Private Label & National Brands:

Dialing in on Core Shoppers

JANUARY 2015

Growth delivered.

Executive Summary: Putting Affordability in the Crosshairs

Situation:

The economy is stabilizing and optimism is spreading. Still, four in 10 consumers remain financially challenged and many consumers are still entrenched in conservative behaviors. Consumer packaged goods (CPG) industry sales trends are stagnant, with dollar sales growth being largely driven by price increases. But the economic outlook for 2015 is favorable, giving CPG marketers hope for more widespread organic growth in the new year.

The shopper journey has become complex—consumers have more choices than ever in today's omni-channel marketplace. Ultimately, driving growth in this environment is about making the shopper journey simple, convenient and affordable. It's about giving the shopper control.

Opportunity:

To provide a framework for CPG marketers looking to solidify consumer loyalty and spur volume and margin growth in 2015 and beyond, IRI commissioned an extensive analysis of the reciprocity of national and private brand CPG solutions and the role they play in helping consumers to live well for less. This analysis clearly illustrates that retail shelves *must* contain both national brand and private label solutions.

Intelligent deployment of national brand and private label strategies will provide consumers with simple, convenient and affordable solutions to their everyday CPG needs, and support vitality in a CPG industry that is looking to provide affordability and value in a diverse and complex consumer marketplace.

Successfully prompting growth without eroding margin or brand loyalty is critical, so CPG marketers must rely on three key strategies:

- Increase penetration with highly targeted products and marketing programs that keep value and affordability in the crosshairs;
- Fracture concentration with innovation that addresses key consumer trends and white-space opportunities;
- Create and embrace a brand story centered around value, authenticity and affordability.

Executive Summary: Putting Affordability in the Crosshairs

Limitations:

With shelf space at a premium and consumers looking for near-individualized levels of service, getting it right is not a simple task. National brand manufacturers are working to innovate to serve consumers' diverse and complex definitions of value. Retailers and private label manufacturers are challenged by the complexity of managing private label lines across multiple categories and balancing the importance of serving more needs against the difficulty of increasing complexity even further by expanding private label lines across still more CPG categories.

Value:

Consumers spend $725 billion on packaged goods each year. At $120 billion in annual sales, private label products play a vital role for the industry, giving retailers an avenue to differentiate themselves in a highly competitive marketplace and consumers more ways to meet their CPG needs. The value of even a fraction of a share point translates to a considerable gain—or loss—for private label and national brand marketers alike.

Private Label Spending Has Stagnated; New Growth Strategies Are Emerging

Private label marketers have worked tirelessly to meet the needs of the many by enhancing and broadening existing private lines and introducing new lines. They reworked product formulations and spiffed up packaging. They amped up merchandising and promotional support to really bring their brands into the limelight, and they have met with great success.

Perceptions around the quality and value of private label offerings have increased significantly, to the point where, today, more than 80 percent of consumers feel that private label solutions offer as good or better quality compared to their national brand counterparts.

Oftentimes, today's shoppers do not know whether they are purchasing a national or private brand solution. In fact, in a recent Mintel survey, 87 percent of consumers misidentified at least one private label food brand.[1]

When the recession hit, consumers turned to private label products in great numbers as they worked to tighten their belts, and private label share climbed. But the bubble quickly settled as consumers became accustomed to new, more conservative routines. Today, both national and private brands are searching for firm footing and consistent growth. Strategies are shifting yet again.

In recognition of intense competition and in an effort to alleviate some of the pressure consumers are facing due to SNAP cutbacks and tight incomes, some retailers are exploring the introduction of "opening price point" (OPP) private label solutions. These no-frills products would target the most cost-conscious consumers with the hopes reinforcing the retailers' value message and stemming the flow of dollars to value channels. But private label suppliers are apprehensive of this strategy, fearing that it would negatively impact the strong quality perceptions they have worked so hard to achieve.

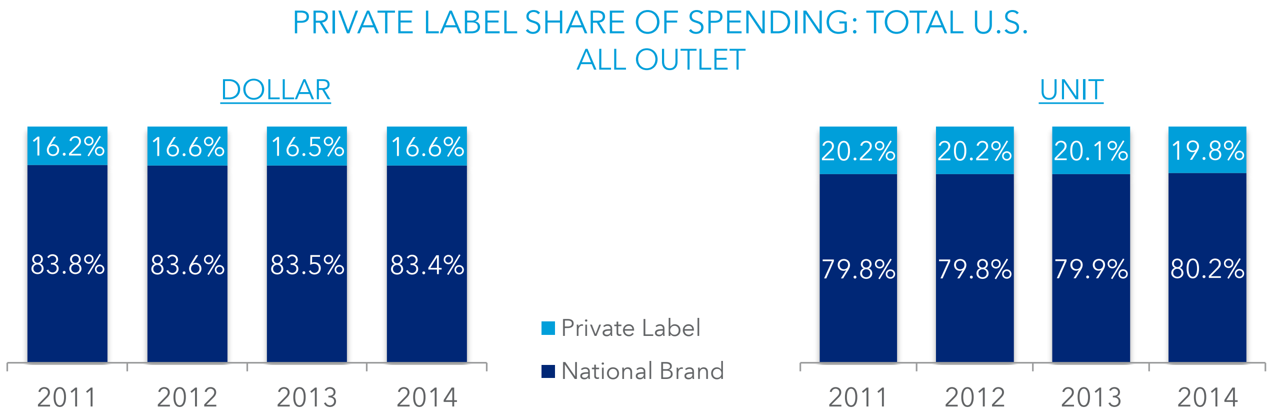
On the opposite end of the spectrum is private label marketers' focus on leapfrogging name brands with upscale offerings that are exclusive to a particular retail banner. Certainly, products in this tier seek to stand out as chic yet inexpensive, and they seek to protect and grow customer loyalty to their retail banner. Here again, though, suppliers are apprehensive.

While some retailers, such as Safeway (O Organics), have executed this type of strategy well, the majority of retailers are perceived as giving insufficient merchandising and promotional support to their private brands. This hesitation, along with concerns around whether niche efforts will win enough volume to pay off, is definitely having a dampening effect on enthusiasm for these types of products.

Source: [1]Mintel, "Transformation of U.S. Private Brands," March 2014

Exhibit 1

Private label/national brand dollar share trends have been flat during the past few years, while national brand unit share has ticked upward.



Source: IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period prior years

CPG Industry: Slow Growth and Flat Share Continue Despite Brightening Consumer Sentiment

As challenges are mitigated and these strategies unfold, private label strategies and trends will continue to shift. During the past several years, though, share has changed very little (see Exhibit 1).

U.S. consumers spent $120 billion on private label packaged goods during the past year, marking a year-over-year increase of 2.1 percent. Private label dollar sales growth outpaced CPG industry average (1.6 percent), but growth was driven largely by price increases. Private label unit sales slipped during the same time period, while total CPG unit sales remained flat.

At an industry level, private label accounts for 16.6 percent and national brands account for 83.4 percent of total CPG spending.

IRI's Shopper Sentiment Index for Q3 2014 points to increasing optimism and some level of loosening of the purse strings. For the quarter, the index reached 121.4, the highest it has been since it began, in Q1 2011.

Still, 25 percent of consumers are buying brands that are on sale over their preferred brands and 23 percent are making product selections based on loyalty card discounts.[1] They are also doing a lot of preplanning, limiting purchases to needs over wants and making adjustments all along the shopping journey in an effort to keep budgets in check. And, 70 percent of consumers say that store brands are a good option when their preferred brand is not on sale and they do not have a coupon.[2]

Source: [1]IRI MarketPulse Survey, Q3 2014; [2] Mintel, "Transformation of U.S. Private Brands," March 2014

Exhibit 2

Share trends vary across CPG channels, with national brands showing momentum in drug and private label standing out in mass/super.

