

WHAT'S IN A NAME? NOT MUCH

IN TOUGH ECONOMIC TIMES more shoppers are opting for private-label goods.

TWOFOLD BENEFIT: Customers pay a lot less, and stores make a much bigger profit.

By Jeremiah McWilliams
ST. LOUIS POST-DISPATCH

Joan Williford has particular shopping tastes. For specific items — red beans, for example — the Bridgeton resident prefers name brands. But for others, like cheese and soda, she will go with the lower-priced stuff with the Schnucks label, so long as it's a bargain.

"We're shoppers," Williford said, standing in the aisle of the Bridgeton Schnucks with her husband, Frank. "We'll stand there and compare cents." In their shopping cart: 36 cans of Schnucks' "Dr. Phizz" cola. No Dr Pepper here.

The Willifords, retired owners of a hair salon in Maryland Heights, are not alone in their willingness to bypass name brands and pick up cheaper items bearing the marks of the store.

So far this year, private labels' dollar sales in the United States have increased 8.3 percent, well

PLEASE SEE **PRIVATE LABELS**

ahead of the branded competition, according to Citigroup. The gains have swept across several categories including toilet paper, alkaline batteries, trash bags, dog food, bleach, and disposable razors.

"Consumers are looking for extreme value," said John G. Brunner, chairman and CEO of Vi-Jon Inc., which makes private-label products including shampoo, mouthwash and skin care gels. "We're going to see more and more of a shift to retailer brands over the next few years."

Private-label products now total more than \$65 billion of business at the retail level and

account for about 16 percent of spending on consumer packaged goods, according to the Private Label Manufacturers Association.

With financially strapped shoppers facing a crisis of confidence, analysts say private-label goods have become forces for big brands to reckon with, positioned to benefit when shoppers "trade down."

"I like things that taste good and have a good price," said Heather Fairbanks, 18, as she walked the cereal aisle at her local Schnucks store.

Fairbanks, who lives in Bridgeton and works at a pre-school, held a box of Schnucks frosted flakes and pointed out one of her other favorites — Schnucks-brand mini shredded wheat. Sometimes, she said, the national brand doesn't taste any better. "So, why would I pay that money?"

That dynamic has implications for retailers and manufacturers in St. Louis and beyond.

The economic downturn is rewriting trends in the packaged goods industry, influencing companies as diverse as battery seller Energizer Holdings of Town and Country, cereal maker Ralcorp Holdings of St. Louis and privately held Vi-Jon of Vinita Park.

And let's not forget Procter & Gamble, the consumer products giant that churns out fabric freshener, cleaners and dishwashing detergent at a facility near downtown St. Louis.

"Consumers are looking for extreme value," Brunner said. "We're going to see more and more of a shift to retailer brands over the next few years."

And even when the economy improves, "some of these shifts to private label are going to be permanent," said Thom Blischok, president of the consulting and innovation division at Chicago-based **Information Resources Inc.**

"Once people move to private label, it's going to be harder to go back to a national brand."

According to Citigroup, private labels grabbed bigger market share in most of its top sales categories in October, including cough and cold medicines, paper towels, painkillers, laxatives and cooking storage bags.

In a recent survey of more than 12,000 shoppers, Information Resources found that 91 percent said they planned to try a private-label product over the holidays, almost double last year's tally. More than half of respondents said they believed private-label products are as high-quality as name brands.

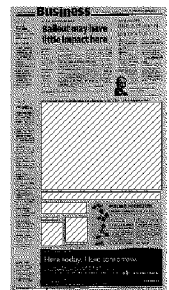
That perception of quality is "extremely important," said Blischok. Shoppers next year will be "looking at pretty much every single purchase through the lens of affordability."

Retailers have put a lot of muscle behind the effort to change the face of private-label products.

They now boast innovative packaging instead of the generic brown paper labeling with black type of years past.

Private labels are increasingly backed by advertising and aggressive displays.

Improved science also allows private labels to imitate the taste profiles of many popular national brands, such as breakfast



cereals.

Local retailers say their private-label offerings are attracting more consumer attention.

At Aldi, which sells private-label goods almost exclusively, coffee sales are up 33 percent, fresh meat is up 14 percent and produce sales have jumped nearly 20 percent.

