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Elevating business, enabling capacity building

Retailers' opportunity in private labels / brands

30 December 2020

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Note: In this report, 'private label', 'private brand', and 'store brand' are used more or less interchangeably.



Consumers are reacting differently towards consumer-packaged goods especially during and post-COVID-19 pandemic



The cause: Consumers reaction

- Increasing demand for **safe** and **healthy** products with consumers' minds on **health, hygiene, food safety** and **supply chain**
- Demand is more pronounced in the **packaged food and beverage** segments
- **Healthy habits** are now even more important
 - Greater customer expectations for **fresh, organic, and healthier food** products as well as **food constituents** and **healthy ingredients**
 - However, **organic, vegan, and "free of" products** are priced at the premium end where most consumers could not afford
- Consumers in mature economies are increasingly attentive to **health** and **sustainability** issues



The effect: Consumer-packaged goods (CPG) companies' response

- Consumer goods companies in the packaged food and household products sectors will focus more on products that are **consumed at home**
- Placing greater emphasis on more **local, socially responsible, and sustainable sourcing and packaging**
- Focusing on collaboration in **branding and distribution** between consumer product companies and retailers
- Companies will aim for greater **control and visibility** over supply chains to;
 - ensure a **reliable supply** of essentials on retailers' shelves
 - accelerate adoption and shift to **e-commerce**

Essential food, fresh food and hygiene are the top buying priorities for consumers

- Purchasing and shopping have changed the most among consumers in Asia Pacific, Middle East and Africa regions
 - 88% had to change the way they buy goods and services. For example, the bulk of buying activities has migrated from physical retail stores to online platforms
 - 68% of respondents will reduce purchases and save money after the pandemic

Behavioural changes

60%

rise in cooking **home-made dishes**

26%

increase in consumers purchasing a **new brand** that they wouldn't normally buy

1 out of 3

customers who tried new brands eventually ended up **favouring** them and will **continue buying post-crisis** as they are satisfied with quality and product performance

Buying changes

36%

consumers allotted more of their funds to buy **bread, meats, vegetables, and fresh food** while foregoing **personal care products**

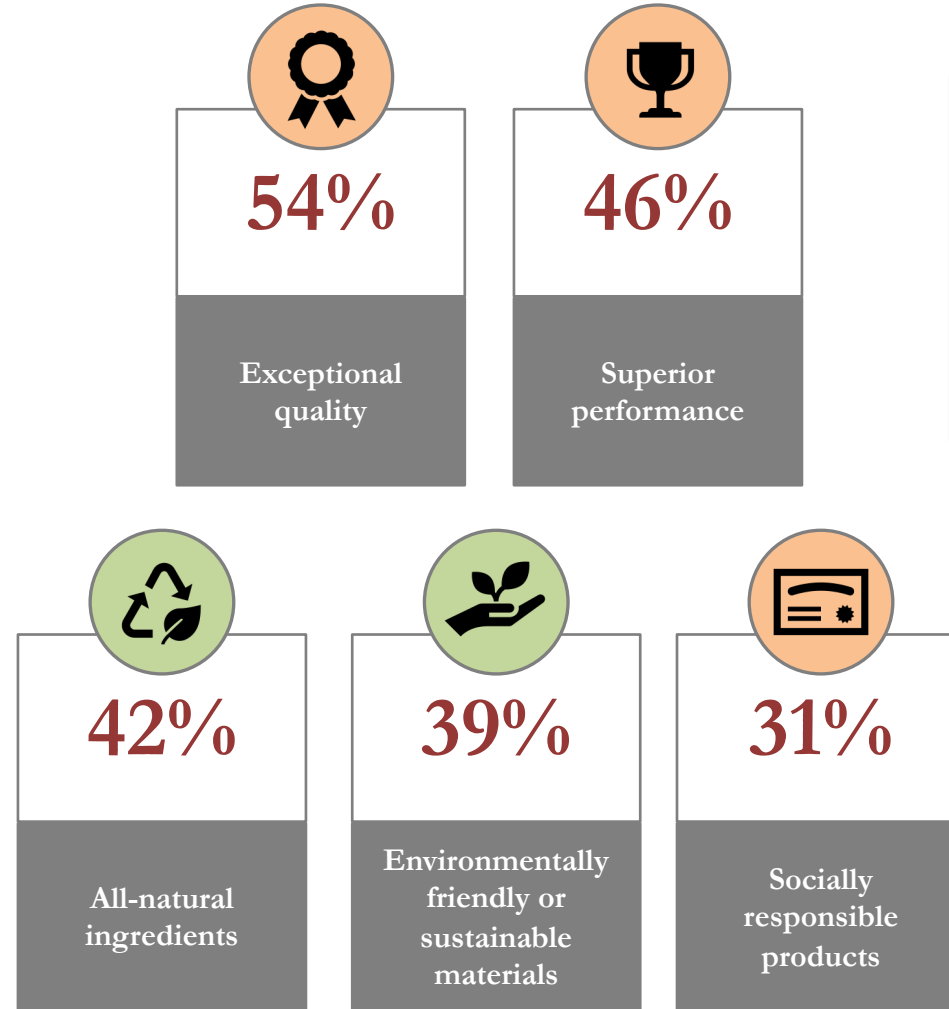
27%

increase in the consumption of **frozen products** more than usual



Is there potential for premiumisation of consumer-packaged goods?