PRIVATE LABEL SHARE OF SPENDING BY CHANNEL

Channel	Dollar Share	Unit Share	Channel Dollar Sales $ Billions	Private Label Share Point Change vs. Year Ago: Dollar	Private Label Share Point Change vs. Year Ago: Unit
Grocery	18.3%	22.0%	$304.8	+0.1	(0.2)
Club	18.5%	18.1%	$78.4	+0.1	(0.1)
Drug	16.6%	16.3%	$49.5	(0.2)	(0.6)
Dollar	14.4%	13.4%	$14.7	(0.2)	(0.4)
Mass/Super	13.8%	15.2%	$35.6	+1.1	+1.1
Convenience	1.8%	2.5%	$132.0	+0.1	+0.1

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

Source: Grocery, Club, Drug, Dollar & Mass/Super via IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period prior year; Convenience via IRI Market Advantage; 52 weeks ending 8/10/2014 and same period prior year

Channel Share Trends Belie Stagnant CPG Industry

The brand selection process is clearly being influenced by consumers' quest for affordability. One-third of consumers consciously seek out private label products to save money. Meanwhile, national brands are also doing a wonderful job at providing value, as demonstrated by unit share momentum across a majority of CPG channels (see Exhibit 2).

National brands captured 0.2 dollar share points in the drug channel during the past year, dropping private label share of spending within the channel to 16.6 percent. As a result, national brand coffers grew $98 million, demonstrating the impact of even modest share shifts.

Private label assortment is growing across a number of key drug retailers, including Walgreens and CVS. But declining traffic and basket size, illustrated in IRI's Channel Migration: *The Road to Growth Has Many Lanes*, are taking a toll on overall sales momentum, as well as private label sales trends.

Additionally, national brand innovation has been strong in beauty, a key drug channel department, as manufacturers work to deliver products that make beauty more affordable to all. As illustrated on the page that follows, this has helped national brand marketers gain ground in this important department across most CPG channels.

Private label is strong in the mass/super channel, with innovation and growing assortment supporting momentum. Target, for instance, has been focused on differentiation and newness, adding assortment to its upscale beauty selection. The retailer is also looking to solidify its status as a one-stop shop, providing greater selection of dry, dairy and frozen foods, particularly in its P-Fresh format.[1]

Source: [1]IGD Retail

Exhibit 3

Department level share trends show an ongoing volley between national brands and private label. Private label share is generally growing in frozen foods, while national brands are strong in health and beauty.

PRIVATE LABEL SHARE BY DEPARTMENT
UNIT SHARE POINT CHANGE VS. YEAR AGO, BY CHANNEL

	All Outlet	Grocery	Drug	Mass/Super	Dollar	Club	Convenience
Total Store	(0.3)	+0.1	(0.2)	+1.1	(0.2)	+0.1	+0.1
Refrigerated	(0.5)	(0.6)	**+2.8**	**+1.8**	0.0	+0.1	+2.6
General Merchandise	(0.7)	**(1.6)**	**+2.9**	(0.5)	**(1.5)**	+0.9	(1.4)
Health	(0.2)	(0.2)	(0.1)	(0.1)	(0.9)	**(2.9)**	(0.3)
Frozen	+0.1	+0.3	+0.6	**+5.3**	+0.5	(0.7)	+0.7
General Food	(0.2)	(0.2)	(0.9)	**+1.2**	(0.1)	+0.3	+0.3
Beverages	(0.4)	(0.1)	+0.7	+1.8	(0.1)	+0.5	0.0
Home Care	+0.2	(0.3)	0.0	+1.4	(1.0)	+1.1	0.0
Beauty	(0.1)	(0.2)	(0.9)	(0.6)	(0.7)	(1.4)	(0.6)

Notes: Walmart not included in grocery or mass/super. Private label share of unit sales is less than 1 percent in measured channels across tobacco and liquor departments.
Source: Grocery, Club, Drug, Dollar & Mass/Super via IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period prior year; Convenience via IRI Market Advantage; 52 weeks ending 8/10/2014 and same period prior year

National and Private Brands Are Each Showing Strength

Efforts such as these are supporting private label momentum across frozen, refrigerated and general food departments within the mass/super channel (see Exhibit 3).

Meanwhile, in grocery, national brands are holding strong or winning share across a majority of departments, with the most sizable gains coming in the general merchandise department. National brands captured share across a number of sizable general merchandise categories during the past year, including six of the 10 largest categories.

National brands also demonstrated momentum in the dollar channel, taking share from private brand marketers in six key departments. Once again, the sharpest share gain occurred in general merchandise.

In drug, national brands are standing strong in key departments—health and beauty. National brand innovation is high in these areas, and this has helped thwart private label inroads. For instance, national brands captured sizable share in vitamins, with new forms and targeted formulations receiving heavy new product development focus and strong consumer support.

Retailers are also fighting for share in these important departments, since they are key to driving traffic and building basket size in the drug channel. CVS recently acquired Navarro Discount Pharmacy, a strong Hispanic banner and owner of the Vida Mia store brand. The retailer is also expanding its premium-tier Radiance Platinum line vitamins and supplements. Meanwhile, Walgreens acquired several key private label lines as part of its Duane Reade and Alliance Boots agreements.[1]

Source: [1]IGD Retail

Exhibit 4

Private label share varies across CPG channels, illustrating how key areas of focus differ based on channel (or retailer) sweet spots and evolving strategies.

PRIVATE LABEL SHARE BY DEPARTMENT
UNIT SHARE, BY CHANNEL

	All Outlet	Grocery	Drug	Mass/Super	Dollar	Club	Convenience
Total Store	19.8%	22.0%	16.3%	15.2%	13.4%	18.1%	2.5%
Refrigerated	31.1%	32.9%	16.9%	26.0%	10.7%	25.5%	**21.6%**
General Merchandise	21.5%	22.8%	**37.1%**	18.9%	**26.6%**	32.4%	7.3%
Health	25.3%	21.6%	**31.2%**	21.8%	**25.2%**	30.6%	4.2%
Frozen	20.5%	22.2%	27.1%	19.8%	2.5%	18.7%	7.0%
General Food	19.3%	13.3%	11.5%	14.0%	11.7%	13.6%	3.1%
Beverages	13.6%	21.2%	12.3%	11.4%	9.4%	16.8%	1.3%
Home Care	10.6%	10.2%	10.5%	10.6%	12.8%	13.4%	2.8%
Beauty	9.3%	8.2%	**10.6%**	**10.3%**	**13.7%**	9.2%	**7.3%**

Notes: Walmart not included in grocery or mass/super. Private label share of unit sales is less than 1 percent in measured channels across tobacco and liquor departments
Source: Grocery, Club, Drug, Dollar & Mass/Super via IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period prior year; Convenience via IRI Market Advantage; 52 weeks ending 8/10/2014 and same period prior year

Private Brands Presence Is Strongest in Grocery; Share in Dollar and Convenience Is Well Below Average

Private label share varies rather significantly at the department level. At the industry level, share is highest in the refrigerated foods section and lowest in beauty.

This is also the case in the mass/super channel. Private label accounts for 26.0 percent of refrigerated units sold, versus an industry average of 31.1 percent. Private label share is 10.3 percent in the beauty department. While this is lower versus other mass/super departments, it is higher versus the industry average and most other CPG channels.

In the drug channel, private label share of general merchandise unit sales is 37.1 percent, well above the industry average of 21.5 percent.

Private label also captures above-average share in the health and beauty care departments in the drug channel, even though, as mentioned earlier, national brands have stepped up focus on these important areas with positive results.