Schnuck Markets Inc. is on pace to hit double-digit growth this year in sales of its private-label goods — including milk, chicken, meat, cereal and paper goods. Private labels already are more than 20 percent of the company's business.

"Shoppers are smart," said Tom McMunn, director of private brands. "They know a good deal when they see one."

Shop 'n Save, with 38 stores in the St. Louis metro area, has been introducing more private-label offerings — including beef lasagna, chocolate-chip desserts and organic products — to respond to demand.

Chesterfield-based Dierbergs Markets has seen steady sales growth from private-label goods such as Parmesan cheese, said Andy Pauk, chief operating officer.

The chain sells private-label cheese, ice cream, pizzas, and other items — products that have developed "a really nice following," said Pauk. "Some of our consumers in the past didn't try private label and now are buying it."

At Earth City-based discount grocer Save-A-Lot, the no-frills approach is paying dividends, said Chief Executive Bill Shaner.

About three-fourths of the products the company handles carry its own private label. The company is notching more shoppers and is noticing higher sales of its cereal and "Tickles" brand diapers.

"We are absolutely seeing positive sales trends in recent months," said Shaner. "We are seeing people have a much higher degree of acceptance than

we have in the past."

While consumers enjoy greater savings on private-label goods, retailers enjoy "obscene" profit margins, said Arun Jain, professor of marketing research at the University at Buffalo School of Management. That means stores can offer steep discounts on

PRIVATE LABEL PERFORMANCE

Buoyed by strong sales, private label products have recently outpaced their big-brand competitors. The following compares how private label products performed compared to the product categories as a whole.

| | year to date change* in dollar sales (percentage) |
|---------------------------------------|--|
| Toilet Tissue Category | 12 8.6 |
| Paper Towels Category | 7.5 2.6 |
| Disposable Diapers Category | -6.7 2.2 |
| Batteries Category | 9.7 -0.4 |
| Garbage and Lawn Bags Category | 5.7 0.3 |
| Facial Tissues Category | 2.7 -1.1 |

* First 10 months of 2008 compared to same period in 2007

Source: ACNielsen, Citi Investment Research

those products and "still come out smelling like a rose."

Industry insiders and analysts say stores have realized the importance of using private-label goods to differentiate themselves from the competition and grab customers' loyalty.

Historically, lower- and middle-income shoppers have represented the core group for private labels. But researchers have no-

ted that even people earning \$100,000 or more are now turning to them to save cash.

On average, private-label products are 30 percent cheaper than national brands. For some beauty and personal care products, the discount can approach two-thirds, according to Information Resources. Four in 10 shoppers say they are "frequent" buyers of private labels, according to industry data.

At Ralcorp, the St. Louis-based seller of private-label cereal and crackers, sales of breakfast cereals, snacks and frozen waffles all jumped in the just-ended fiscal year.

But the news is not as positive

at Energizer's global headquarters near Maryville University.

The alkaline battery maker saw private-label batteries steal away an extra percentage point of market share in October, according to Citigroup. Private labels now boast more than 15 percent of alkaline battery sales and apparently took market share recently from Energizer and Duracell seller P&G.

Private-label goods still have plenty of challenges. For one, the recession might not help private labels much if shoppers cut back too deeply.

Meanwhile, branded manufacturers still have plenty of power in the marketplace and built-in advantages over private labels.

The big brands have marketing savvy, iconic mascots, built-in brand equity and the loyalty of many shoppers.

They also can offer promotional dollars — "free money" for retailers, said Jain. The taste of some foods and drinks, like Coca-Cola, are difficult to imitate.

Procter & Gamble, one of the world's largest consumer products companies, sounds relatively confident vis-a-vis private labels.

P&G is disproportionately strong in Wal-Mart, which re-

portedly has been de-emphasizing private-label selections in favor of big brands.

P&G Chief Executive A.J. Lafley has boasted that the company has "access to ingredients and formulas" for beauty and household products that private-label competitors "really can't get."

At Vi-Jon, which counts Walmart, Target and Walgreen Co.

among its clients, sales growth was slower than in the last few years.

