip Frequency, By Channel

Channels	Dollars/Buyer		Dollars/Trip		Trips/Buyer	
	L52	% Chg. vs. YA	L52	% Chg. vs. YA	L52	% Chg. vs. YA
All Outlets	\$1,080.2	5.0%	\$12.5	2.3%	86.2	2.7%
Club	\$283.7	5.9%	\$25.2	2.5%	11.3	3.3%
Grocery	\$447.7	0.9%	\$11.5	-0.3%	39.1	1.2%
Drug	\$107.9	0.2%	\$11.3	6.8%	9.6	-6.2%
Mass/ Supercenter	\$66.3	-2.4%	\$9.8	-5.1%	6.8	2.9%
Dollar	\$40.5	-1.2%	\$4.8	-0.3%	8.5	-0.9%

Note: Walmart not included in Grocery or Mass/Super  
Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, 52 weeks ending Oct. 7, 2018 vs. YA, NBD aligned

# Private Label Dollar Momentum Has Been Fairly Consistent Across Generations, With The Exception of Younger Millennials

## Private Label — Dollar Sales % Chg. vs. YA, By Generation



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Oct. 7, 2018, and preceding, NBD aligned



## In E-Commerce, Edibles Categories Are Seeing Strong Private Label Growth on a Relatively Small Base

### Largest Private Label E-Commerce Categories

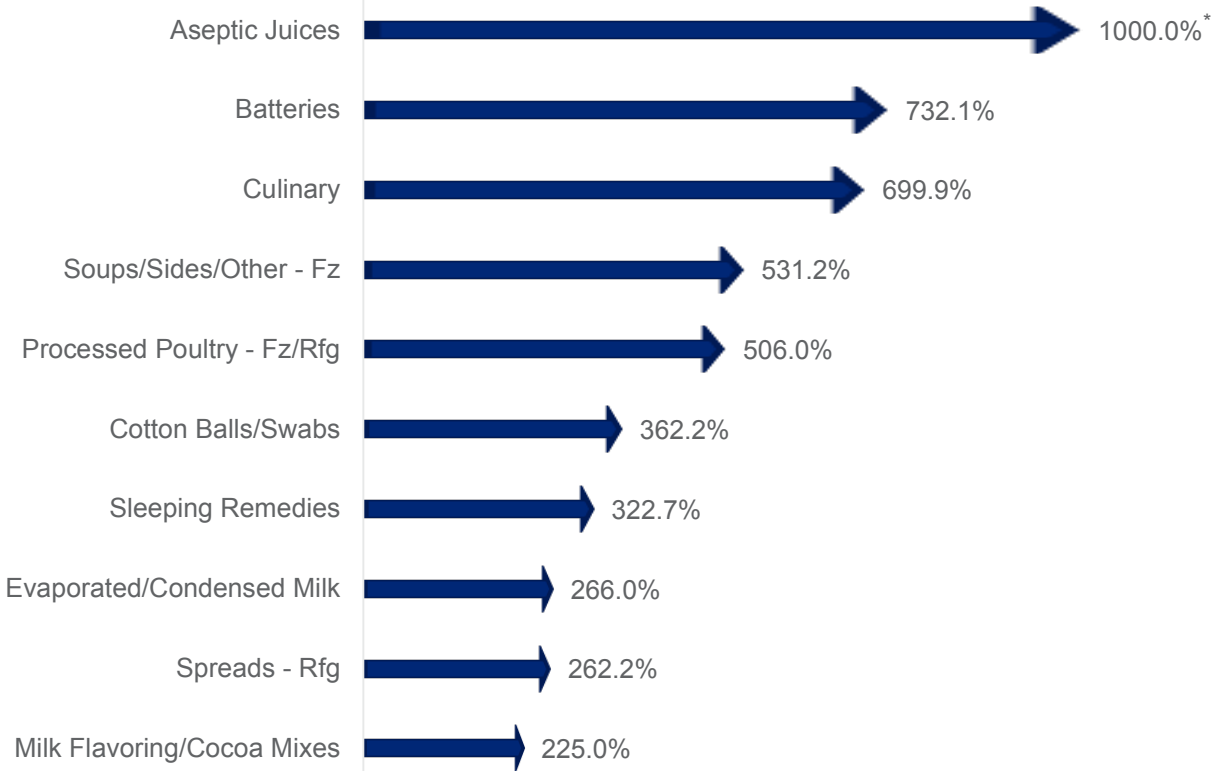
	Dollar Sales (\$M)	Dollars % Chg. vs. YA	Pt Share of Category Sales
Natural Cheese	\$68.5	81.8%	22.9%
Milk	\$56.9	6.9%	28.0%
Vitamins	\$45.7	17.6%	1.0%
Office Products	\$27.5	-39.1%	2.7%
Meat - Rfg	\$25.5	83.8%	20.1%
Bottled Water	\$24.3	18.0%	6.2%
Anti-Smoking Products	\$22.1	57.8%	11.6%
Food & Trash Bags	\$19.7	-26.3%	6.5%
Gastrointestinal - Tablets	\$17.1	4.1%	7.3%
Cups & Plates	\$16.4	20.0%	6.5%