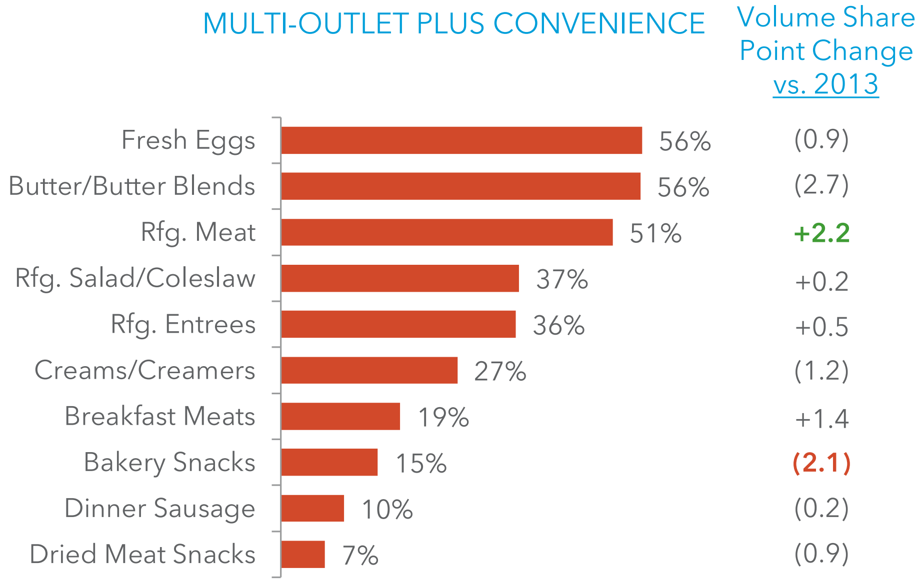
In the dollar and convenience store channels, private label share of unit sales is well below average in most departments. However, some departments stand out as key private label focus areas. Dollar General, for instance, began to roll out Smart & Simple, an opening price-point line of consumable and non-consumable private brand products, in mid-2014. Results to date have been positive, and the retailer hopes this type of effort continues to elevate messages around affordability.[1]

Source: [1]IGD Retail

Exhibit 5

Share trends are fickle, with national and private brands each posting wins across the largest private label categories.

PRIVATE LABEL VOLUME SHARE
& POINT CHANGE 2014 VS. 2013
10 FASTEST-GROWING CPG CATEGORIES*
MULTI-OUTLET PLUS CONVENIENCE



**Note: among the top 100 categories, based on multi-outlet + convenience dollar sales growth.*
Source: IRI MarketAdvantage™ 52 weeks ended 8/10/2014 versus same period 2013

CPG's Largest Categories Are Ripe for Battle

Home-based eating is clearly supporting category growth across a number of categories. These same categories are also being challenged by a number of factors that are impeding growth, including conservative purchase behavior, price inflation and reductions in SNAP benefits.

Price inflation, in fact, is a major driver of dollar sales growth across the 10 fastest-growing CPG categories (see Exhibit 5).

Among these categories, private label share trends vary rather notably. Private label has momentum across five of the 10 fastest-growing CPG categories, while national brands are winning share in the others.

Among these 10 strong performers, the sharpest private label share increase occurred in refrigerated meat, where share climbed 2.2 points to 51 percent of volume. Momentum is being fed by a number of factors. Rising meat prices and continued conservative mindsets are driving consumers to consider lower-cost meat solutions. Meanwhile, innovation by private label meat manufacturers is bringing more variety—including sought-after healthier-for-you options and unique flavors—to the marketplace, enticing consumers to invest in store brands.

In contrast, private label share of bakery snacks is rather low, about 15 percent, and share has declined more than two points during the past year. The entire bakery category is being impacted by the aforementioned economic factors. But on top of these influencers, private label bakery marketers are fighting against deep discounts being offered by name brand marketers as they seek to protect and grow their brands in the midst of the re-launch of Hostess brands, and they are contending with a steady stream of innovation around bakery-inspired snacks, such as brownies and pastries, from brands like Fiber One and Kellogg's.

Trends similar to these are playing out across CPG aisles, underscoring the fact that, in some categories, consumers are not committed to either national or private brands. Instead, they are considering both options—looking on a category-by-category basis at which packaged goods solution best meets their definition of value at the moment of purchase.

Affordability Is a Moving Target, and a Growth Opportunity for CPGs

Consumers are constantly evaluating packaged goods solutions in pursuit of value. More than five years after the official end of the Great Recession, the search for affordability is as strong as ever, and nearly half (46 percent) of consumers are planning to purchase affordable brands more frequently in the coming year.

46%

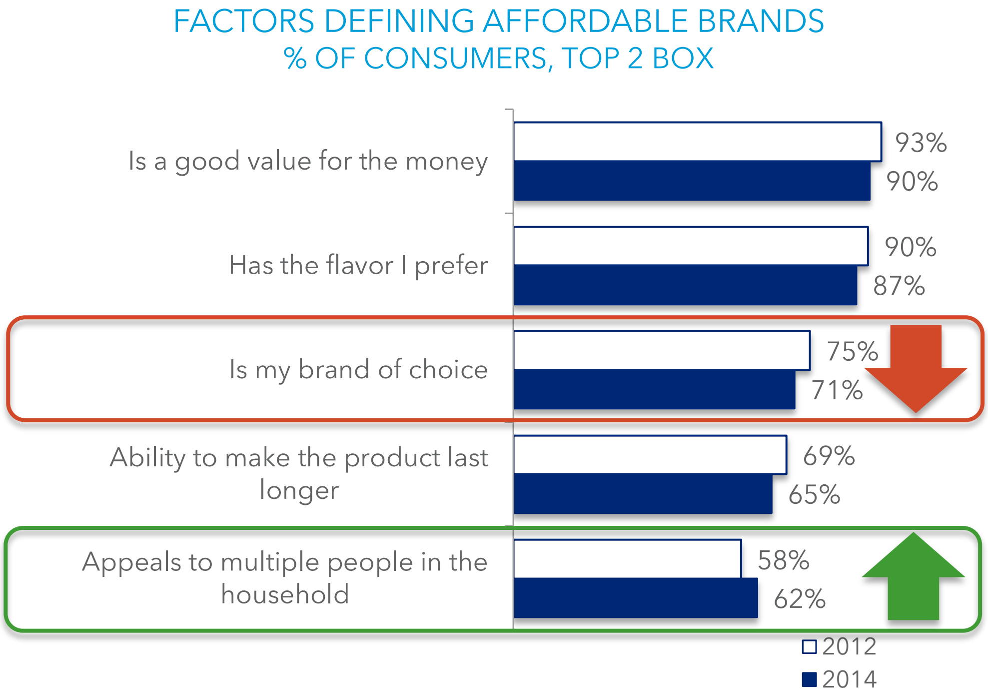
of consumers will fill more of their basket with affordable brands in the coming year

But value does not necessarily mean "the lowest price," and affordability means something different to each shopper in each aisle during each shopping mission. The task for CPG marketers is not easy: they must maintain a clear vision of how their most promising consumers and shoppers are defining affordability at each moment of purchase.

During the past several years, *brand of choice* has become less important when evaluating affordability, while level of household appeal has become a larger consideration (see Exhibit 6). In fact, today, 20 percent of consumers generally have a *few brands in each category* to which they are loyal.

Exhibit 6

Invest to keep pace with evolving definitions of affordability.



Source: IRI Brand & Retailer Loyalty Survey 2014 & 2012

Affordability is a nebulous concept. Many factors are considered, but the exact consideration set and relative importance of factors will vary by channel, category, brand, individual consumer and even need state at any given time. For this reason, CPG marketers must understand their brands'/products' complete competitive frame—the products they are truly competing against, rather than which products they *think* they are competing against.

In the coming year, inflation will occur. And while overall prices are not expected to rise sharply (Moody's is predicting the Consumer Price Index will hit 1.9 percent), consumers will continue to evaluate CPG solutions for affordability and value. In categories where higher levels of inflation are expected, such as meat (3.0 percent to 4.0 percent) and dairy (2.5 percent to 3.5 percent), consumers will be even more keenly focused on finding the best deal.

CPG marketers must invest in understanding and delivering against consumers' evolving notions of affordability.

Exhibit 7

Focus on protecting and deepening penetration in channels and banners most frequented by key and target shoppers.