- Premium is no longer just about price
 - It includes the promise of **exceptional quality** and **experience**, fuelling a growing taste for **unique, value-added products**
 - It's the perception of better **health, quality**, and **experience**, with products that make consumers **feel good**
- Premium market is outpacing total category sales in many markets due to **greater buying power** and **spend**, as well as availability of **new and innovative brands**
 - Consumers are going premium on everyday items - **personal-care, beauty, home-care and various food and beverage** categories
 - Consumers buy premium products for both **rational** and **emotional** reasons (aspirations for status and accomplishment)

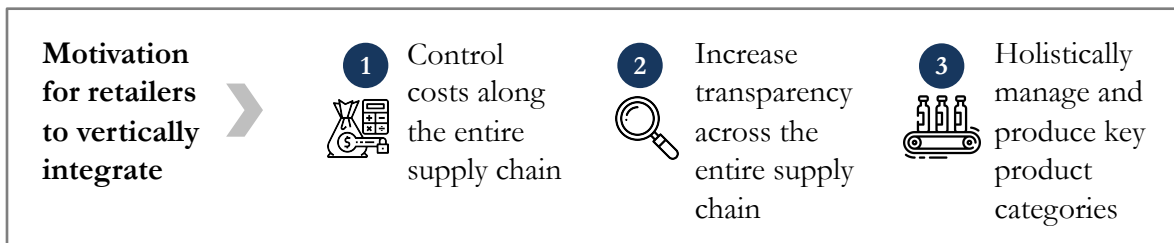
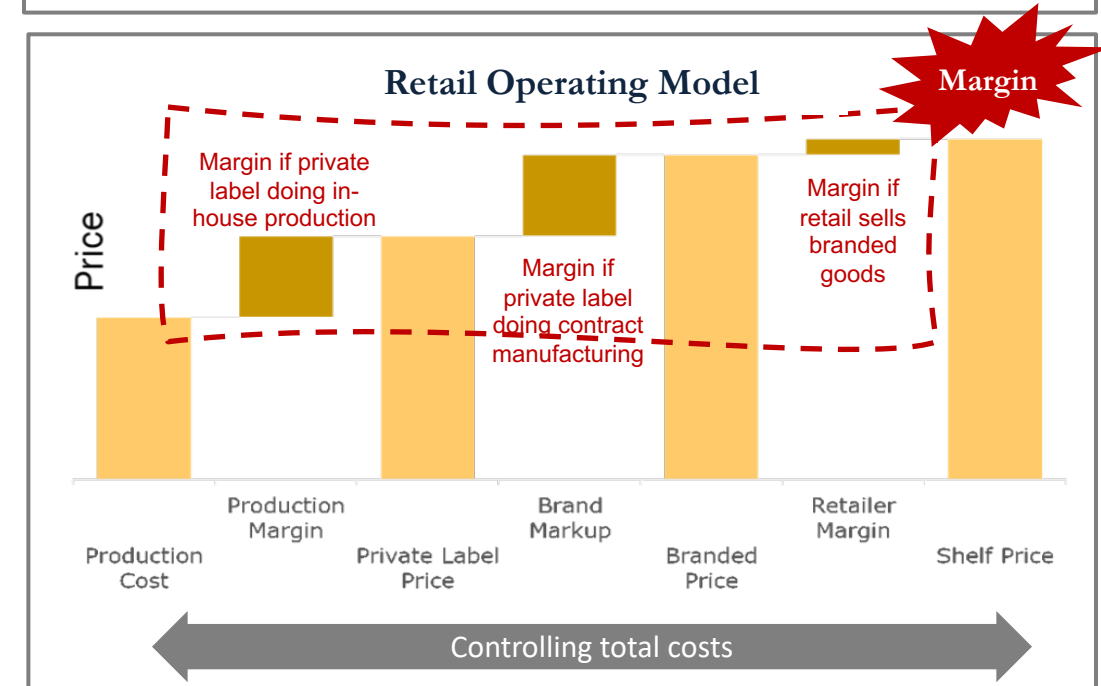
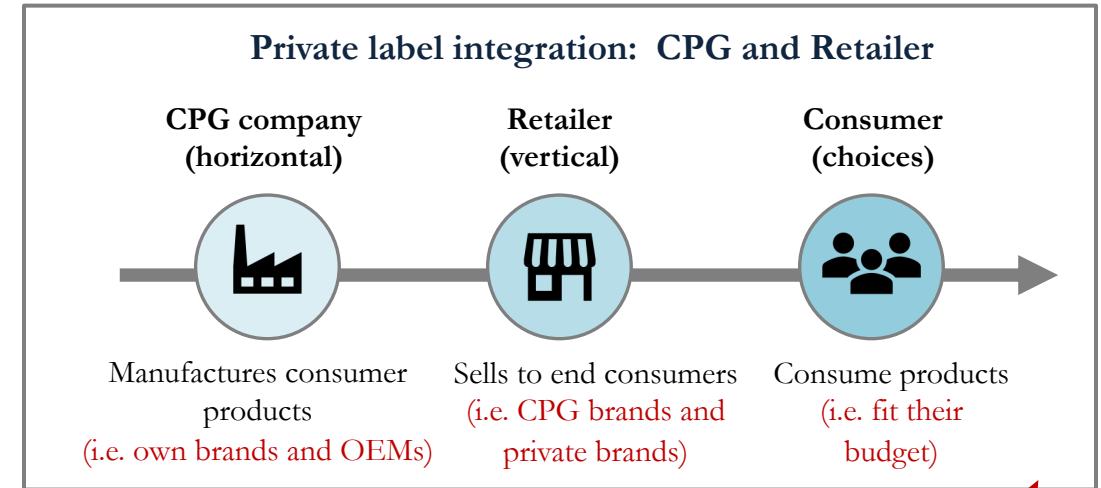