Source: IRI E-Market Insights™, 52 weeks ending Oct. 07, 2018

# And Several Smaller Categories Are Seeing Growth Well in the Triple-Digit Range

## Fastest-Growing Private Label E-Commerce Categories

Dollar Sales % Chg. vs. YA



\*Note: Dollar sales % growth vs. YA for Aseptic Juices includes value greater than 1,000%  
Source: IRI E-Market Insights™, 52 weeks ending Oct. 7, 2018

## In the Brick-and-Mortar World, Private Label Sales Are Much Higher; Growth Is Strong, Particularly in Refrigerated Meats and Fresh Eggs











### Largest Private Label Categories

	Dollar Sales (\$M)	Dollars % Chg. vs. YA	Pt Share of Category Sales
Milk	\$7,265.5	-5.9%	47.7%
Natural Cheese	\$5,712.5	3.8%	44.1%
Bottled Water	\$4,063.7	9.0%	24.5%
Meat - Rfg	\$3,823.6	27.8%	74.3%
Fresh Eggs	\$3,739.1	27.3%	59.6%
Fresh Bread & Rolls	\$3,198.4	-2.8%	23.9%
Seafood - Fz	\$2,546.9	23.6%	53.2%
Cups & Plates	\$2,424.1	9.1%	57.4%
Vitamins	\$2,066.0	7.0%	27.2%
Food & Trash Bags	\$1,973.6	2.3%	43.8%

Source: IRI Market Advantage™, 52 weeks ending Oct. 7, 2018, MULOC

# The Fastest-Growing Private Label Categories Are Largely From Refrigerated and General Food Departments

## Fastest-Growing Private Label Categories

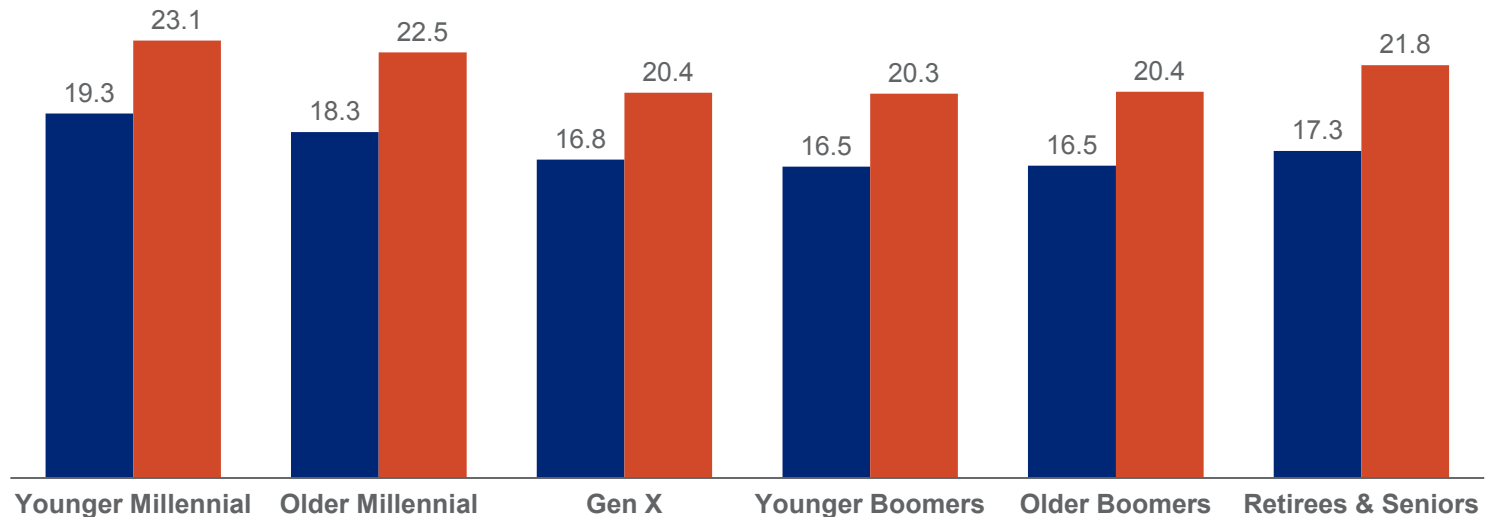
Dollars % Chg. vs. YA		Base Dollars % Chg. vs. YA
Egg Substitutes - SS	 150.0%*	150.0%*
Lunches - Rfg	 113.8%	109.7%
Ice Substitute	 98.5%	92.9%
Baking Cups/Paper	 85.5%	84.3%
Baby Gifts / Toys / Furniture	 78.3%	81.6%
Lard	 74.9%	77.3%
Deodorant	 66.3%	61.0%
Pest Control	 63.0%	57.0%
Outdoor Insect/Rodent Control Chem	 54.8%	46.5%
Fragrances - Women's	 52.8%	44.4%

