




NBCUniversal

Private Label Perspective

How Retailer's Own Products Are Taking Off
and Transforming the CPG Industry

MAY 2023



Overview

While private label brands lost market share over the course of the pandemic, they regained momentum in 2022 as spiking inflation made the savings from store brands more compelling.

However, the full potential for private label revolves around more than just cost. For retailers, they represent a key opportunity to meet evolving needs and forge deeper relationships with shoppers. This leaves CPGs facing pressure to demonstrate quality and value to shoppers.

In this piece, we cover what has contributed to the growth of private label, and how both retailers and CPG brands are working to navigate the ever-changing landscape of private label products.

What We'll Cover

01. Changing Consumer Behaviors

02. Retailer Approach

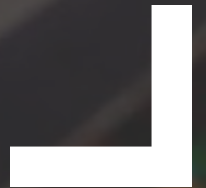
03. CPG Brand Response

04. Strategic Considerations

01.

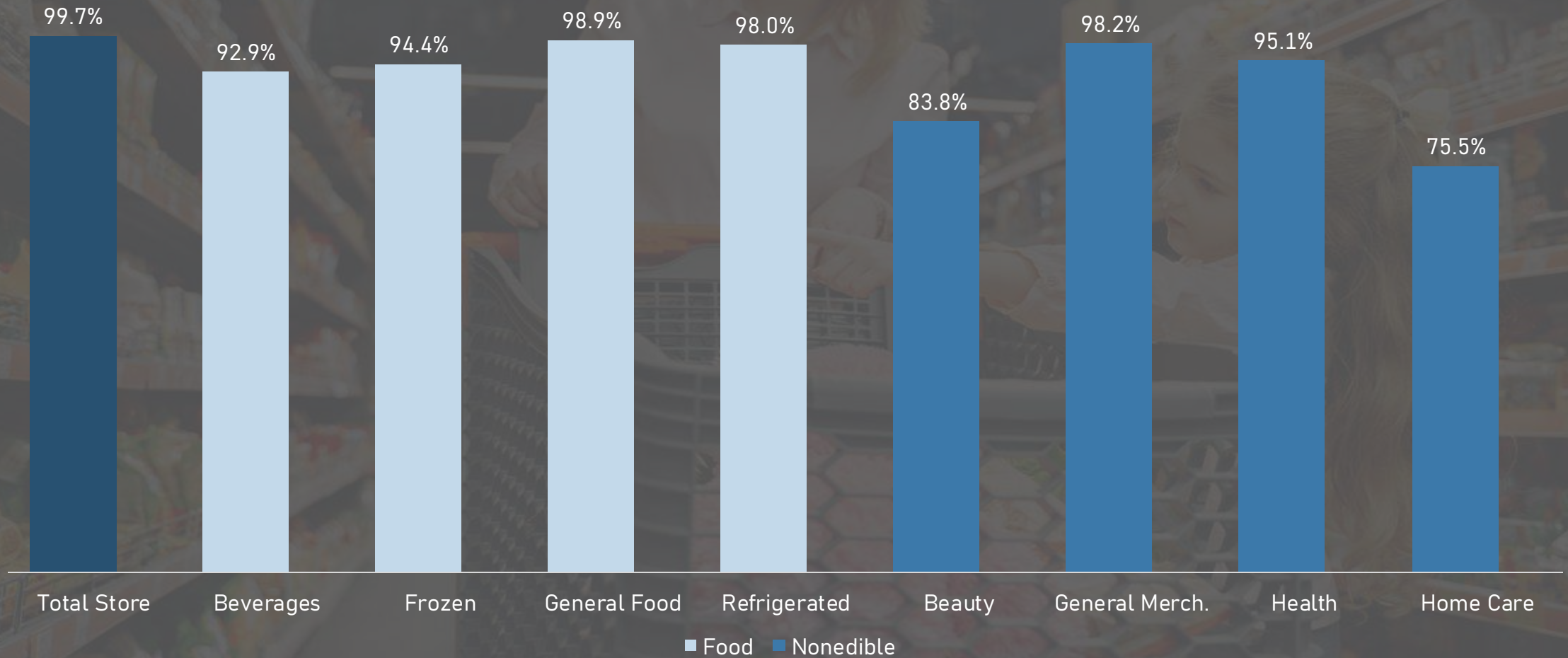
Changing Consumer Behaviors

Looking at the Forces behind the Growing Consumer Adoption of Private Label



Nearly Everyone Is a Private Label Customer, Whether They Realize It or Not

HH Penetration of Private Label Products (% HH Buying)