“If a private label product can deliver the **same quality**, it definitely could create a **shift in behaviour.**”

Shopper Intelligence

Retailers have the capacity to vertically integrate through private labels to capture sales margin

- CPG company manufactures consumer products that **consumers regularly buy** and **sells to retailers**, who will sell them to the end consumers.
 - The goal is to sell as many products, to as many consumers as possible
 - CPG companies succeed by generating leverage over retailers by offering a **variety of goods** through **horizontal integration**
- Retailers** on the other hand are vertically integrating, and offering their own **private label goods** to compete with CPG companies
 - Since retailer's margin is small (after labour, fixed costs), there is a strong motivation for **retailers to vertically integrate through private labels**



- If a retailer owns the production of private label good, they will mostly capture all the margins between the production cost and the shelf price

Growth of private labels is one of the seven pivotal trends in the retail and consumer products*

1

Commoditisation and premiumisation of products

Retailers are focusing on **private label brands** as these offers **25–30% higher margins** than traditional brands

2

Digital success grows elusive as ad spend rises

Mobile sales accounted for nearly **75%** or **US\$54 bn** of the **US\$72 bn** incremental ecommerce growth in 2019. Ad spend grew **20% CAGR** past five years

3

Brick and mortar becomes smaller and closer

Physical retail stores are getting **smaller** and coming **closer** (with inventory) to the consumer and become accessible both **physically** and **digitally**

4

New models, shorter supply chain or no middleman

Direct-to-consumer, food service alternatives, subscription services rentals, **marketplaces**, and resale are creating significant disruption by amassing material market share

5

Convenience as the new battleground

Consumer preference for **convenience** is fairly consistent across all retail segments; it is the primary reason **43%** of US consumers make **purchases online**

6

Health and sustainability

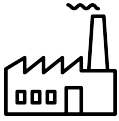











Products labeled as **“healthy”** or **“sustainable”** tend to market to higher-income consumers who have the means to spend more on such products

7

Consolidation in retail and fragmentation of market share

Top 10 US retailers have driven **market consolidation** eliminating weak and smaller players while **smaller but innovative players** are eating away **market share**