PRIVATE LABEL PENETRATION BY CHANNEL–2014

		Pt. Chg 2014 v 2013
Grocery	97.6%	0.0
Drug	66.9%	(2.1)
Mass/Super	51.2%	(2.1)
Club	49.3%	+1.3
Dollar	37.4%	(0.3)

Note: Walmart not included in grocery or mass/super.
Source: IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period prior year

Spur Sales and Share Gains with Strategies Tailored at the Channel & Retailer Levels

A solid and well-tailored affordability proposition must be the centerpiece of all marketing efforts, as it will be critical in deepening penetration and stimulating sales in the coming months and years.

Private label products enjoyed a jump-start in mobilizing around the notion of affordability, and this was an advantage early in the Great Recession. In 2011, 50 percent of consumers indicated that they had stepped up their private label purchase activity as a means of reining in their CPG budgets.

Today, nearly everyone buys private label packaged goods products at one point or another during the year. Private label penetration is highest in the grocery channel, at 97.6 percent. Penetration is also pretty steady in grocery (see Exhibit 7).

In the mass/super channel, private label penetration declined during the past year, while dollar and unit sales grew. Meanwhile, penetration in the club channel grew, yet dollar and unit sales remained flat.

Clearly, strategies vary at the channel—and sometimes retail banner—level. Mass/super retailers are looking to capture growth by serving core shoppers well, while club retailers are looking to broaden private label appeal across new consumer segments.

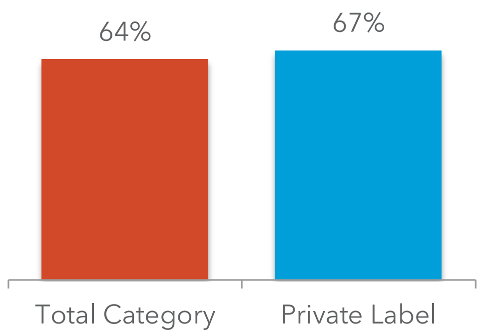
Developing programs that underscore value and affordability is critical to protecting and growing share for national and private label marketers alike. These programs can take a variety of forms, from price reductions and buy-one-get-one to assortment stratification and co-marketing.

Regardless of the program, efforts must begin with a clear understanding of channel- and retailer-specific strategies, and they must be developed collaboratively to ensure overall category success.

Exhibit 8

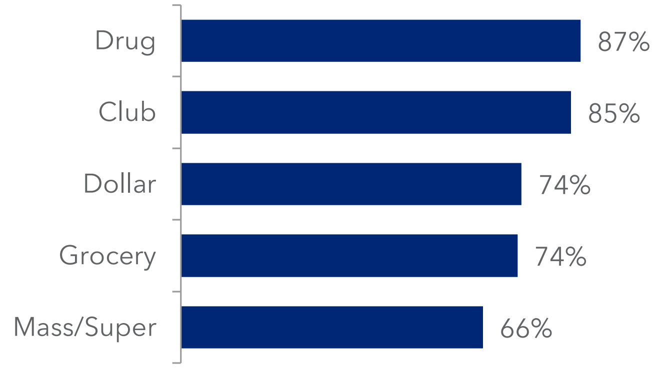
Private label sales are more heavily concentrated versus the industry average; some channels capture more than 80 percent of private label sales from fewer than 50 categories.

PRIVATE LABEL CONCENTRATION
TOP 50 CATEGORIES DOLLAR SALES AS % TOTAL SPENDING
PRIVATE LABEL & NATIONAL BRAND



Source: IRI Market Advantage™; 52 weeks ending 8/10/2014

PRIVATE LABEL CONCENTRATION
TOP 50 CATEGORIES AS % TOTAL SPENDING
AMONG HEAVY PRIVATE LABEL BUYERS



Note: Walmart IS included in mass/super. Heavy private label buyers are the top one-third, based on private label spending.
Source: IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period 2013

Fracture Concentration and Stimulate Sales with Out-of-the-Box Moves

One strategy for building penetration is to fracture concentration. Today, the top 50 CPG categories account for 64 percent of overall CPG dollar sales (see Exhibit 8). The private label sector is slightly more concentrated, with the 50 largest categories capturing 67 percent of total private label sales.

In some channels, private label concentration is even stronger, even among heavy private label buyers—the top one-third of private label spenders. In drug, for instance, the top 50 categories account for more than 80 percent of private label sales.

CPG marketers can fracture concentration and reap sizable revenue rewards with outside-the-box product launches that allow them to compete in new categories.[1] Procter & Gamble, for instance, captured 30 share points in the sleep remedies category, worth more than $120 million, during the first year ZzzQuil was on the shelf.

Private label manufacturers are also exploring new aisles and categories, with a keen eye toward tapping into opportunity arising from pervasive consumer trends. TreeHouse foods, for instance, is zeroing in on opportunities around snacking and healthy eating with the recent acquisition of Flagstone Foods, a top manufacturer of private label healthy snacks, such as trail mixes and dried fruits.[2]

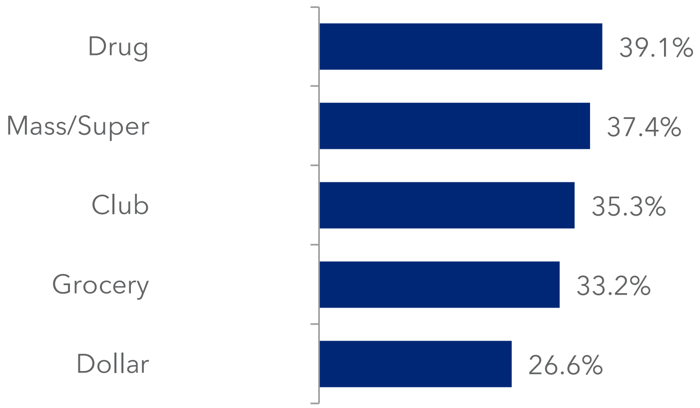
ConAgra is also focused on snacking, with a multipronged approach that involves emulating popular existing products, such as pretzel thins, while simultaneously developing unique innovations for some of its key retailer partners.[3]

Sources: [1]IRI 2013 New Product Pacesetters; [2]PR Newswire, July 2014; [3]just-food global news, September 2014

Exhibit 9

Private label is well-entrenched among heavy buyers; capturing even a small share of sales from these buyers will drive significant revenue gains.

PRIVATE LABEL VOLUME SHARE BY CHANNEL AMONG HEAVY PRIVATE LABEL BUYERS 2014



Channel	Heavy Buyer Channel Dollar Sales $ Billions	Private Label Share Point Change vs. Year Ago
Drug	$304.8	+1.0
Mass/Super	$78.4	(0.7)
Club	$49.5	(0.1)
Grocery	$14.7	(0.5)
Dollar	$35.6	$+0.7

Note: Walmart IS included in mass/super. Heavy private label buyers are the top one-third, based on private label spending.
Source: IRI Consumer Network™; 52 weeks ending 9/7/2014 versus same period 2013

Small Volume Share Gains Will Bring Sizable Revenue Growth

Heavy private label buyers are an ideal target for national and private label marketers alike. Among these shoppers, even small volume share gains will bring sizable revenue growth.

National brands captured a greater share of heavy private label buyers in several channels during the past year, including mass/super and grocery. In the mass/super channel, these gains translated to more than $87 million, while, in grocery, the win brought more than $129 million into national brand coffers (see Exhibit 9).

During the same period, private label share of volume in drug and dollar sales increased to 39.1 percent and 26.6 percent, respectively, bringing sales gains of millions of dollars to private label marketers' top lines.

Among heavy private label buyers, an estimated 25 percent of CPG spending is dedicated to private label solutions. As mentioned earlier, two-thirds of this is spent on only 50 categories, whether those be national brand categories or private label categories.

Marketers must continue to work to protect and grow share of spending among heavy shoppers—these are core shoppers. This goal will be achieved by getting shoppers to buy more products in existing and new categories, but it is no easy feat, for managing private label across more categories will increase complexity for retailers.