AS A RESULT Private Label Sales Continue to Climb

As of December 2022, private label comprised 18% of total CPG share of sales in Q4, up compared to the same time YoY.⁴

The household (20%), grocery (19%), and baby (18%) verticals are driving the upward trend for private label dollar share.⁴

+16%

increase in private label food sales over the last two years, reaching \$135B in March '22¹

+25%

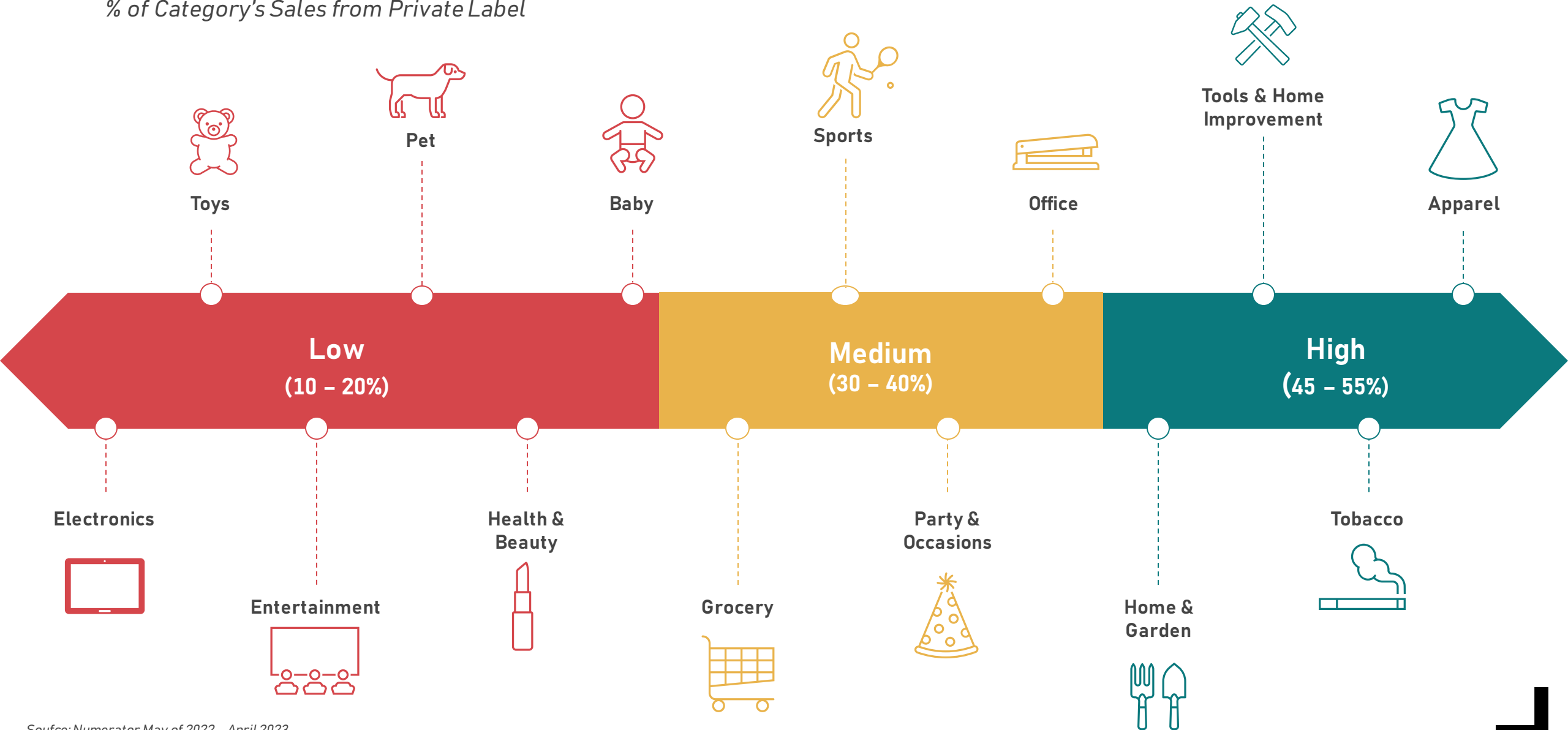
Greater increase in private label sales (+6.5% in Q1 '22), compared to national brands (+5.2%)²

+83%

of U.S. grocers plan to increase their investment behind their own private label brands³

Private Label Category Share Spectrum

% of Category's Sales from Private Label



Two Key Factors Have Contributed to the Growth of Private Label Brands



Impact of Inflation

As inflation across the food & beverage categories continues to persist, consumers are looking for alternatives as a way to save.