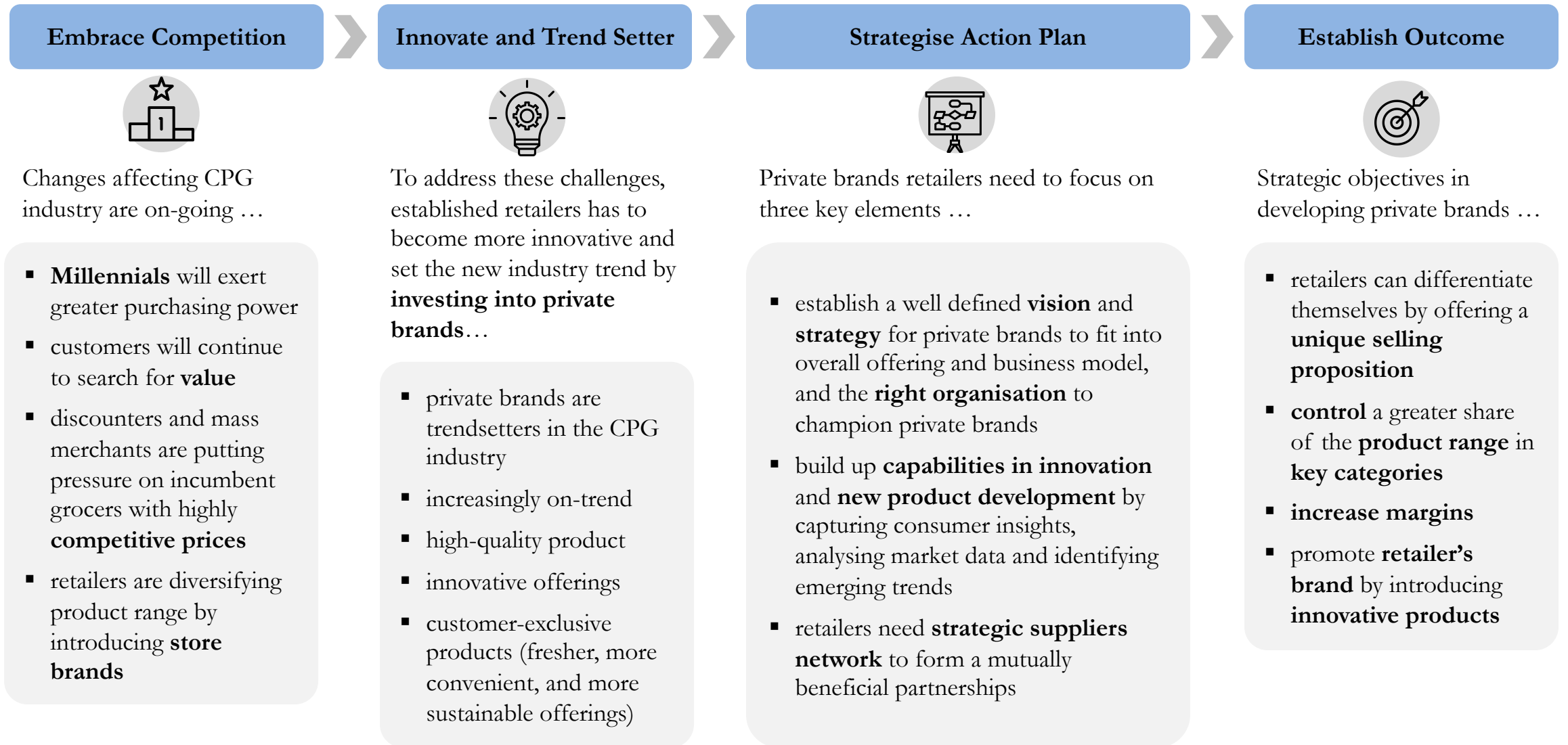
Private label products encompass all merchandise sold under a retailer's brand produced by general and specialised manufacturers or by major retailers and wholesalers themselves

Manufacturers of private label products	Types of store outlets *	Products sold as private label	Advantages of private label
 <p>Large manufacturers</p> <p>Produces both their own brands and private label products (e.g. Richelieu Foods, McBride plc)</p>	 <p>Major supermarkets (e.g. Aeon MaxValu, 99 Speedmart, Ben's, Jaya Grocer)</p>	 <ul style="list-style-type: none"> • Fresh, canned, frozen, and dry foods 	<ul style="list-style-type: none"> • Choices and Savings. Represents the choice and opportunity to regularly purchase quality food and non-food products at savings compared to manufacturer brands, without waiting for promotional pricing
 <p>Small & medium size manufacturers</p> <p>Specialises in particular product lines and concentrate on producing private label almost exclusively (e.g. Noebel Ventures, Chemical Dynamics)</p>	 <p>Hypermarkets (e.g. Aeon, Econsave, Giant, Mydin and Tesco)</p>  <p>Pharmacy/Drug stores (e.g. Caring, Health Lane, AA Pharmacy, BIG Pharmacy)</p>	 <ul style="list-style-type: none"> • Snacks • Ethnic specialties • Pet foods • Health and beauty • Over-the-counter drugs • Cosmetics  <ul style="list-style-type: none"> • Household and laundry products  <ul style="list-style-type: none"> • DIY 	<ul style="list-style-type: none"> • Assured ingredients. Consist of the same or better ingredients than the manufacturer brands
 <p>Major retailers and wholesalers</p> <p>Operates their own manufacturing plants and provide private label products for their own stores (e.g. Walmart, Kroger)</p>	 <p>Discounters (e.g. KK Supermart, TMG, BIG Supermart)</p> <p style="text-align: center;">↓</p> <p>Offer almost any product under the retailer's brand</p>	 <ul style="list-style-type: none"> • Lawn & garden • Paints • Hardware • Auto aftercare <p>Different tiers of private label</p> <ul style="list-style-type: none"> • value • mainstream • premium • super premium • organic, etc 	<ul style="list-style-type: none"> • Quality standards. Consumer is assured that the product meets retailer's quality standards and specifications

Note: * Based on similar store types in Malaysia.