\*Note: Dollar sales % growth vs. YA and base sales % growth vs. YA for Egg Substitute-SS includes value greater than 150%  
Source: IRI Market Advantage™, 52 weeks ending Oct. 07, 2018, MULOC

# Millennials Allocate More of Their CPG Spending to Private Label Solutions Than Other Counterparts; Share Is on the Uptick Across Generations

## Private Label Dollar and Unit Share, By Generation

■ Dollar Share ■ Unit Share



### Share Pt. Chg. Vs. YA

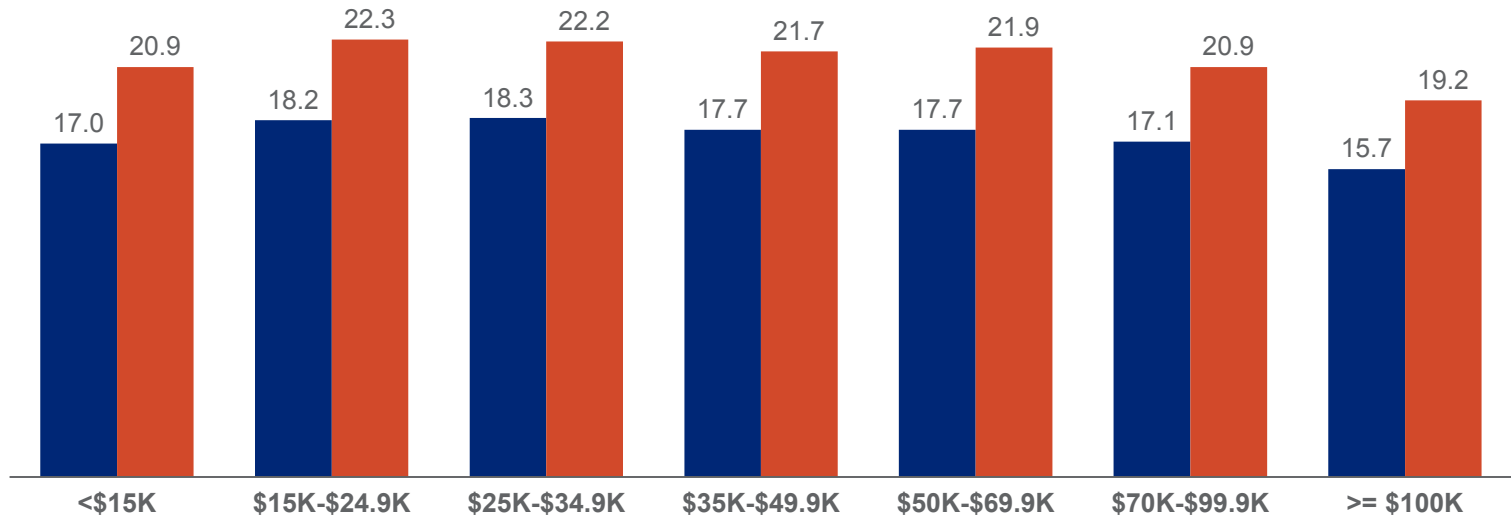
Dollar Share	1.1	0.6	0.4	0.7	0.7	0.7
Unit Share	0.8	0.8	0.7	0.8	0.7	0.7

Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, 52 weeks ending Oct. 7, 2018 vs. YA, NBD aligned

# Private Label Spending Is Fairly Steady Across Income Brackets; Momentum Is Also Consistent

## Private Label Dollar and Unit Share, By Income

■ Dollar Share ■ Unit Share



### Share Pt. Chg. Vs. YA

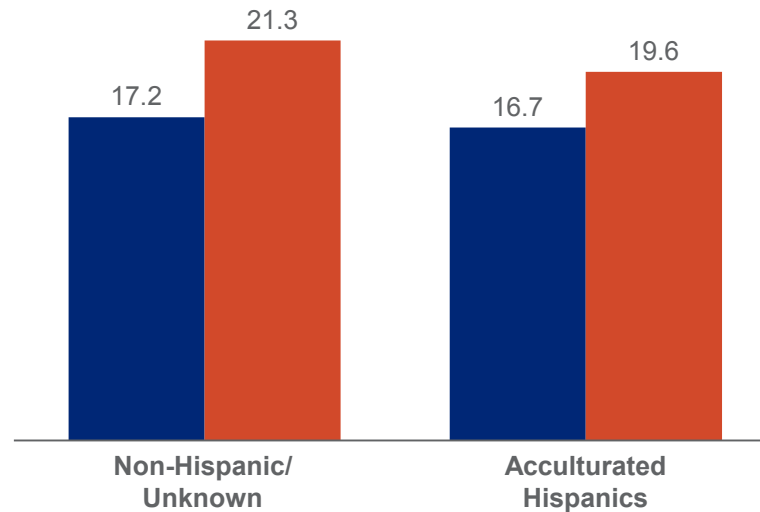
Dollar Share	0.2	0.7	0.9	0.7	0.7	0.6	0.5
Unit Share	0.4	0.9	0.9	0.8	0.9	0.8	0.6

Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, 52 weeks ending Oct. 7, 2018 vs. YA, NBD aligned

# Non-Hispanic Consumers Allocate More of Their CPG Spending to Private Label Solutions Than Hispanics; Growth Is Quite Similar Between the Two

## Private Label Dollar and Unit Share, By Ethnicity

■ Dollar Share ■ Unit Share



Share Pt. Chg. Vs. YA		
Dollar Share	0.6	0.4
Unit Share	0.8	0.5

*\*Note: Acculturated Hispanics are defined as Hispanics speaking only English or English more than Spanish  
Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, 52 weeks ending Oct. 7, 2018 vs. YA, NBD aligned*

## Projections for the Remainder of 2018 Include Solid Economic Growth With Modest Inflation Pressures

Economic Measure	2014	2015	2016	2017	2018P
GDP (% chg.)	4.4%	4.0%	2.7%	4.2%	5.3%
Unemployment (% , SA)	6.2	5.3	4.9	4.4	3.9
Consumer Price Inflation (% Chg.)	1.6%	0.1%	1.3%	2.1%	2.5%
Retail Sales (% Chg.)	4.2%	2.6%	2.9%	4.7%	5.4%
Residential Permits, Total (Mil)	4.2	4.7	4.8	5.1	5.4

Source: Moody's



# The U.S. Economy Grew at a Faster-Than-Expected Rate in Q3, but Warning Signs, Such as a Modest Rise in Business Investment, Are Emerging