Over 87% are either opting for private label items or shopping at different stores for those same items, particularly to save money.¹



Changes in Quality & Perception

What was once perceived as a cheap, cost-saving alternative has since evolved to be on par with household name brands in the minds of most consumers.

Nearly 90% of consumers who have switched to private label have done so because they feel they are getting a better value compared to a national brand.²

Continued Economic Uncertainty and Growing Consumer Concern is Challenging CPG Demand

Pessimistic Economic Outlook

59% of shoppers say they had a **“high” level of concern regarding the economy** as of May 2023.¹

Declining Consumer Sentiment

78% of shoppers state they are **specifically concerned with the rising prices of essential goods & services**, the top concern across all income levels.¹

Growing Financial Crunch

80% of U.S. households have **experienced moderate to significant impact on their personal/household finances** as a result of inflation.²

Prices across CPG Sub-Categories Are up an Average of +10% YoY

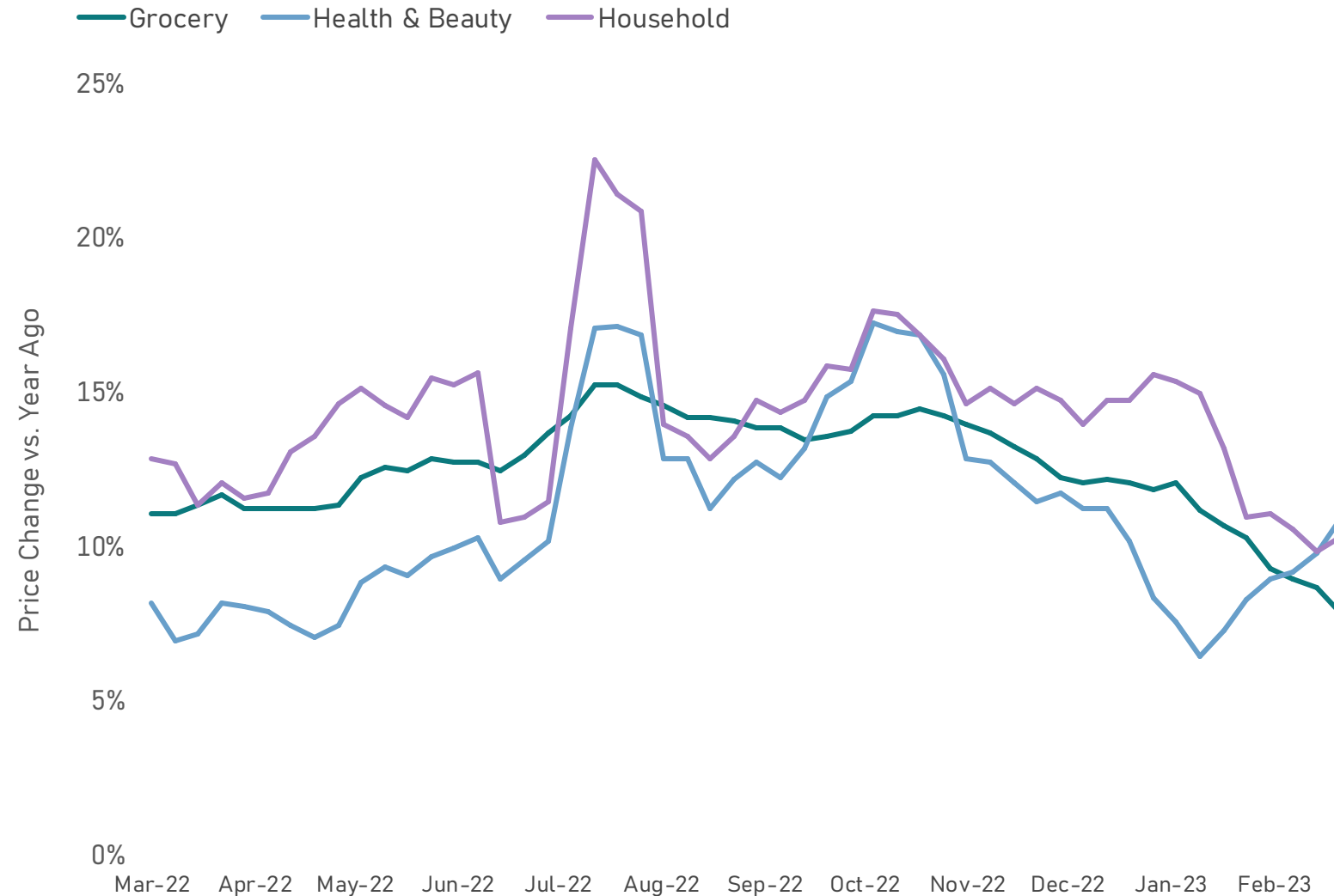
Consumers continue to pay more for their everyday goods. March prices on Grocery, Health & Beauty, and Household product inflation rates remain elevated, though the rate of increase slightly leveled off from 2022 highs.