Source: [Private label today - Private Label Manufacturers Association](#); [Private label suppliers - Thomas.net](#); [The rise of value-for-money retail models in Asia, Kantar, Aug 2020](#)

Retailers can create a unique value proposition by acquiring private brands who are known to be innovative and trendsetters in the CPG industry

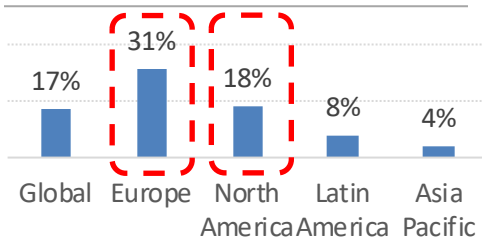


Retailers in key geographic markets and price tiers are investing to elevate their private-brand capabilities to the next level of growth



Europe

Private label share of sales in 2017



United States of America

MIGROS

Migros (Switzerland) is emphasising on their **consumer's preferences, lifestyles and food preferences**. In 2018 alone, it launched 750 new own-brand products and successfully implemented private label brands into their strategy to boost sales, improve customer retention and remain competitive

TESCO



Tesco (UK) and Carrefour (France) have formed a **buying alliance** to jointly source their private-brand products in order to compete more effectively with discounters and to reset their **relationships with CPG companies**



Lidl GB has built a dynamic, modern assortment of offerings with a large line-up of private label products that can compete with national brands. It was one of the first retailers to introduce **different tiers of private label products - good, better, best, premium** – and focuses on responsiveness to customer needs



Aldi (Germany) has used its private-label offering (responsible for about 90% of total sales) and extremely efficient store operations to **lower costs and build a loyal following**. An ongoing US expansion will put the company on track to become the third-largest grocer in the US by 2022

TARGET

Target did a **major overhaul** of its **store-brand grocery** by unveiling of its **'Good & Gather'** brand. It will include a product line extension specially for **organic foods**, as well as a **"signature" line for more premium items**, distinguishing it from lower-quality private labels

Walmart

Walmart is vertically **integrating the supply chain** for many of its private brands, allowing it to **control the entire process** from farm to shelf. Walmart opened its **Culinary and Innovation Centre** in 2016 to test and tweak food products for its private brands