As detailed later in this report, Europe's most powerful private label marketers are tackling opportunities in this area. Lidl, for instance, has significantly expanded its in-store bakery and is putting more emphasis on mealtime solution promotions (e.g., Indian meal for two). Meanwhile, Aldi is offering items such as matched-set home ware to keep assortment fresh and exciting and drive footfall.[1]

Sources: [1]IGD Retail

Exhibit 10

To spur demand, marketers must optimize assortment by catering to consumers' unique CPG preferences and behaviors across retail channels.

TOP FIVE CATEGORIES
BY CHANNEL–TOTAL U.S.
LISTED IN ALPHABETICAL ORDER

GROCERY	CLUB	DOLLAR
Fresh Bread & Rolls	Bottled Water	Cookies
Fresh Eggs	Fresh Bread & Rolls	Cups & Plates
Milk	Milk	Food & Trash Bags
Natural Cheese	Natural Cheese	Non-Chocolate Candy
Shelf Stable Vegetables	Toilet Tissue	Toilet Tissue
DRUG	**MASS/SUPER**	**CONVENIENCE**
Bottled Water	Bottled Water	Bottled Water
Internal Analgesics	Cups & Plates	Milk
Non-Chocolate Candy	Fresh Eggs	Pastry/Doughnuts
Snack Nuts/Seeds/Corn Nuts	Milk	Refrigerated Entrees
Vitamins	Natural Cheese	Salty Snacks

Note: Based on absolute private label unit sales; mass/super excludes Walmart

Source: Grocery, Club, Drug, Dollar & Mass/Super via IRI Consumer Network™; 52 weeks ending 11/2/2014 versus same period prior year; Convenience via IRI Market Advantage; 52 weeks ending 11/2/2014 and same period prior year

Create Demand-Based Assortment Programs

To continue to drive spending and loyalty, CPG marketers must focus on creating demand-based assortment programs. As illustrated in IRI's 2014 report, Channel Migration: The Road to Growth Has Many Lanes, overall category growth and performance look very different across CPG channels.

The same can be said of trends across private label categories (see Exhibit 10). Home-based eating behaviors are having a substantial influence on consumer purchase behavior. Many of the top five private label categories across CPG channels hail from food and beverage aisles. The importance of snacking and breakfast occasions is clear.

It is also clear that consumers turn to different channels for different CPG purchases—and the choices they make can be unexpected, particularly given the speed with which channel blurring is taking place.

To ensure that the right products are on the right shelves at the right time, CPG marketers must invest to understand shopping behaviors and key influencers of those behaviors at a very individual level and across CPG channels. With this knowledge, retailers and manufacturers must participate in joint business planning to establish an optimal mix of categories, brands, pack sizes and price points within each unique marketplace.

Ensure That Price Is a Lever That Creates Demand without Diminishing Margin

Price is not the largest influencer of brand decisions, but it is certainly a sizable consideration.

In general, private label solutions offer considerable savings versus their national brand counterparts. On average, savings is about 28 percent. In 19 percent of categories, the gap is over 50 percent, and in 25 percent of categories, savings is less than 10 percent (see Exhibit 11).

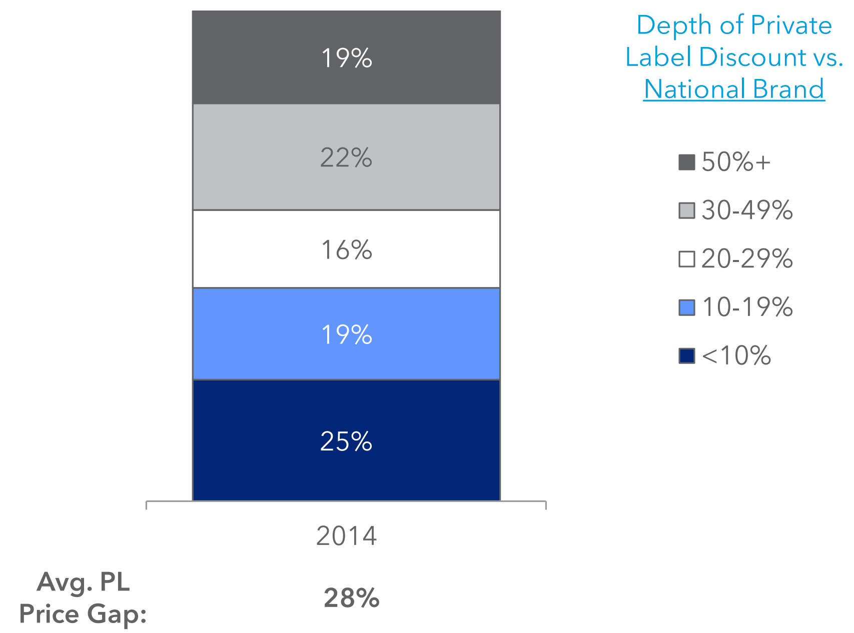
Across many CPG categories, average savings offered by private label solutions declined during the past several years. This is due to a number of factors, including the increased prevalence of premium-tiered private label offerings and the fact that, in many instances, private label prices are rising more quickly than those of national brand solutions.

During the same time period, the CPG marketplace has changed. Commodity pricing has been on a roller coaster, while a challenging economy put marketers in the unenviable position of balancing their ability to absorb price increases against their willingness to pass them along to consumers and chance loss of loyalty. The Internet has impacted brand price perception and positioning by putting vast amounts of information at consumers' fingertips.

Exhibit 11

The average price gap between private label and national brand products stands at 28 percent; price gap trends are being driven by innovation, commodity pricing and promotional activity.

AVERAGE PRIVATE LABEL PRICE GAP VS. BRANDED
% OF CATEGORIES AT DEPTH OF DISCOUNT
TOTAL U.S.*- MULTI-OUTLET + CONVENIENCE



Note: Numbers may not add to 100% due to rounding

Source: IRI Market Advantage™; 52 weeks ending 8/10/2014; among the top 100 private label categories, based on private label dollar sales MULOC

Pricing has become a strategic weapon, and this weapon must be leveraged by both national and private label marketers to create demand while simultaneously supporting sales growth, margin and brand equity goals.

To do so effectively, marketers must invest to understand how consumers trade off between national and private brand products. They must understand how key and target shoppers respond to price and promotion changes in their categories as well as similar and substitute categories, and they must understand how responses vary across CPG channels. Ideally, this knowledge will be harnessed to collaborate with retailers to craft a holistic and compelling selling story that caters to each retailer's unique shopper base.

Exhibit 12

Develop pricing strategies that underscore value and affordability to protect and grow share across key and target shoppers.

PRIVATE LABEL SHARE, SHARE CHANGE AND CHANGE IN AVERAGE PRIVATE LABEL PRICE GAP VS. BRANDED
AMONG THE PRIVATE LABEL CATEGORIES WITH THE STEEPEST SHARE DROP
TOTAL U.S.*- MULTI-OUTLET + CONVENIENCE

	Dollar Share 2014	Dollar Share Pt. Chg. 2014 vs. 2013	Pt. Chg. in PL Gap vs. NB 2014 vs. 2013
Sugar	53.2%	(3.5)	+1.1
Butter/Butter Blends	48.2%	(1.9)	(0.9)
Socks	41.1%	(3.5)	+9.8
Fz. Seafood	37.7%	(1.7)	+4.8
Internal Analgesics	36.6%	(3.3)	+2.2
Gastrointestinal Liquids	33.4%	(2.5)	+5.0
Cold/Allergy Sinus Liquids	27.7%	(2.3)	+7.1
Hot Cereal	24.3%	(1.7)	+2.9
Bakery Snacks	16.2%	(2.2)	+0.1
Dog Food	13.8%	(1.6)	(3.8)

Note: Among the 100 largest private label categories, based on MULO private label dollar sales.
Source: IRI Market Advantage™; 52 weeks ending 8/10/2014 and same period prior year

Optimize Pricing to Balance the Value Equation

Private label solutions generally offer considerable savings versus their national brand counterparts, and this has historically been a big selling point for private label products. Today, though, consumers are looking for the best value, and that is not necessarily the lowest price.