## Annualized Q3 2018 GDP Growth: 3.5%

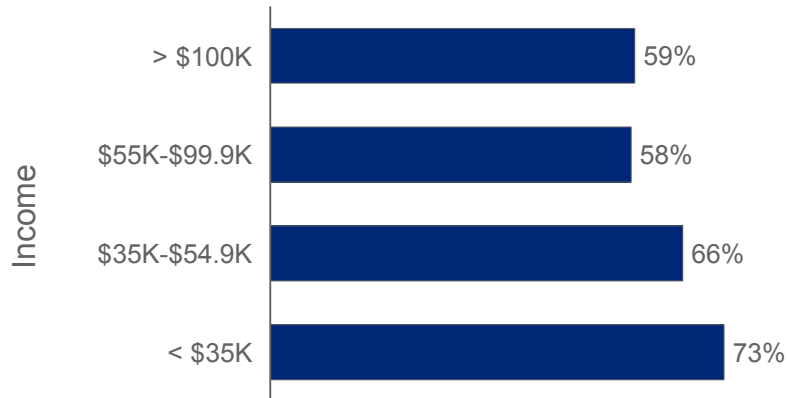


- The increase in real GDP in Q3 reflected positive contributions from personal consumption expenditures, private inventory investment, state and local government spending and federal government spending.
- Imports increased in Q3 after decreasing in Q2.
- Negative pressures include a downturn in exports and a deceleration in nonresidential fixed investment.

Source: U.S. Bureau of Economics

# Still, Private Label Prospects for the Coming Six Months Are Good, With More Than Half of Consumers Planning to Spend More on Private Label; Lower-Income and Younger Consumers Are Most Likely to Increase Spending

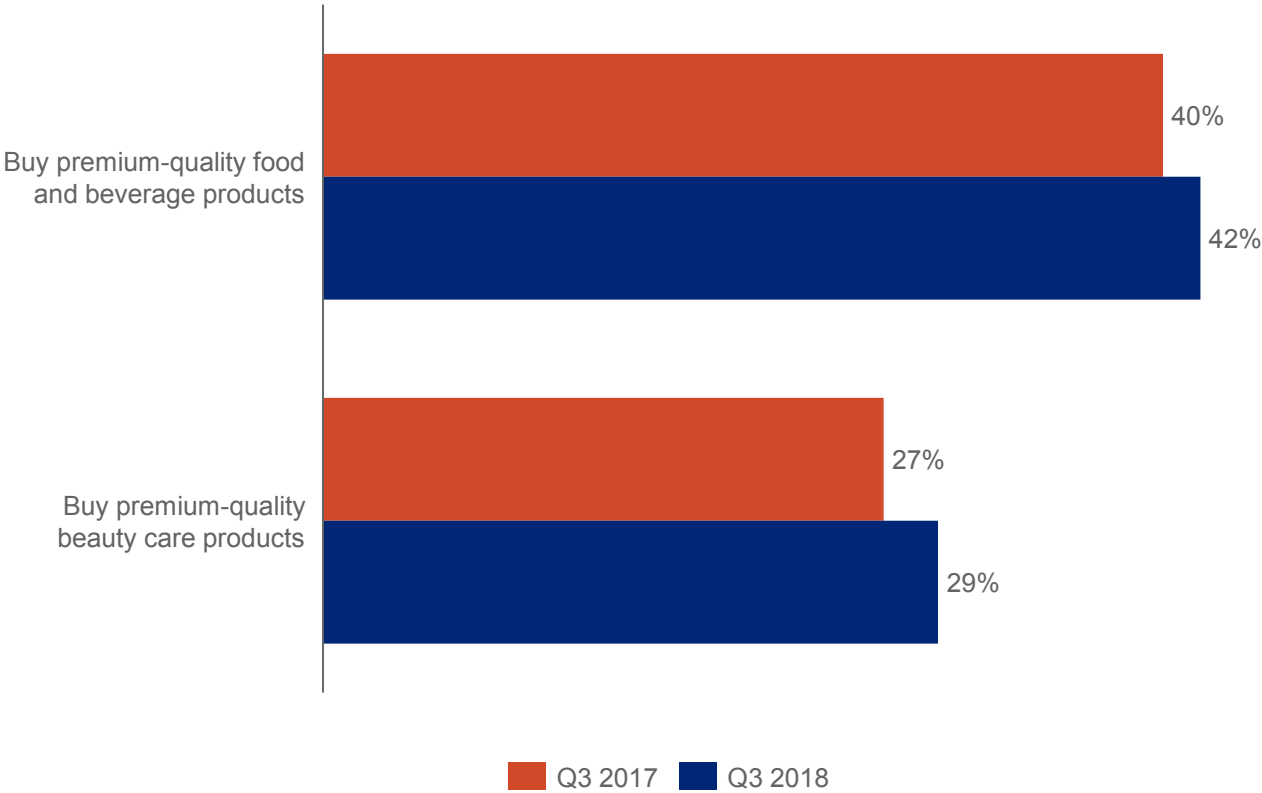
## Expect to Purchase More Private Label During the Next Six Months, Total Population