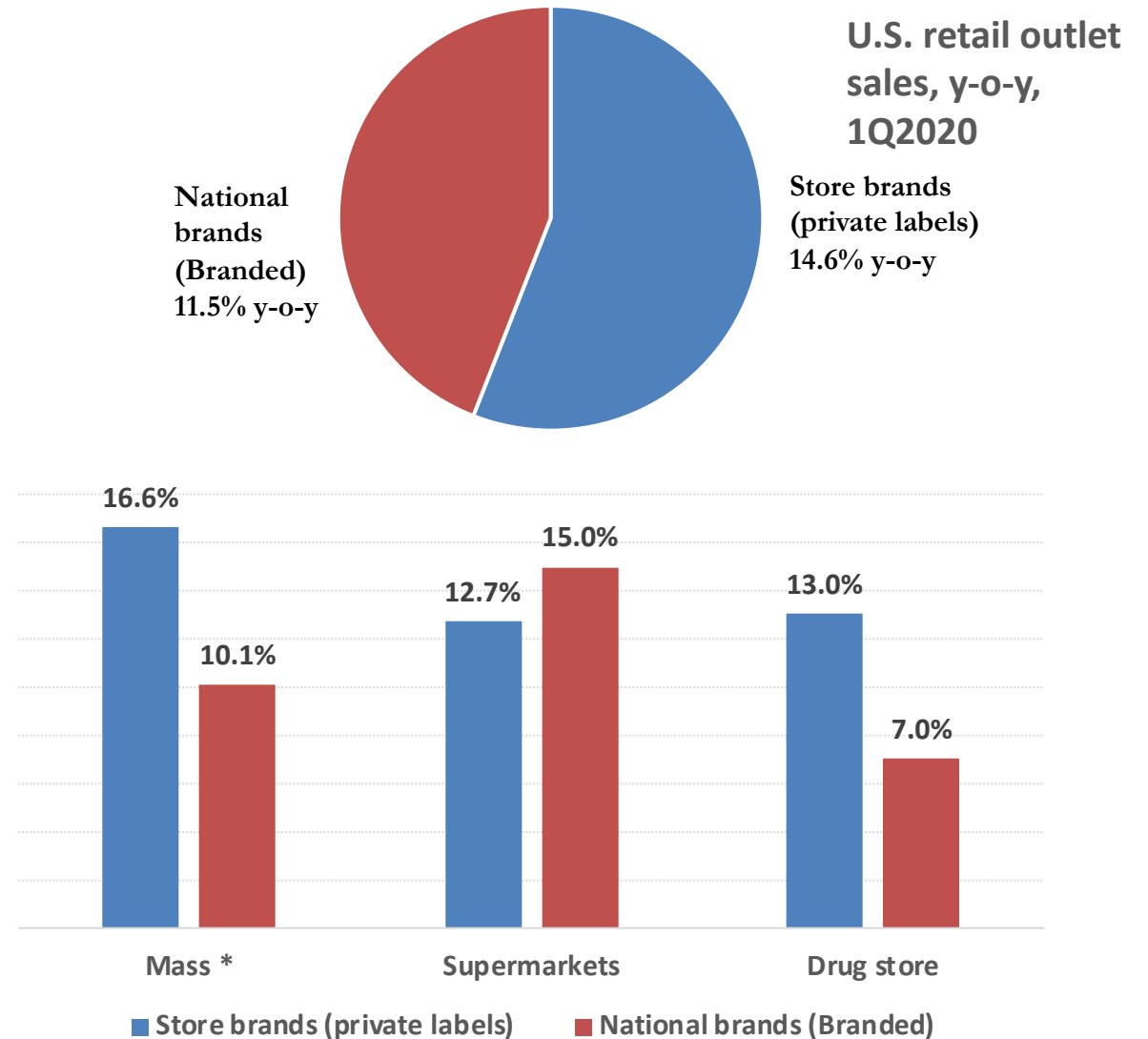
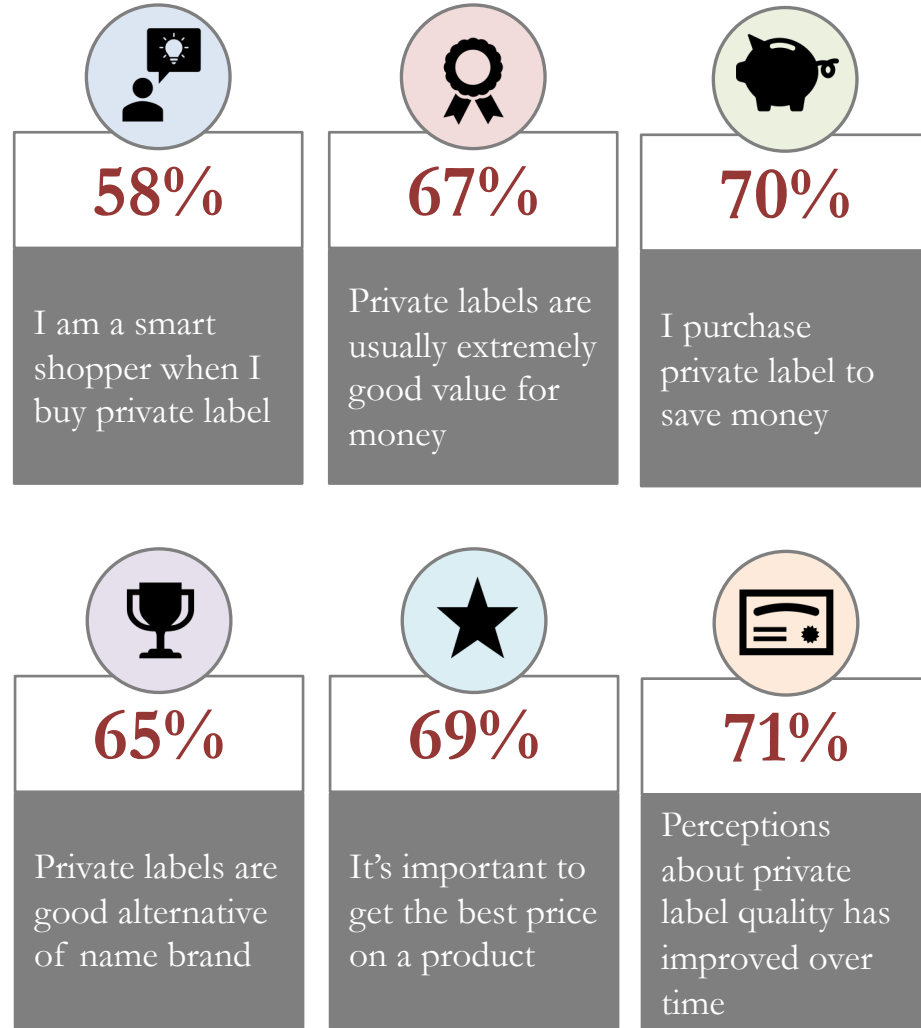
Kroger

Kroger's store brands **'Simple Truth'** has become the leading natural and organic brand in the country since its launch in 2013, with annual sales exceeding \$2.5 billion in 2019. Kroger has been capitalising on **product development** around **key customer trends** like **global and regional flavours**



Albertsons added a slew of **organic, plant-based frozen foods** to its private label **'Own Brands'**. Albertsons believes its own brands are integral to its enduring profitable growth, treating all of its **private label products as brands** not as commodities.