65% of shoppers say they will trade down brands if prices are too high.

Source: [Deloitte](#)

Inflation by Sector

Average price per item versus year-ago, rolling 4 week periods



Source: [Numerator](#); Insights 2022 & 2023 vs. YA, average price per item, all channels, all shoppers

As Inflation Pressures Grow, Consumers Are Prioritizing Price Over Brand, Driving Growth in Private Label

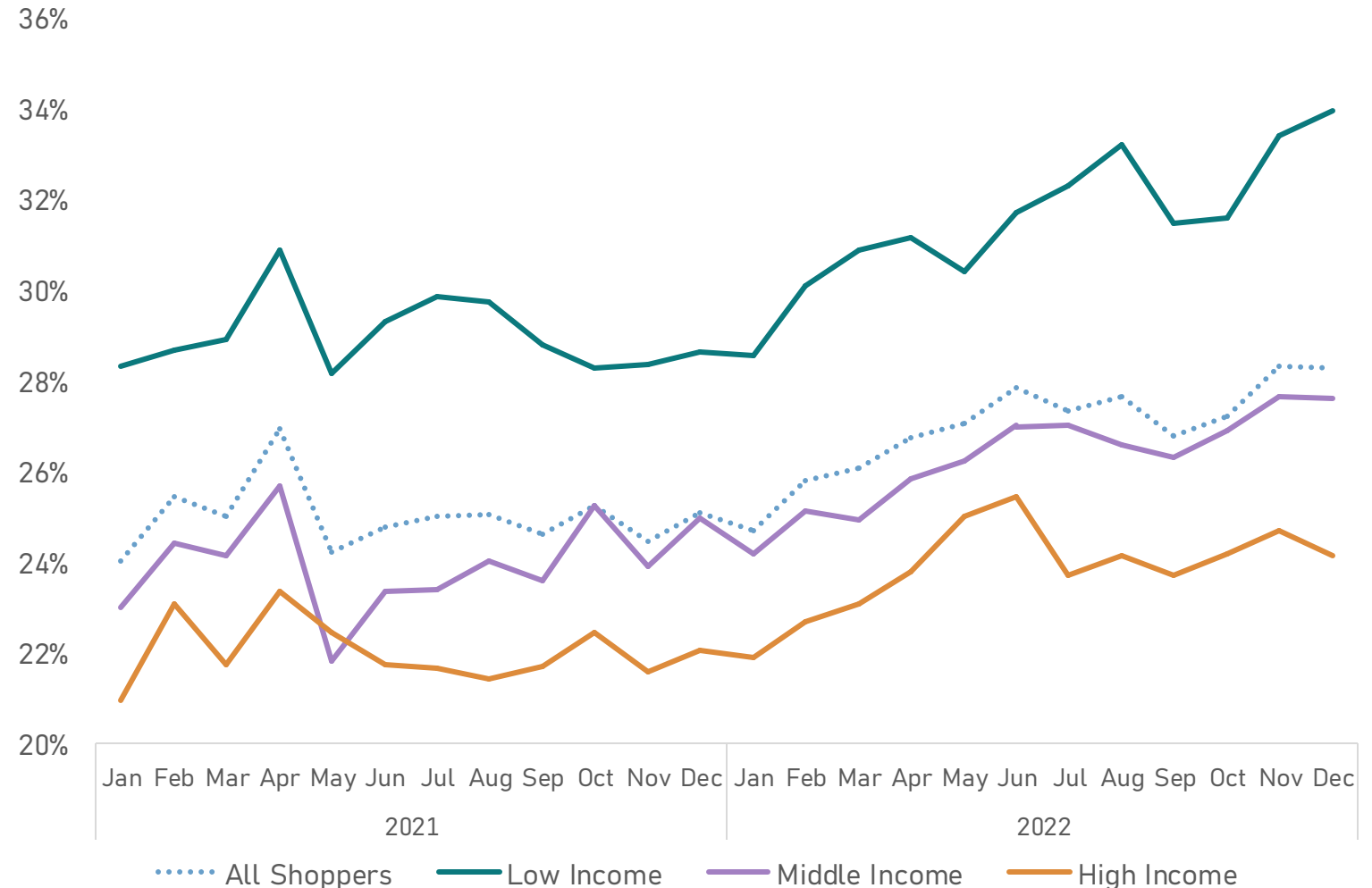
The top ways consumers plan to cut costs are by buying a less expensive brand and buying a private label.¹