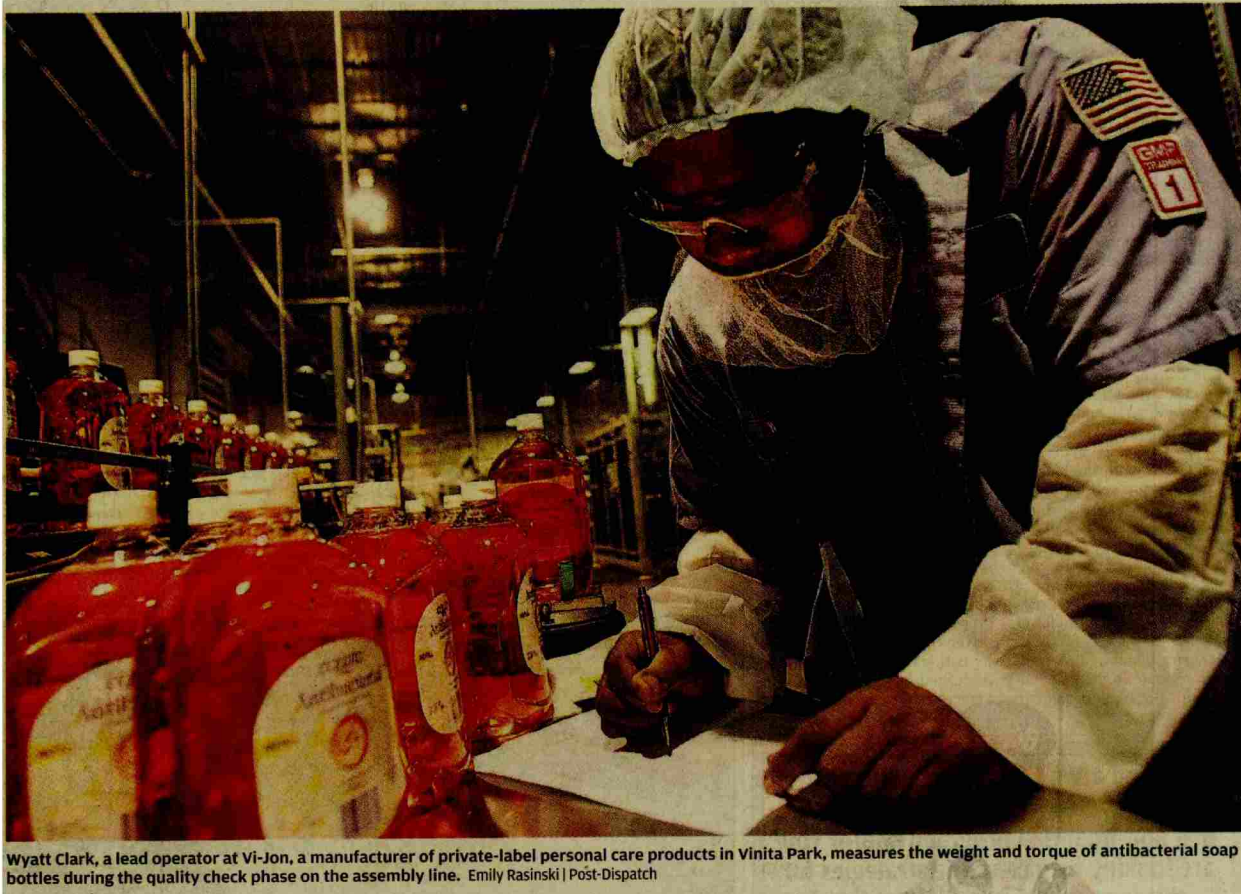
"It's not a fun environment; In fact, it's depressing," said Brunner. Shoppers are pulling back so hard that consumption is down across the board, he said, making gains harder to come by even for private-label manufacturers.

Brunner shies away from say-

ing there already has been a major shift to private labels. But with stores getting behind private labels more than ever, the growth could accelerate next year, he said.

"We're all going to try," he said, "to make that dollar go further."

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Wyatt Clark, a lead operator at Vi-Jon, a manufacturer of private-label personal care products in Vinita Park, measures the weight and torque of antibacterial soap bottles during the quality check phase on the assembly line. Emily Rasinski | Post-Dispatch