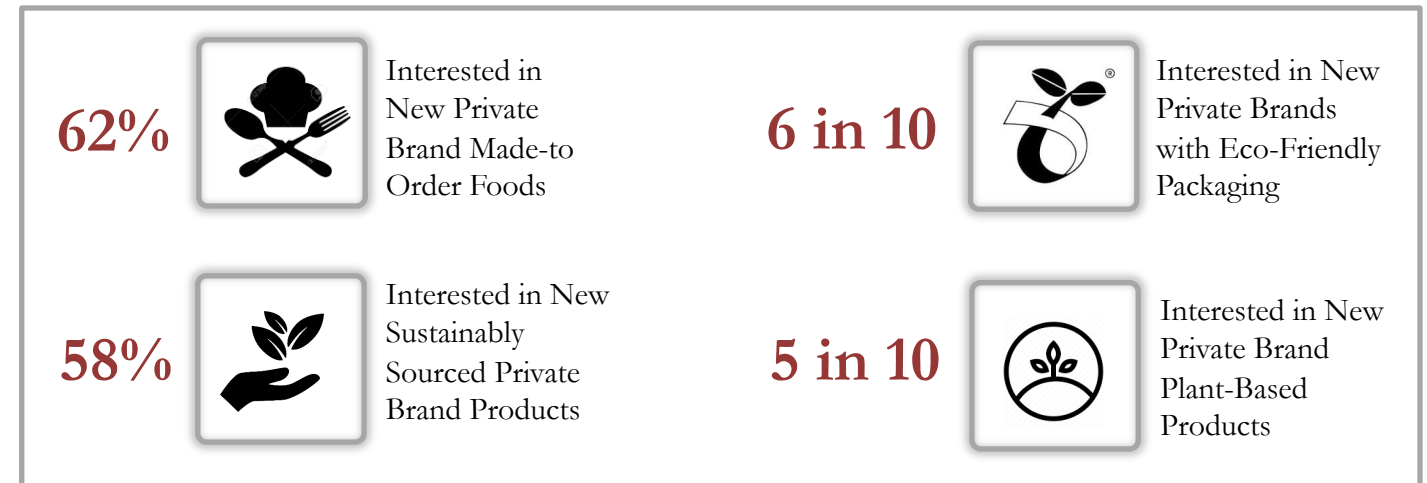
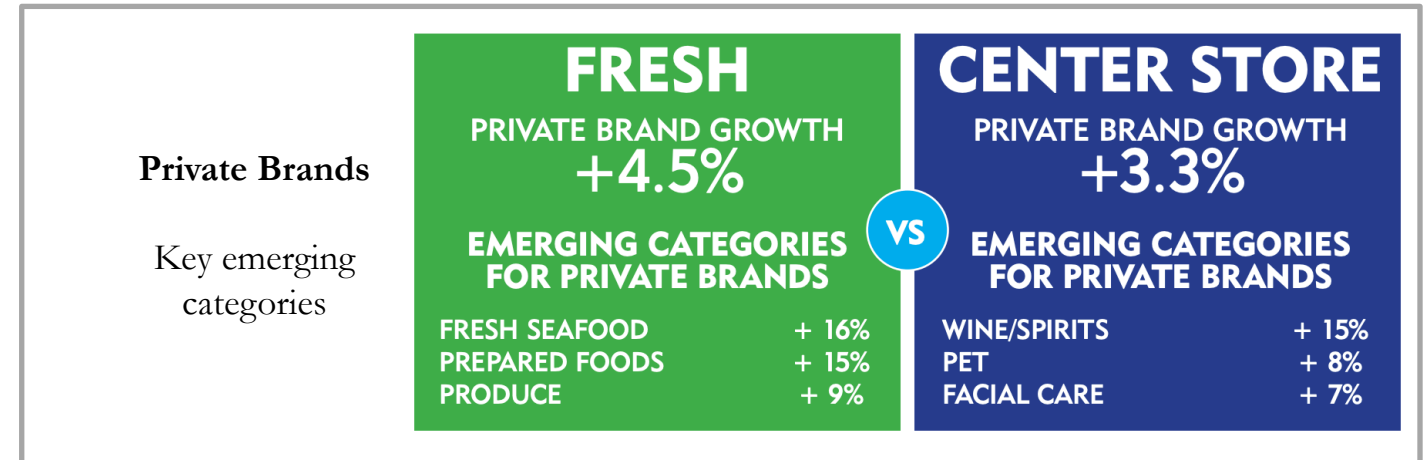
Global perception of store brands has been favourable while investments in private labels have been fruitful for retailers with increasing contribution towards sales growth



