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Private brands: They're what's for dinner (and breakfast and lunch)

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Price is only one factor contributing to the rise in popularity of private label brands.

Quick, take a quiz. True or false:

- Shoppers are purchasing more private brands primarily because these products are less expensive.
- Only low-income shoppers tend to believe private brand products are high quality.
- CPG manufacturers should understand private brands' impact on their brands on a national level.

If you answered false, false and false, you are correct.

In research recently completed by Chicago-based Information Resources, Inc., consumers report that their decisions to purchase private brands involve many factors, including their emotional connection to the retailer itself and not simply low price.

More than 78% of both lower-income and higher-income consumers believe that private brand products are typically of excellent quality.

There are three critical views for understanding private brand development —market-level, banner-level and category level. Within each of these views, private brand share can rise as much as 200% to 300% above the national average.

In today's transforming economy, shaped by dramatic changes in energy and food prices, a collapsed housing market and weakened financial system, CPG retailers and manufacturers alike need to throw long-held assumptions out the window and start anew. Nowhere is this more evident than in the private brand market segment.

The salient question is: What will be the role of private brands in the future? Will they continue to gain momentum and share, will they level off in popularity, or will their share decline as the economy improves and people revert to their old shopping habits? To answer these questions, it's important to understand the history of private brands in the U.S.

In 2007, private brands held a 17% market share; today, it's 19% as shoppers have turned to these brands as a way to stretch their grocery dollars. However, it's critical to note that shoppers would not have turned to private brands if they did not consider the total value proposition either equal or superior to national brands. That value proposition consists of many factors, including quality, nutritional value, packaging, assortments and trust in the retailer, as well as price.

The current recession has ignited new interest and steady growth in both unit share and dollar share for private brands.

Recent IRI research finds that 58% of surveyed shoppers believe private brands possess the same quality as national brands. If other facets of the private brand value proposition did not meet shoppers' needs, market share would not have grown, no matter what the price. Retailers identified early in the recession that shoppers were seeking a better total value proposition for a wide range of products and brought those products to market.

To paraphrase the beef slogan: Private brands—they're what's for dinner, as well as for breakfast and lunch, cleaning the house and maintaining wellness. IRI predicts private brands will grow to about 23% of total store share, elevating U.S. shoppers to be the second highest users of private brands in the world, just behind E.U. shoppers.

Private brands are pervasive throughout the home today; they have moved far beyond the brown paper bags with plain black type for bulk quantities of rice. Today, there are private brands for most foods, many beverages, a significant number of OTC medications,

soaps, detergents and a wide range of home maintenance products.

The acceleration of private brand growth raises two critical questions: How should manufacturers react to address erosion of their products' market share and what strategies should retailers pursue to keep the momentum growing? Underscoring the ongoing importance of private brands in the future, recent IRI research notes that the severity of today's economic shocks has created a new "Downturn Generation," of shoppers who are likely to maintain their frugal habits long after the current recession ends.

Managers should focus on four broad strategies to maximize these opportunities:

Rethink each product's competitive position. Manufacturers should study the market to understand how their products can co-exist with private brands, and remember that 84% of U.S. shoppers still focus on trusted brands. Today's CPG manufacturers still own the majority of that trust.

Reconnect with changing shopper behaviors. It is necessary for manufacturers to gain a highly granular understanding of private brand penetration, such as which shoppers buy what products and why in which markets. Shopper acceptance of private brands varies tremendously across the country. Penetration is highest among Western U.S. consumers, with 25.2% market share, as compared with just 19.2% in the Northeast, according to IRI research.

Rewire how to connect with shoppers. Shoppers are managing their grocery budgets by making lists by category and sometimes by brand and researching product and meal information at home, making key decisions prior to entering the store. Managers need to redouble direct shopper marketing at home, communicating why their brand is an essential part of the pantry, medicine cabinet or cleaning supply drawer. They must also embrace new social media tools such as Twitter and Facebook.

Renew knowledge about private brand pricing strategies. Private brand products are no longer simply the low price alternative. While some retailers have adopted this approach, others have aggressively created multiple tiers of private brands, ranging from bargain to premium price points.

Retailers, on the other hand, require a different set of strategies. While 90% of U.S. shoppers included some form of private brand products in their holiday festivities, these same shoppers may be reluctant to abandon the traditional products they have purchased. This could hinder expansion without careful planning and execution.

There is tremendous variance in the maturation of private brands among retailers. Retail managers must clarify and update the value proposition of their private brands to ensure they meet the continuously evolving need of the shopper. Retailers must gain a detailed understanding of different shoppers, determine which shopper needs they can and should meet and then introduce relevant products.

Many retailers need to fill out their private brand lines in two ways: to expand penetration into a wider range of product categories and to position private brand offerings for all income levels and ethnic groups.

The mix of each in the shopper's basket will ebb and flow based on innovation and as the shopper's "lens of affordability" comes into play. Retailers and manufacturers should not think of winners and losers, but of categories as a continuum that includes both private and national brands.

Going forward, private and national brand managers will create unique positioning, displays, assortments that complement each other and recognize the changing needs of shoppers.

While the current recession keeps the door open for increased momentum, the true test of private brand strength will take place when the recession recedes and many consumers revert to their previous attitudes and behaviors.
To be continued ...

As president of innovation and consulting for Information Resources, Inc. (IRI), Thom Blischok leads the company's strategic consulting, thought leadership, innovation and marketing practices.

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