As a result, private label CPG sales now account for approximately 19% of total CPG sales worldwide and nearly 15% in the US.²

Source: 1. eMarketer 2. NielsenIQ

Private Label Perceptions

Q: Agree price is more important than brand name



Source: Numerator Ongoing Private Label Survey, 10k+ responses monthly
Income Groups: High (>\$80k annually), Middle (\$40 - 80k), Low (<\$40k)

How Consumers View Private Label Products Has Evolved

Higher prices coupled with changing consumer perceptions of private label products enabled retailer brands to thrive. At the same time, retailers are doubling down on in-house brands to increase revenues and keep shelves stocked.

As more shoppers prioritize value over name recognition national CPG brands are looking to boost their appeal without lowering prices.

Top Reasons Consumers Switched from National Brand to Private Label

Better value (quality for price) compared to national brand

90%

Assortment option and/or selection was bigger than national brand

52%

Deal and/or membership rewards offered with purchase

48%

National brand was not available

41%

Display and/or packaging drew my attention

33%

Didn't initially realize it was a private label brand

26%

Other

11%

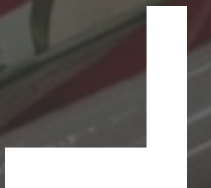
*"Within the last decade, private labels have largely **shed the perception that they're low-price generics for cash-strapped shoppers**, it's now strategic branding."*

– John Owen, Associate Director of US Food & Retail, Mintel

02.

Retailer Approach

How Retailers Are Maintaining Momentum



Private Label CPG Sales are Dominated by a Group of Key Players

> 78%

of total private label CPG dollar share (in-store + eCommerce) come from 10 retailers



TRADER JOE'S

Publix

Retailers Continue to Expand Their Own Brand Portfolios

Kroger



Walmart



TARGET



amazon basics



over 120+ brands across all categories

Retailers Are Ramping Up Their Focus on Private Label Brands to Drive Growth

Retailers have been improving quality, creating enticing packaging, and enhancing marketing for their in-house brands.

Consumers are moving beyond grocery when it comes to buying private labels, and into other categories like home decor, apparel, and beauty, which can help boost profit margins for retailers.

*"Target's exclusive **owned brands provide tremendous quality at incredibly competitive prices**, a great combination anytime but never more so than in an inflationary environment."*



Christina Hennington
Chief Growth Officer, Target

*"The Kroger brand, along with Simple Truth and Private Selection, are each multibillion-dollar brands. Therefore, **we treat our private labels as any CPG would treat their own national brands**."*



Myrna Rexing
Growth Manager, Kroger

*"We're **strongly committed to product innovation, developing new or enhanced products, and delivering comparable quality to competing brands**, but with the value and trust associated with the CVS name."*



Brenda Lord
VP, Store Brands CVS Health

Why Retailers Are Investing in Private Label

While consumers have been gravitating towards Private Label significantly more recently, retailers have been investing in private label as a long-term strategy for a long time.

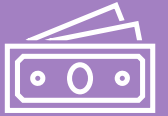
With 56% of consumers regularly comparing prices between private label and name brands¹, the investments that retailers have made to improve the quality of their store brands should continue to pay off in increased satisfaction. Shoppers drawn to store brands for the savings will be more likely to stay once inflationary pressures subside.

Sources: 1. [Mintel](#)

Store brands are

~50%

more profitable than national brands¹



Private label growth extends from the past into the future with

73%

of consumers planning to keep buying private label when the economy settles²



In the long-term, as retailers continue to mine & leverage their

1P data

we expect them to continue increasing the value of their Retail Media Networks, negotiate purchases from CPG brands, and improve their products + pricing



Source: 1. [Forbes](#) 2 [Food Dive](#)

3 Primary Areas Retailers Are Investing in to Continue Driving their Long-term Growth for Private Labels



Innovation

Food retailers and manufacturers are focusing on innovation as a strategy for continued private label growth and improved perception, including premium products, products with simple ingredient lists, strong price/value products, and prepared meal solutions.