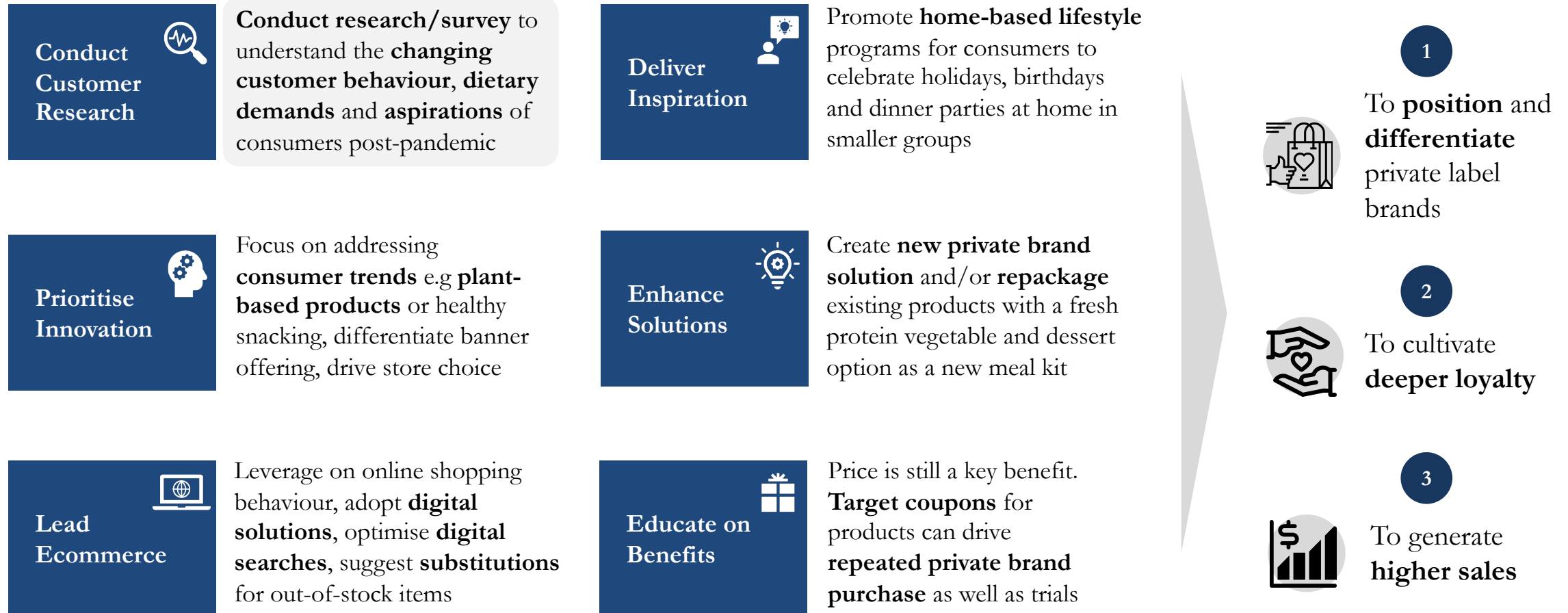
* (mass merchandisers, club, and dollar stores)

Retailers have every opportunity in private brand innovation to understand consumers' ever-evolving lifestyle changes and to solve their new needs and values

- Retailers usually adopt a three-tier strategy when offering private brand products; (i) low-cost option for customers who wants more savings, less on quality; (ii) organic or unique private label for eco-friendly shoppers or health-focused families; and (iii) premium private label of high-quality but lower than other big brand premium options
- Best-in-class retailers dedicate 43% of their own brand programs to value-added lifestyle items, compared to only 16% for industry average
- In 2019, private brands grew faster in Fresh than in Center Store (household essentials), +4.5% compared to +3.3% respectively
- Consumers opined that private brands now offer more new and innovative products than in the past such as plant-based products
- A total of 62% of consumers have shown interest towards new 'made-to-order' foods whilst 58% are on sustainably sourced products



Retailers / store brands can consider these six key action plans to position and differentiate their private label brands. Customer research serves as key inputs for formulating market strategy



Appendix

What is a premiumisation, premium product, private label/brand and consumer-packaged goods?

Premiumisation

- Premiumisation is simply a means of getting customers to pay higher prices for a brand or product.
- It's about stretching the category **norms upwards** and **creating a demand** for customers to **pay higher category prices**.
- 'Premiumisation' will be a key megatrend through to 2030. **Motivation** behind **consumers' purchasing decisions** has changed - consumers are spending more on products that can make them better: **healthier, more unique, more efficient, thriftier**.

Premium product

- A premium product is defined by its **cost at least 20% superior to the average price for the category**
- However, premium is no longer just about price. It's the promise of **exceptional quality and experience**, fuelling a growing taste for **unique, value-added** products.
- Consumers can only assess a new premium product and make their decision before purchasing on several factors – **packaging, labelling, peer reviews and quality, health and marketing labels and claims**.

Private label product

- Private label products are those manufactured by one company for sale under another company's brand. available in a wide range of industries from **food to cosmetics**.
- Private label brands are managed solely by a **retailer for sale** in a specific chain of stores are called **store brands**.
- Also referred to as "**private label**" or "**store brand**," prices for **private brands** tend to be less than those of nationally **recognised name brand** goods (branded goods).

Consumer-packaged goods

- Consumer-packaged goods (CPG) are items **used daily by average consumers** that require **routine replacement or replenishment**, such as **food, beverages, clothes, tobacco, makeup, and household products**.
- A CPG company is a firm that manufactures products that consumers regularly buy. It then sells those products to retailers, who sell them to the end consumer.
- Coca-Cola, P&G, and Moleskine are the CPG companies that produce *Sprite*, *Tide*, and *Moleskine* notebooks, which are all packaged goods brands purchased and used by millions every day.

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