Source: IRI Consumer Connect™, Q3 2018

# Consumers' Willingness to Pay Premium for the CPG Solutions Has Inched up During the Past Year, Marking Opportunity for Private Label Growth

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

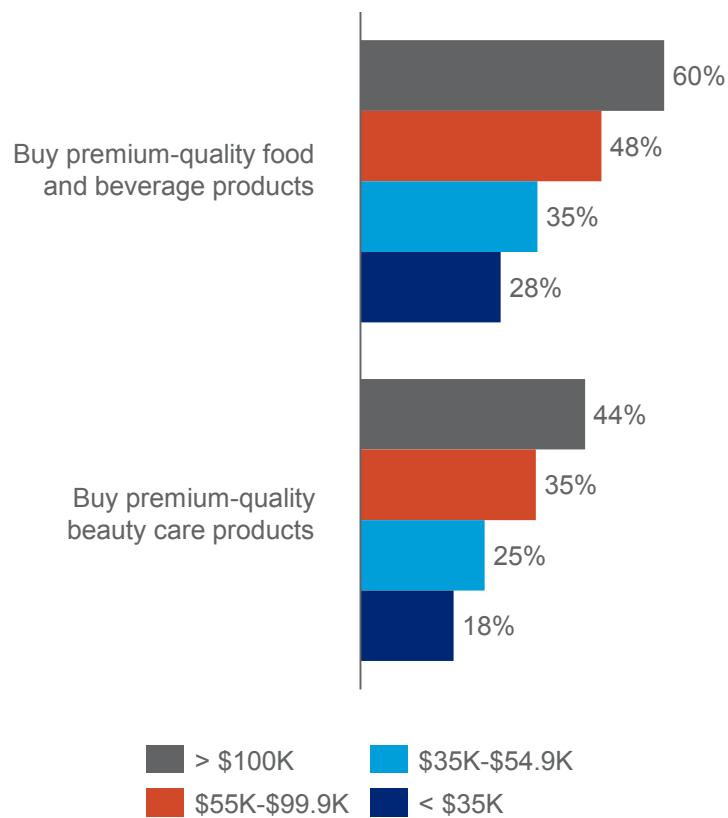


Source: IRI Consumer Connect™, Q3 2018

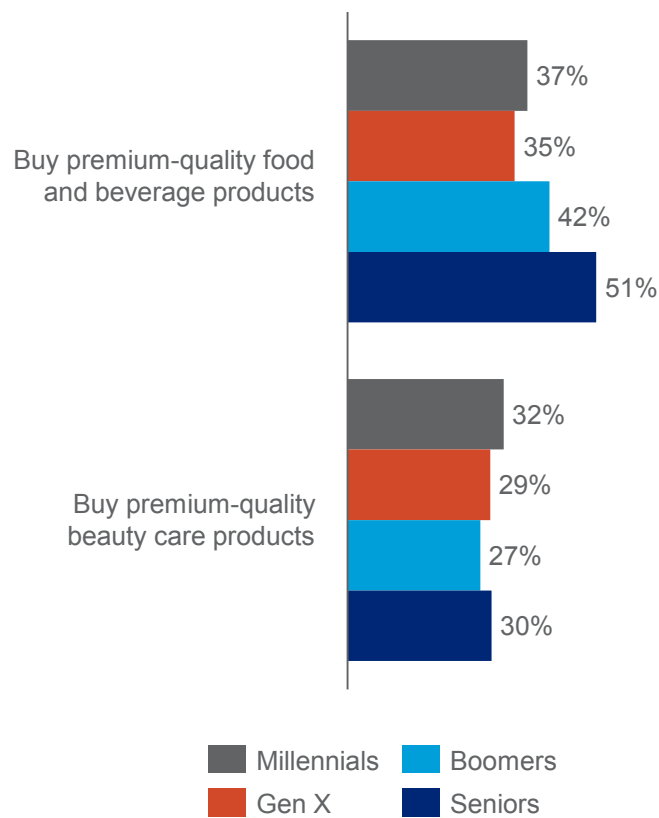


# Premium-Tier Solutions Offer Opportunity to Capture the Attention of Older and