

PRIVATE LABEL

Ready for Rebound

A LONG STRING OF **PRIVATE LABEL MARKET SHARE GAINS HAS ENDED**, RAISING **CONCERNS** ABOUT **FUTURE GAINS** AND **POTENTIAL GROWTH DRIVERS**.

> By Mike Troy

If there has been one constant in a retail industry characterized by unrelenting change, it was that private label could be relied upon to gain market share from brands. That was the case for roughly three decades, but those gains began decelerating about five years ago and came to a stop in 2015. And based on sales trends at little past the midpoint of the year, private label market share is poised to decline for the first time in recent memory.

“When you look at this trend it is not unique to the United States,” says Todd Hale, a consultant with Nielsen.

For example, Hale notes that in Europe, where private label is more established, market share last year dipped slightly to 30.5 percent, compared to 30.6 percent in 2014.

One of the biggest drivers of the share decline in the U.S.

has been dairy prices, according to Hale, along with share losses by supermarkets where private label penetration is the deepest.

“[The share losses] are really driven by dairy deflation and what’s been going on with milk prices where dollars sales are down significantly due to deflation and unit sales are flat,” Hale says.

For example, leading dairy supplier Dean Foods noted that within the grocery channel, its brands sold at an average per-gallon price of \$3.41 during the second quarter, 34 cents lower than the comparable period the prior year.

While dairy is a headwind, Hale contends other factors also are at play related to demograph-

ic shifts, the state of innovation and the rise of niche brands at the expense of leading national brands.

“When you look at who is winning today it is not the major brands. It is all the other brands, and generally speaking, brands have out-innovated and out-promoted private label,” Hale says.

Nielsen data also reveals private-label share rates are lowest among Asians, Hispanics and African-Americans, the segments of the population growing the fastest and accounting for a larger percentage of consumption.

PL PROSPECTS STILL PROMISING

The decline in private label market share could be short-lived due to a number of market developments. For example, Amazon is getting aggressive with private label, and Whole Foods is counting on a retail format named after its flagship 365 store brand to contribute to future growth. Other retailers are engaged in major private label repositioning efforts. One of the most significant involves Walmart’s \$57 billion Sam’s Club division, where disparate private labels are being unified under the Member’s Mark banner introduced roughly 20 years ago.

“It just makes sense to do one [private brand] and do it really well,” Chanda Holt, vice president of private brands at Sam’s Club, told attendees at the Store Brands Innovation and Collaboration Summit in August. At the event, organized by *Retail Leader* sister publication *Store Brands*, Holt said Sam’s plans to add 300 Member’s Mark items this year and another 300 next year. Sam’s also expects to develop more collaborative relationships with suppliers, something it will be better positioned to do with a private label staff now 60 strong, roughly double the number in place when Holt joined Sam’s a little over a year ago as part of a merchandising leadership transition.

In addition, the retailer held its first-ever summit for store brand suppliers in September to enhance understanding of Sam’s overall strategy as a precursor to implementing a formal joint business planning process in early 2017.

Supervalu’s Save-a-Lot division, which is a fraction of

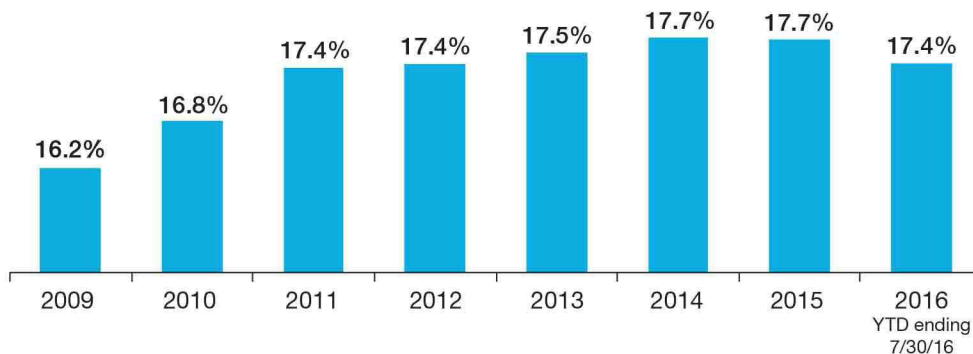


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PRIVATE BRANDS GROWTH LAGGING BRANDED

Private Brands \$ Share — All Departments



Sources: Nielsen Strategic Planner (2009 data) & Nielsen Answers (2010-2016 data), Total U.S. — All Outlets Combined (xAOC), Total All Departments,

the size of Sam's Club, is looking to rationalize its expansive offering of more than 60 private brands down to five or six, led by the America's Choice banner.

One of the biggest unknowns regarding private label's future relates to the growth of companies such as Save-a-Lot, Aldi and the arrival of Lidl, along with the competitive response they elicit.

"There is enormous potential for small-format stores that sell consumables," says Mike Paglia, a director at Kantar Retail who leads the firm's research on value discounters and dollars stores.

The hard-discount retail concept characterized by small stores offering a limited assortment of high-velocity, low-priced private label items is not a new concept in America. However, the hard discounters collectively have arrived at a watershed moment in the U.S., and their growth ambitions are poised to put increased competitive pressure on all types of food and consumable retailers, which could lead to a rebound in private label's overall market share.

For example, Save-A-Lot opened 80 stores in 2015 and now operates nearly 1,400 locations, but believes the U.S. could support 3,500 of its stores, which average 17,000 square feet and derive 60 percent of their sales from private label. Much of that growth is expected to come in states such as Texas, Colorado and California, where the company recently opened distribution centers but only operates 18, 14 and seven stores, respectively.

In the case of Aldi, the company's commitment to accelerate U.S. growth, begun a decade ago, has given it 1,500 units in 34 states that average 18,000 square feet. However, more expansion is in the cards. It recently entered California and expects to have 45 stores there by year end, and it plans to have 2,000 stores nationwide by the end of 2018, locations said to generate more than 90 percent of their sales from private label.

THE LIDL WILD CARD

The biggest wild card in private label's future is Lidl, the German-based operator of 10,000 stores throughout Europe that is expected to open its first U.S. stores by next fall. Lidl's arrival in

the U.S., with stores measuring about 36,000 square feet, is the most highly anticipated development to hit the grocery scene in decades due to concerns the company will be able to replicate its European success stateside. So far, Lidl has announced plans to invest \$77 million in its U.S. headquarters in Arlington, Va., adjacent to the Ronald Reagan Washington National Airport, where it expects to employ 500 people. Sixty miles

to the Southwest, another \$125 million will be spent to establish a regional office and distribution center in Spotsylvania County where another 200 people will work. Another regional headquarters and distribution center requiring a \$100 million investment will be located in Cecil County in the northeast corner of Maryland. That location will employ 100 people.

Concurrent with the establishment of a distribution infrastructure, Lidl is seeking store locations in densely populated areas along the Eastern seaboard extending from New Jersey and Pennsylvania south to Georgia. "We are tracking Lidl," Greg Foran, president and CEO of Walmart's U.S. stores division, said in late July at the Grocery Manufacturers Association's Executive Forum. "They are on track to probably open 45 to 50 stores in one day, but they are working on 135 to 140 sites at the moment. I think that is going to cause a bit of shift in the marketplace."

The shift Foran expects to occur is increased penetration of private label, because the U.S. lags other countries, especially Europe, when it comes to penetration rates.

"I think you are going to see private label start to move up, but Walmart will be about representing both (private label and national brands) and doing it well," he said.

The U.S. may never reach the levels of private label penetration seen throughout Europe, but given all the activity in the market, the current market share slump looks to be temporary. **RL**

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