81%

of food retailers & manufacturers report innovation as the top strategy for achieving higher private label market share.



Optimizing Price & Supply

With the majority of consumers choosing to purchase private label brands because of lower costs, retailers are working to leverage consumer insights and trends, launch new products, and improve packaging all as a means to aid in accelerating private label brand growth.

71%

of food retailers & manufacturers plan on working with suppliers to optimize private label price and availability.



Boosting eCommerce

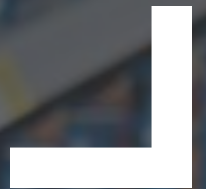
Expanding product availability is key for private label brand growth. Retailers are looking to improve paid & organic search functionality by leveraging tactics such as expanding keywords to include phrases like health, well-being, and sustainability, and utilizing RTB messaging and suggestive selling in search results.

60%

of retailers' assortment of private label product offerings is available on their ecommerce platform.

03. CPG Brand Response

National Brand Countermeasures



SUB-CATEGORIES ACROSS CPG ARE Experiencing Varying Degrees of Impact from Private Label

Food

Rising food prices are **increasing the threat of private label and the need to support brand building**. However, private labels are proliferating beyond just the hard-hit inflationary categories like eggs and meats.

55%

of total private label food sales came from refrigerated & frozen food in 2022.¹

Beverage

Despite certain categories being dominated by brand name competitors, like CSDs, private label **growth continues to increase across sub-categories where it's had a strong presence**, best exemplified by the bottled water category.

25%

Private label dollar share for Coffee Creamers, up from 19% share YoY.

Beauty & Personal Care

As consumers are slow to adopt alternatives into their personal care routines, **BPC has historically been a lower priority for private label**, however, retailers continue to expand and evolve in the sub-category.

10%

Increase in private label Hair product sales YoY.

Household Care

While consumers are traditionally consistent in their cleaning routines, brands are **emphasizing quality, product benefits, and adjusting pack sizes** to shift the consideration away from price.

25%

Growth in private label Laundry Detergent dollar sales YoY, despite a modest +5% gain in dollar share.

OTC

Vitamins, supplements, and other OTC products remain resilient in the face of private label share growth as consumers are hesitant to trade down when it comes to health & wellness products.

43%

Growth in overall private label dollar sales YoY.

Some CPG Sub-Categories Are More Susceptible to Private Label Growth

> **1 in 3** Promoted products are private label

Share of voice for private label brands continues to stay elevated, with 32% of promoted products being a private label brand as of February 2023.¹

Categories where consumers are **BUYING PREMIUM** ▲

Category	Premium Tier % Dollar Share	Premium PPT Change YoY
Sports Drinks	24.3%	+2.3%
Canned/bottled fruit	16.2%	+2.0%
Non-chocolate candy	23.8%	+1.5%
SS dinners	28.6%	+1.4%
Bacon	17.4%	+1.0%
Spirits/liquor	52.3%	+0.9%
Cookies	27.6%	+0.9%
Salty Snacks	10.6%	+0.8%
Milk flavoring/cocoa mix	35.0%	+0.7%
Wine	51.1%	+0.7%

Categories where consumers are **TRADING DOWN** ▼

Category	Private Label % Dollar Share	PL PPT Change YoY
Deli prepared meats	24.7%	+11.8%
Deli spreads	25.2%	+8.7%
Perimeter cookies	36.7%	+7.9%
SS meat	25.9%	+5.1%
Sugar	60.4%	+5.0%
SS coffee creamer	30.3%	+5.0%
Frozen juice	40.2%	+4.4%
Whipped toppings	54.5%	+3.8%
Cottage cheese	37.1%	+3.8%
Bottled water	34.2%	+3.4%

CPG Brands Remain Confident They Are Prepared to Combat Private Label Pressures

"Inflationary pressure impacts all players in the industry, including private labels, and actually **the pressure is typically more pronounced for private labels.**"

- Francois-Xavier Roger, CFO



"To date, **we have not seen any material signs of trade down from our brands**, a testament to our ability to deliver superior value to consumers and retailers across channels, categories and price points."

- Linda Rendle, CEO



"We're seeing private label growth in some of the categories where we participate...but most importantly for us, **we're seeing our brands continue to gain loyalty**, expand their consumer base and **be preferred** in that segment."

