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Private Label Brands -- A Growth Opportunity for Retailers and Produce Suppliers

by

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Over the last decade, Private Label Brands or Store Brands have become a popular and profitable marketing strategy in the United States as well as in Europe. According to a Gallup study sponsored by the Private Label Marketing Association and conducted in September 2000, 71% of U.S. supermarket shoppers consider store brands the same as or better than the quality of national brands.

Retail consolidation has had a strong influence on Private Label. Store brands have become a way for retailers to differentiate themselves from their competitors and to create loyalty to their stores in an evermore tightly concentrated marketplace. In Europe, Private Label products' value and unit penetration in the seven major markets has been significant, with the United Kingdom leading at 45.4% volume share and 43.5% value share in 1999. This is followed by Belgium, Germany, France, the Netherlands, Spain, and Italy (Table 1). Where is the growth potential for Private Label brands? The long-term Private Label trends in the UK market for the period 1997-2000 indicate that Private Label share of sales has continued to grow mainly in the food sectors, and particularly in

perishables such as dairy and bakery, with shares of 52.4% and 61.1% in 2000, respectively. Shares for other categories such as household products, soft drinks, and health and beauty aids decreased during this period.

Table 1. Private Label Penetration in Europe 1999

<i>Country</i>	<i>Volume Share %</i>	<i>Value Share %</i>
United Kingdom	45.4	43.5
Belgium	34.7	27.4
Germany	33.2	26
France	22.1	19.1
The Netherlands	20.6	18.4
Spain	20.5	14.8
Italy	17.1	15.5

Source: *PLMA Yearbook 2000*.

In the United States, Private Label penetration (value share) among the top ten food retailers in 2000 ranged between 7% for Costco to 23% in Winn Dixie Stores and A&P (Table 2). In 2000, Private Label sales in U.S. supermarkets increased 1% in dollar share of sales to 15.5% but decreased 1.2% in unit share to 20%, compared with 1999. Among the different types of products, basic commodities declined at the expense of so-called value-added products: six out of the ten top commodity categories declined in dollars sales and eight of the top ten declined in unit sales. Among the main double-digit gainers in share of sales are frozen and refrigerated items - that is, many perishable products. Packaged salads have been one of the highest-growth segments, accounting for 12% of the value-added category, up 4% from 1999.

Table 2. Private Label SKU Count and Share of Sales in 2000 for the Top Ten U.S. Food Retailers

<i>Company</i>	<i>Total Sales Billion \$</i>	<i>Aprox. PL SKU count</i>	<i>PL share (% of total dollar sales)</i>
Wal-Mart	57,200	5,000	20%
Kroger	49,700	6,000	20%
Safeway	32,500	3,000	20%
Albertson's Inc.	31,000	6,000	16%
Ahold USA	28,100	2,000	20%
Costco	17,700	500	7%
Delhaize America	14,700	6,500	17%
Winn Dixie Stores	14,323	2,700	23%
Publix Super Markets, Inc.	14,100	1,200	16%
A&P	10,500	2,300	23%

Source: 2001 Report –Top 40 Supermarket/Wholesalers. *Private Label*, March-April 2001, pp. 27-32

As these data clearly indicate, a shift from the basic commodity to the value-added categories is driving the Private Label sales figures. In the United States the growth of fresh-cut produce is a principal contributing factor toward selling more store-branded produce since little Private Label development has taken place so far in the produce department and national brands are only present for a few items. It is up to retailers to take advantage of this opportunity, which, in theory, should benefit the whole produce industry and, similarly, it is up to both retailers and suppliers alike to master the challenges involved.

Challenges for retailers include a commitment to quality, along with delivering produce to meet the standards of today's consumers' expectations on a permanent basis, and ensuring that the product being packaged corresponds to the image of the store. Challenges for suppliers include the ability to provide their customers the required quality in sufficient, adequately packaged and safe quantities on a permanent basis. At both ends of the supply chain there is a need to innovate and to have the flexibility to adapt to the consumer's changing needs and wants.

The growers and shippers surveyed in the 2001 Fresh Track study consider that the major responsibility for Private Label in the produce industry lies with the retailers. Retailers agree with this assessment. In five years, growers and shippers see this mainly as a shared responsibility, though retailers still view it more on their side and as a shared responsibility, as opposed to being more on the grower/shipper end of the supply chain. Some growers/shippers indicate negative experiences with orders for Private Label products. These negative experiences are mainly related to order cancellations, and the consequent need to repackage the product, with additional costs involved and diminished product quality and shelf life.

Clearly, if the industry is to benefit from the growth opportunities that Private Label produce offers, adequate planning, accurate forecasting, and appropriate brand managing are the requisites for retailers. For suppliers, the ability to maintain quality standards, to innovate, and to add value constitute key strategies. Above all, this is a business opportunity where partnering of retailers with growers and shippers would bring about the best system-wide outcome.

"Smart Marketing" is a monthly marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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