Wealthier Consumers

## Consumer Willingness to Pay a Premium for... By Income



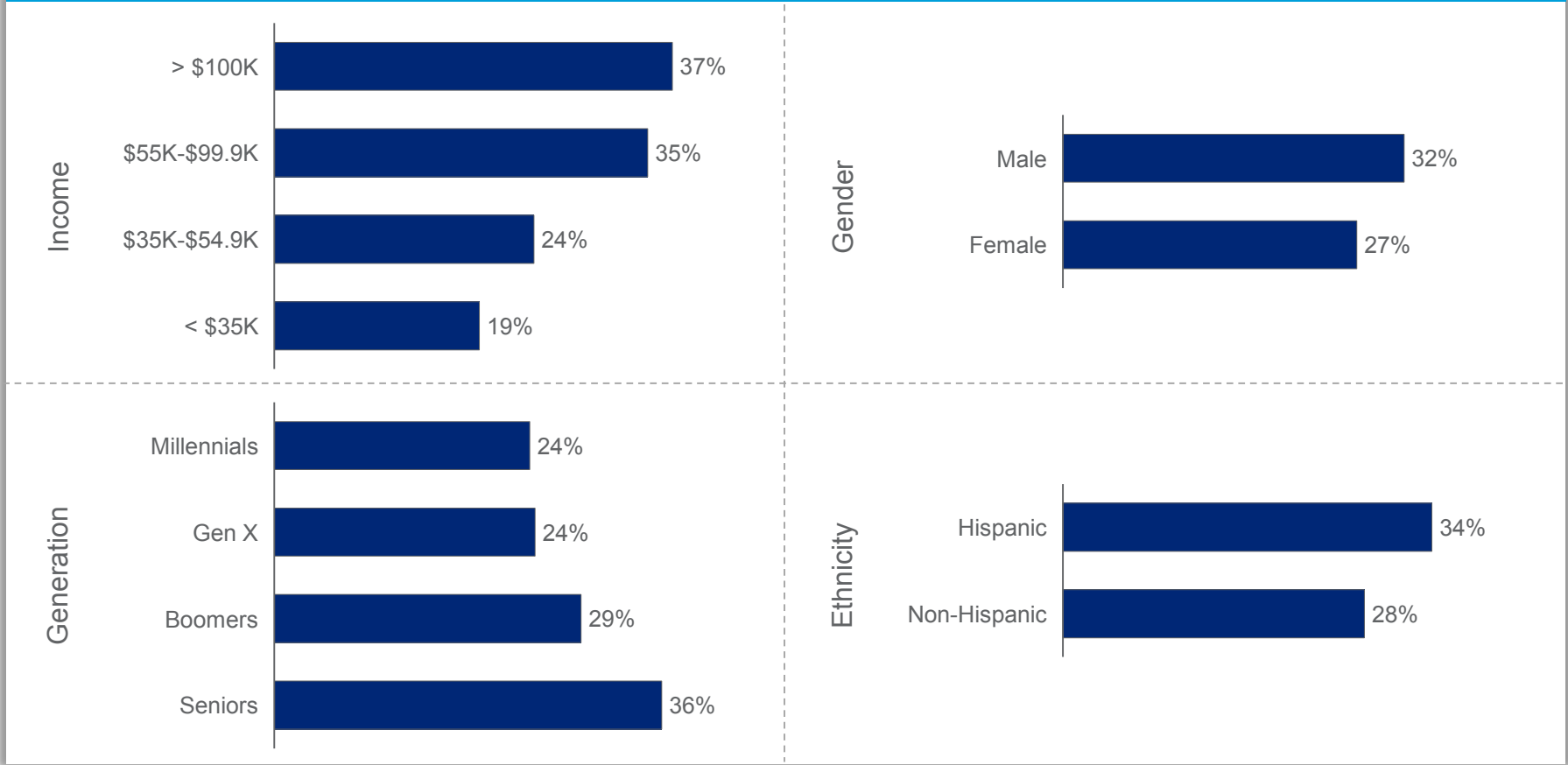
## Consumer Willingness to Pay a Premium for... By Generation



Source: IRI Consumer Connect™, Q3 2018

# The Opportunity for Premium Trade-Up Exists Across Income, Age, Gender and Ethnicity

## Expect to Purchase More Premium Brands During the Next Six Months, Total Population



Source: IRI Consumer Connect™, Q3 2018