In fact, during the past year, eight of the 10 private label categories where private label share dropped most precipitously actually widened their average price gap versus nationally branded products (see Exhibit 12).

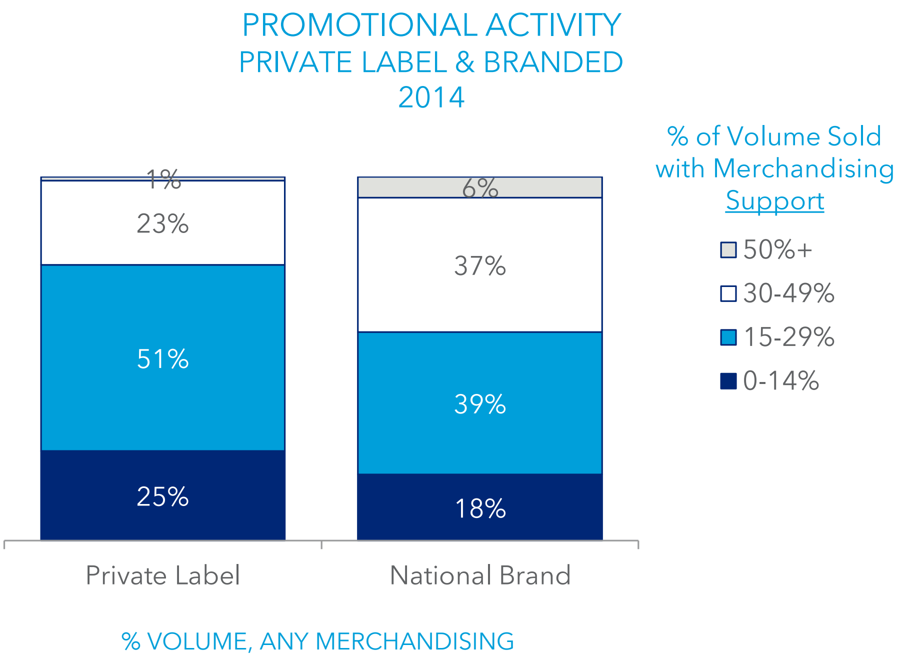
In dog food, private label share fell 1.6 points, while the average private label price gap shrank. National brand share gains occurred across a majority of channels, underscoring the importance of dogs as part of the family and a willingness to invest to offer these family members good taste and solid (often targeted) nutrition.

IRI's recent [Premium Products Primed to Perform] Point of View report illustrated that consumers are willing to invest more money to get the benefits and product value they seek. Of course, different consumers seek different things, but quality ingredients and convenience are critical to many. Price plays a role in purchase decisions, but it is generally not a top consideration.

National and private brand marketers must be intently focused on providing value—value that is highly targeted against the needs and wants of the core and target shopper.

Exhibit 13

National brands consistently sell more volume with merchandising support versus private label CPG solutions.



Source: IRI Market Advantage™; 52 weeks ending 8/10/2014

Merchandising Is an Important Driver of Volume for National and Private Brands Alike

On average, 27 percent of nationally branded product volume was sold on deal during the past year. Nearly half of national brands (43 percent) sell more than 30 percent of their annual volume with the support of merchandising programs (see Exhibit 13). These figures have changed very little during the past few years.

Though private label is generally at a nearly 30 percent discount to national brand counterparts, merchandising still plays an important role in driving sales volume.

Deal activity plays an important role in driving interest and engagement. Today, 46 percent of consumers are stocking up on items when they are on sale, and 45 percent are making additional or unplanned purchases upon seeing products/deals in the store.

Carefully timed and tightly targeted efforts have shown to be quite effective. For instance, CVS provided heavy feature support to numerous store brand allergy products during several weeks of the 2014 allergy season. These programs allowed the CVS brand to capture several share points within targeted allergy subcategories.

Develop Marketing Programs to Tap Into Growth Pockets

With the right base assortment in place, marketers have an opportunity to spur purchase behavior by tapping into existing growth pockets. Since many of these pockets have been created by trends around healthier eating/living and home-based eating, the time is ripe for CPG marketers to demonstrate that healthier eating does not have to equal more expensive eating.

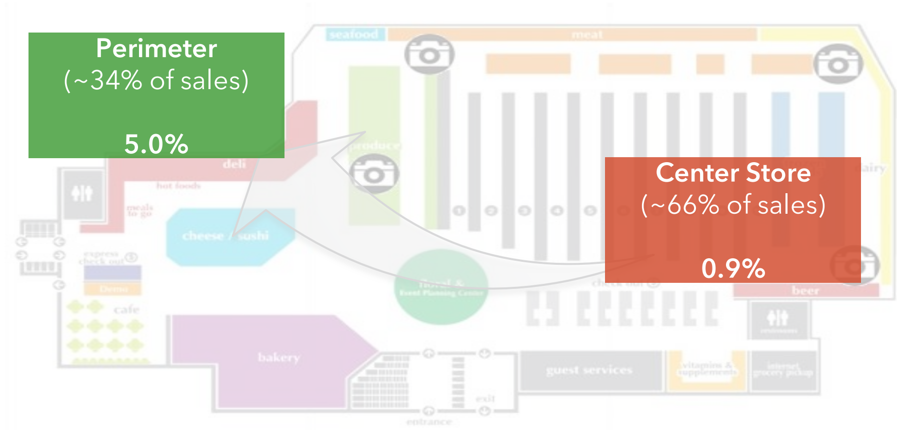
Consumers' quest for healthier eating and marketers' efforts to answer calls for healthier options are combining to support outsized growth around the store perimeter. During the past year, perimeter sales have increased 5 percent, while center store sales climbed less than 1 percent. This growth is expected to continue in the coming year.

According to the *Center Store Performance Survey*, recently commissioned by *Supermarket News*, more than half of retailers (54 percent) plan to merchandise shelf-stable products with complementary fresh foods in the perimeter in the coming year in attempt to revitalize center store performance.

Marketers must also look beyond center store categories for opportunities to cross-merchandise and cross-promote their products.

Exhibit 14

Develop co-merchandising and co-promotion programs that tie with key growth areas within the store and/or categories that hold particular appeal across core shoppers.



Source: IRI ILD and IRI Fresh Look Marketing POS data ending 4/20/14. MULO. IRI Consulting analysis.

Categories that play well into key consumer trends, such as healthier living, self-administered care, home-based entertainment and small indulgences, are ripe for co-marketing efforts, as are other categories that hold special appeal to core shoppers.

Co-merchandising and co-promoting are good strategies, but they must be carried out carefully. As a first step, marketers must invest to intimately understand the entire shopping basket of target shoppers—which categories/brands have a high co-purchase incidence with the category/brand in question? Of equal importance, the message and means of communicating must be finely targeted to ensure that it reaches the right shoppers at the right time in a way that will resonate and spur action.