- Ramon Laguarta, CEO



"There is **no direct link** of private-label growth and us not being able to continue to hold our share position or even expand our share position. Overall, **trade down within our portfolio is the design**. That's why we have created different value tiers; that's why we have created different pack sizes. So, some level of consumer shifting is expected."

- Andre Schulten, CFO



How Brands Are Defending Against Trade Down and Switching Behaviors



1. Remaining Salient

56% of consumers state they choose name brands out of habit.¹ Brands continue to hold the advantage for winning at the “moment of truth” by remaining relevant and top of mind with consumers.



2. Optimizing for Omni-channel

21% of consumers now shop for groceries online at least half the time.¹ CPG digital spend increased +13% in 2022 as brands adapt to fluid, omni-channel shopping journeys.²



3. Communicating Quality

Name brand loyalists are 2.6X more likely to be quality seekers than private label loyalists.¹ While perceptions of quality have improved for store brands, it is still the space brands can differentiate to defend against switching.

“This is when CPG companies with market brands have to double down on their features and benefits—why are they better than the value option?”

Highlighting attributes such as efficacy and reduced environmental impact can help.”

– Suzy Davidkhanian, eMarketer Principal Analyst at Insider Intelligence

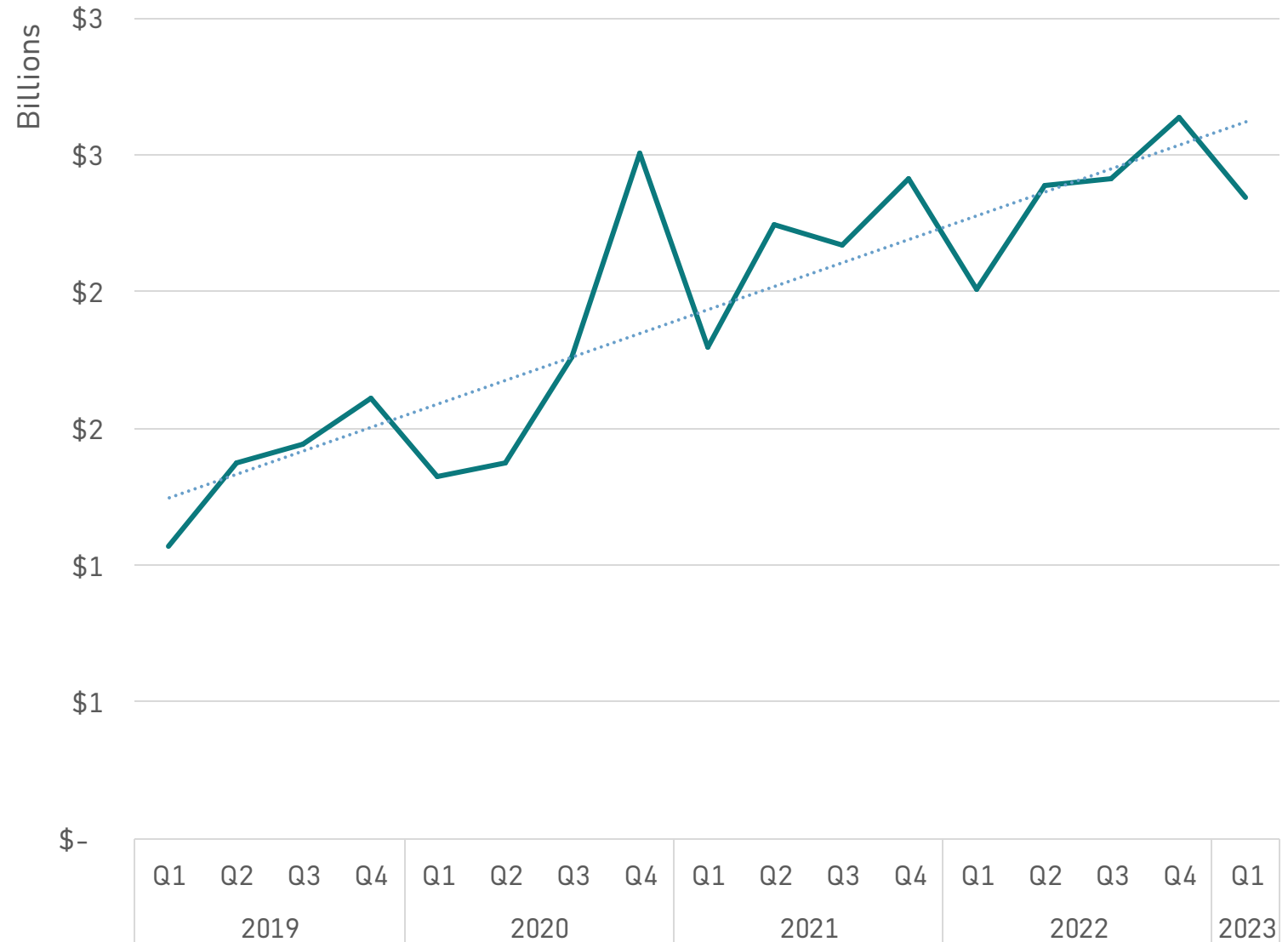
CPGs are Working to get Closer to the Point of Purchase by Growing Digital Spend