TOP CENTER STORE GROWTH CATEGORIES
MULOC–TOTAL U.S.
LISTED IN ALPHABETICAL ORDER

FOOD & BEVERAGE

Bottled Water
Dried Meat Snacks
Energy Drinks
Salty Snacks
Sports Drinks

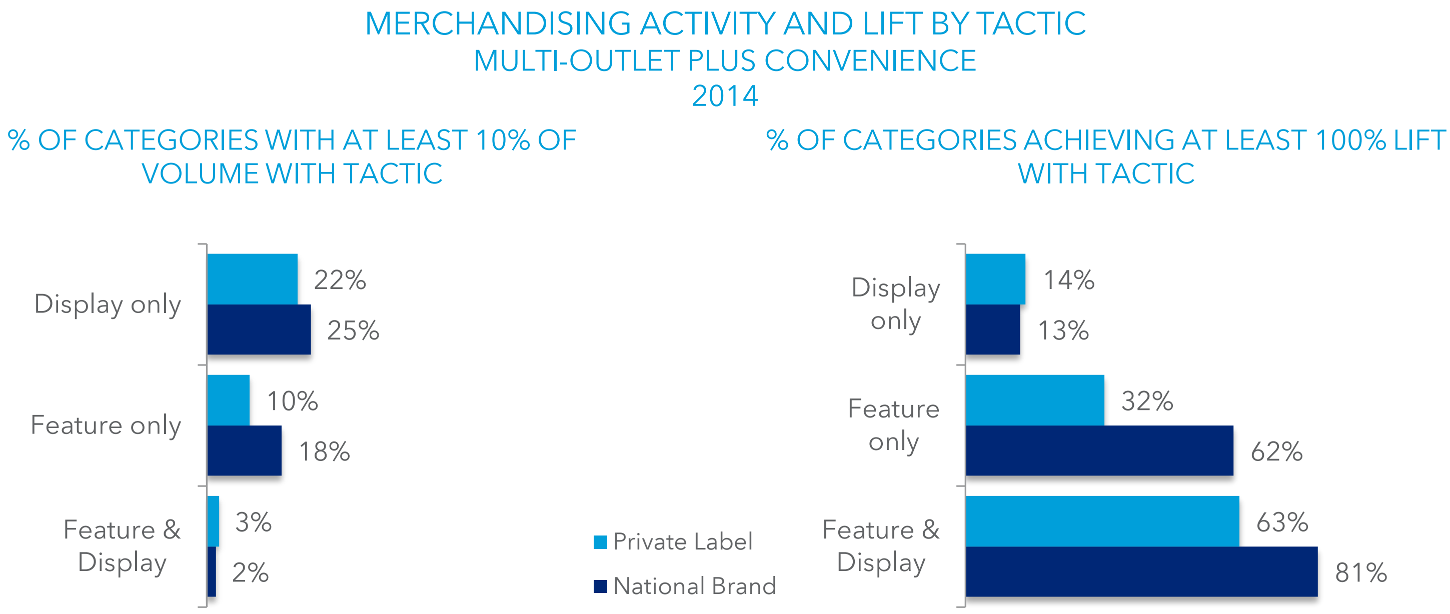
NON-FOOD

Cold/Allergy/Sinus Tablets
Deodorant
Food & Trash Bags
Toilet Tissue
Weight Control

Source: IRI Market Advantage™; 52 weeks ending 8/10/2014

Exhibit 15

Deploy marketing programs carefully, leveraging the most powerful tactics available in a manner that will deliver the right message to the right shoppers at the right time.



Source: IRI Market Advantage™; 52 weeks ending 8/10/2014

Leverage Combined Tactics to Reach Consumers Early and Often Throughout the Purchase Process

Store brands and national brands share the challenge of effectively communicating with shoppers throughout the purchase process. The ability to start the conversation with the shopper early—in the home—is absolutely critical.

More than half of consumers (57 percent) will make their purchase decisions before entering the retail environment in the coming year.[1] This makes feature ads a great way to influence the purchase process, as illustrated by the fact that feature-only support brings one-third of private label and two-thirds of national brand categories lift of more than 100 percent. (see Exhibit 15).

But combined feature and display support—support that begins early and continues up to the moment of purchase—has proven much more powerful for national and private label brands alike, bringing lift of more than 100 percent for 63 percent and 81 percent of categories, respectively.

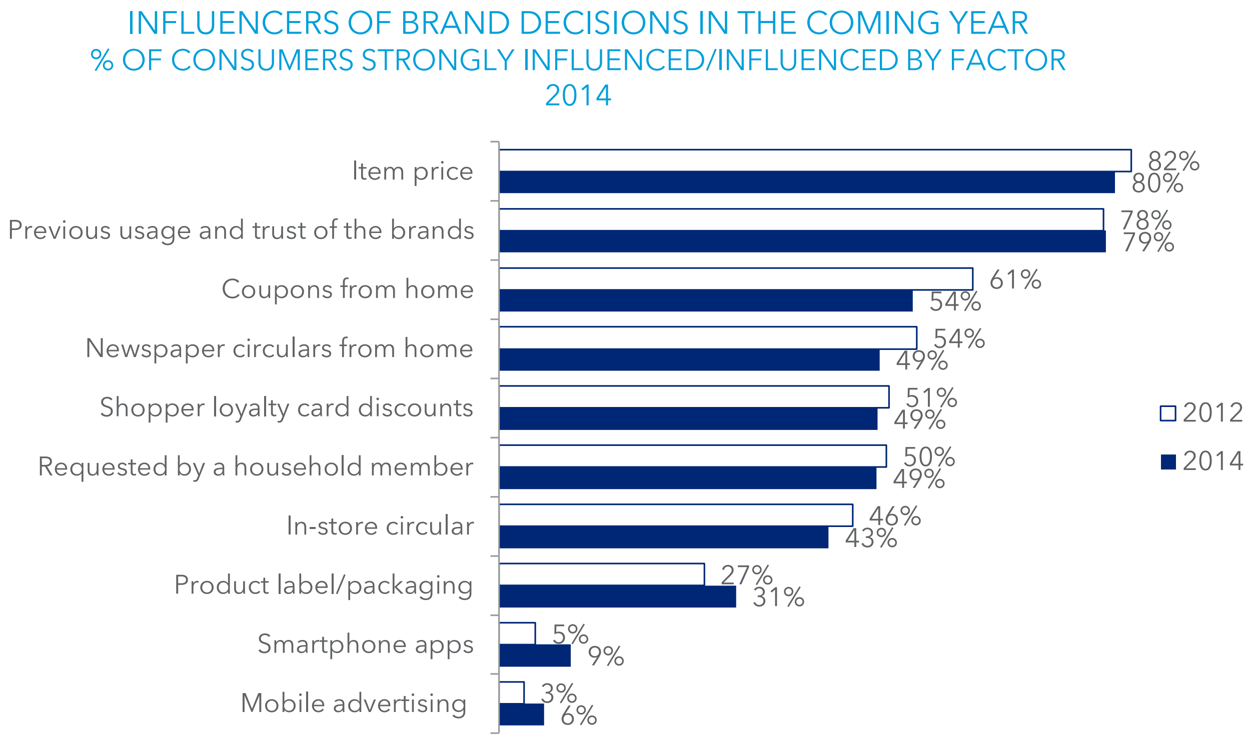
Marketers must continue to hone their marketing strategies, ensuring that they embrace the most effective tools possible and keep the focus firmly on providing affordable solutions. Co-marketing national and private solutions, such as a name brand coffee with a private brand creamer, will not only drive basket size, but also capitalize on price elasticity.

It's a delicate balance for CPG marketers. Retailers and manufacturers must work together to develop and implement micro-level pricing and trade strategies that will answer consumers' call for value and affordability at an individualized level. Done well, these programs will drive volume without sacrificing brand image and margin goals.

Source: [1]IRI MarketPulse Survey, Q3 2014

Exhibit 16

Embrace consumers' thirst for knowledge by communicating key product benefits—price, ingredients, etc.—across a broad and targeted array of marketing platforms.



Source: IRI MarketPulse Survey, Q3 2014

Use New Tools but Keep the Old…Silver and Gold

Marketers must work to develop and implement comprehensive communication programs that seamlessly span old and new media platforms. Traditional media will continue to be a major influencer of consumer decisions, but new media are rapidly gaining acceptance and influence.