CPG spend continues to shift towards digital channels. Growing 120% from Q1 2019 to Q1 2023, digital channels made up 65% of category spending in 2022.

While still small in volume, Retail Media Networks are seeing a rapid rise in investment from CPGs as they utilize valuable shopper data to better connect with consumers across the purchase journey.

CPG Category Digital Spend

By Quarter



3 Primary Areas CPGs Are Investing in to Maintain Long-term Brand Growth



Innovation

Like retailers, CPG brands are focused on continuing to invest in the R&D behind expanding portfolios. Through patented ingredients, brand partnerships and collaborations, and other means of innovating their position in the marketplace, national brands make it challenging to steal away their market share.

20K+

Average number of new food and beverage product launches each year in the United States.¹



Building Brand Equity

The power of salient national CPG brands is their ability to win at the shelf during the moment of truth. By continuing to invest in distinctive brands that resonate both emotionally and rationally CPGs are ensuring that they are maximizing mental availability to continue to win against private label alternatives and their competitive sets.

58%

of shoppers agree they are loyal to the food brands they buy and stick with them.²



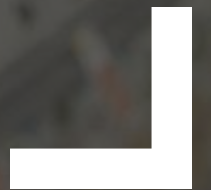
Investing in PP&E

Prices continue to soar as inflation, product instability, and supply chain delays are causing all sorts of havoc within the industry. As a result, CPG brands are working to maintain physical availability by rethinking their strategies and offerings to cater to changing consumption habits and retain space on shelves.

93%

of companies planned to diversify their supply chains geographically to avoid supply chain disruptions.³

04. Strategic Considerations for Retail and CPG Brands



Growing Private Label

5 Key Considerations for Retail Brands



Eventize Private Label Launches

To better compete with new products and innovations, retailers should invest significantly in the advertising and promotion of their private label brands to drive awareness.



Create Brand Differentiation

Communicate what makes your private label brand unique vs. national brands, outside of price (design, quality, etc.), to give consumers a compelling reason to buy from you vs. their old brand.



Drive E-comm Sales

Boost private label sales by turbocharging e-commerce through streaming, mobile, and social media advertising, especially shoppable / commerce driven opportunities.



Target Private Label Customers

Home in on key audiences with personalized messaging and products that cater to their needs or life-stage (value driven shoppers, expectant parents, fitness enthusiasts, etc.).



Leverage 1P Data

Analyze 1P data from customer transactions, loyalty programs, and advertising campaigns to optimize PL campaigns inside & outside of owned media platforms (In-store, circulars, streaming, etc.).

Defending Against Private Label

5 Key Considerations for CPG Brands



Reinforce Top of Mind Awareness

CPGs have a pivotal need to justify price increases and combat trade-down pressures by ensuring they are top of mind and building perceptions of quality and value.



Demonstrate Value & Functionality

As consumers exhibit switching behaviors CPGs must remind consumers of product benefits and demonstrate value like additional sizes, functions, and benefits.



Engage Key Audiences

CPGs have a heightened need to source incrementality from strategic audiences by using data to tactically deliver personalized offers that prompt purchases and drive sales.



Capitalize on New Demand Areas

Changes in consumer behavior have created new demands that long-established brands are positioned to meet quicker than private labels. CPGs have the advantage in being able to upsell premium offerings if they product can deliver on the promise.



Collapse the Purchase Funnel

CPGs will need to put emphasis on both creating and converting demand. By getting closer to point of purchase, CPGs can fuel discovery and trigger consumer behavior with commerce solutions and actionable content.





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Thank You!

**For more information, reach out to your
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