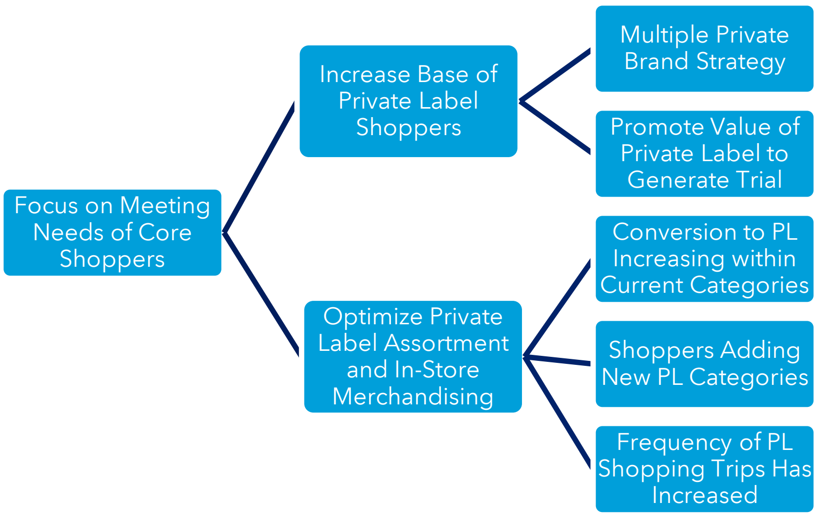
In particular, as detailed in IRI's recent *Path to Purchase* study, consumers have spread their "pretailing" wings during the past few years, as technology has brought to life many more options for learning about and purchasing packaged goods solutions, and the digital wave continues to rise.

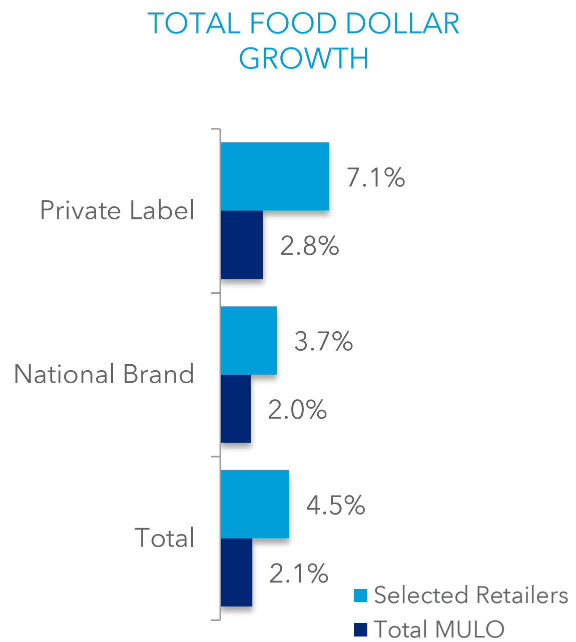
Consumers' more enlightened approach to shopping is bringing increased interest in/influence of electronic messaging, such as smartphone applications and mobile advertising, but it has also contributed to heightened awareness and influence of more basic interactions, such as product labels and packaging (see Exhibit 16).

To maximize efficiency and influence, CPG marketers must ensure that all messaging, regardless of the platform, is unified and highly targeted. They must reinforce the core story of the brand, underscoring the value proposition and clearly connecting the brand with the key needs and wants of core shoppers and consumers.

Exhibit 17

ILLUSTRATION: *Winning retailers demonstrate the ability to drive national and private brand growth simultaneously by focusing on core shoppers and flawlessly executing on the fundamentals.*





Note: All studied retailers are POS Releasable, with exception of three.

Source: IRI Market Advantage™; 52 weeks ending 5/25/14

Drive National and Private Brand Growth Simultaneously by Focusing on Needs of Core Shoppers

Assortment strategies that concurrently use national and private brands to offer targeted affordability brings outpaced growth, despite a conservative marketplace (see Exhibit 17).

To quantify the power of national brand–private brand collaboration, IRI conducted a detailed analysis of 13 strong private brand retailers. The analysis showed that, across banners, private label trip frequency is on the rise, with shoppers stepping up private label activity in both existing and new private label categories.

The retailers, in turn, are embracing a number of strategies, such as highlighting value and affordability and tailoring national and private brand assortment at the store level, to most effectively meet the needs of core shoppers within each store location.

The results of these efforts are powerful. Across the combined retailer sample, private label dollar sales grew at more than double the industry average. National brands, too, outpaced industry average by a wide margin—up 3.7 percent, versus the 2.0 percent average. In all, dollar sales across the sample grew 4.5 percent for the year, while industry sales climbed just 2.1 percent.

Lessons from Europe

Studying store brand activity across Europe provides an exceptionally rich experience for U.S. marketers. Each country features unique population, cultural, socio-economic and other national attributes that fundamentally affect store brand performance. Savvy European retailers are embracing private label not just as a margin-maker, but also to better meet the unique needs of their core shoppers in order to differentiate themselves in the minds of those very same shoppers. The lessons U.S. manufacturers and retailers can learn from Europe are vast.

Focus Where Return Is Most Promising

The European marketplace is replete with diversity–different languages, different cultures, different socio-economic forces. Not surprisingly, these differences trickle down through society and impact how consumers shop for, purchase and consume packaged goods.

To influence behavior across such a diverse marketplace, European retailers are embracing advanced analytics to create highly segmented shopper profiles.

For instance, Lidl is looking to drive footfall and loyalty among wealthier shoppers who seek value without sacrificing quality with a new line of upmarket wines. The retailer is also rolling out country-specific private label ranges and targeted international theme weeks to keep things fresh and exciting.

Embrace Brand Ambassadors to Move the Needle

The marketplace is swamped with information these days. European consumers, like U.S. shoppers, are looking to each other to cut through “the clutter” and truly understand which products best meet their needs.

European private label marketers are embracing this “ambassadorship” as an opportunity to forge stronger relationships with consumers. In several countries, including France and Spain, Carrefour recruits consumers to test its standard range products. Products that pass muster have packaging that highlights them as “Panel Test Carrefour” to underscore consumers’ approval.

Similarly, Mercadona (Spain) follows a co-innovation model whereby it engages consumers to use its products in one of its13 co-innovation centers so that it can see and understand how products are really being used. These insights inform product tweaks and future innovation.

Innovate to Differentiate

Private brands are an extension of the retail banner. To be effective, these brands must tell the story of the the retail banner they represent in a clear and consistent manner. Jumbo, for instance, relies on telltale clear packaging to identify its line of fresh, frozen and ambient products.

With Aldi, private label products do not carry the Aldi name. Rather, these exclusive brands are housed under a distinct label that covers an entire category or a major share of the category. Examples include the “Lacura” health and beauty brand and the “Be Light” wellness line.

For more information on private label trends in Europe, check out IRI’s Special Report, “Private Label in Western Economies.”

Source: IGD Retail, IRI Analysis

Framework to Win

The economy has stabilized and consumers are more optimistic. Still, CPG volume is largely stagnant and dollar sales growth is being driven by price increases. Spurring demand and growing sales while protecting against margin erosion will require a keen focus against key shoppers and consumers. Intelligent deployment of national and private label strategies will smooth the road to growth by ensuring that consumers are finding simple, convenient and affordable solutions to their everyday CPG needs. This will, in turn, solidify consumer loyalty and spur volume and margin growth.

Increase penetration with highly targeted products and marketing programs that keep value and affordability in the crosshairs.

- Invest to understand how your most important shoppers and consumers view value and affordability; use this knowledge to inform all marketing activities, from existing brand support to new product development.
- Stay on top of evolving shopper/consumer trends, including online and offline sales as well as behavior around similar or substitute categories and brands.

Fracture concentration with innovation that addresses key consumer trends and white-space opportunities.

- Implement highly targeted co-merchandising and co-promotion strategies centered on your core and target shoppers' most important growth categories.
- Do not overlook simple innovation opportunities (e.g., packaging changes, flavors, etc.) that can appeal to up-and-coming market segments and/or change the product's/brand's competitive set.

Create and embrace a brand story centered around value, authenticity and affordability.

- Accelerate growth with messages that home in on unique needs and wants of key growth markets, such as millennials.
- Embrace digital media to provide information at different points in the shopping journey, ensuring that features and functionality are relevant to the target market and tailored to where the shopper is in the journey at the moment of engagement.

Resources

FOR MORE INFORMATION

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

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:

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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.

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