



October 2008

- 03 Executive Summary
- 05 Introduction
- 06 U.S Private Label Market
- 08 U.S. v Europe: Key Market Differences
- 09 Europe Private Label Market: Overview
- 14 Europe: Country- Level Private Label Snapshots
- 20 Conclusions
- 22 Resources

Times & Trends Special Report: U.S. & Europe Private Label 2008

Tapping Market Potential Through Retail Branding

Common Strategies to Meet Challenging Times

Shopper angst has spread from the U.S. around the world, particularly to Europe. CPG manufacturers and retailers in both areas are intensely focused on how shoppers are reacting to today's economic challenges. Their goal is to implement strategies that will help the consumer today and ensure shopper loyalty into tomorrow. Given differences in cultures, tastes and shopping habits, not to mention income levels, ethnicities and trip missions, the strategic options available to manufacturers and retailers are enormous- and complex. IRI believes current economic conditions will continue for at least an additional 12 months in the U.S. and 18 months in much of the EU, too long for a "ride it out" strategy to be feasible.

Across the U.S. and several European countries, shoppers have shown a reinvigorated interest in private label since the economic turmoil began. As reported by IRI in its October report on Private Label in the U.S., approximately 17 percent of CPG dollars are spent on private label offerings. Across European countries, private label share of spending varies, ranging from a high of 32% in the Spain, to a low of 13% in Italy. Though private label share varies, all of the countries included in this report show private label share on the rise.

Private label development in Europe is generally more advanced versus the United States. Across several European countries, the retail marketplace is quite concentrated and hard discounters play a major role in defining CPG trends. These discounters have elaborate private label strategies, including multi-tier product offerings and substantial promotional and merchandising support. In fact, U.S. retailers have historically turned to Europe for inspiration in developing their own private label strategies.

While cultures and traditions differ at the country and even regional level, change is a common thread. Today, change is occurring more rapidly than ever. CPG marketers must continuously survey shoppers to learn their needs, wants, concerns and interests. As CPG marketers, we must align marketing and merchandising strategies to tell the story of the brand and reinforce the brand's inclusion in the shopper's life. Eliciting comments such as, "this is the breakfast food I've eaten in good times, I plan to eat it in bad times as well," is the desired result. Of significant concern to manufacturers, in particular, is the long-term: research has shown that once shoppers move to private label, they tend not to migrate back to brands.

Challenging times create opportunities for the manufacturers and retailers willing to take risks based on a finely-tuned understanding of the shopper. Shoppers will reward those companies that help them justify continued spending on the brands they prefer, while empowering them save money with private label products where it makes sense.

Today's world economy provides a fascinating opportunity to study shoppers. I am eager to continue learning with you as we search for new ways to serve the needs of our customers.



Thom Blischok
President, Consulting & Innovation



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION CPG MANUFACTURERS

INSIGHT

- » Economic conditions in the U.S. and Europe are expected to persist for at least the next 12-18 months; private label is well-positioned to play a major role in satisfying consumers' need for value in the CPG marketplace

- » Private label share and growth varies at the country, market, retailer and category level

- » Sub-branding strategies play a key role in creating appeal and driving trial/adoption across diverse consumer segments

- » The average private label discount versus varies substantially across countries; private label pricing structure is changing in several countries

- » Innovation has been a key private label mitigation strategy for manufacturers, and is becoming more critical as private label trial activity increases

ACTION

- » Brand manufacturers must re-evaluate pricing strategies to ensure alignment against the value needs of key consumer segments

- » Build trial and/or repeat purchase within categories that demonstrate growing private label threat through BOGO and multi-unit promotions

- » Mitigate private label gains with targeted promotions against high-priority consumer segments supported by solutions-based merchandising

- » Invest to identify optimal price gap versus private label; carefully test price changes prior to rollout

- » Continue to focus on innovation and brand positioning strategies



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION CPG RETAILERS

INSIGHT

- » Economic conditions in the U.S. and Europe are expected to persist for at least the next 12-18 months; private label is well-positioned to play a major role in satisfying consumers' need for value in the CPG marketplace
- » Private label share and growth varies at the country, market, retailer and category level
- » Sub-branding strategies play a key role in creating appeal and driving trial/adoption across diverse consumer segments
- » The average private label discount versus varies substantially across countries; private label pricing structure is changing in several countries
- » Innovation has been a key private label mitigation strategy for manufacturers, and is becoming more critical as private label trial activity increases

ACTION

- » Retailers should support private label initiatives with feature ads and display-based merchandising to raise awareness among prospects seeking low-cost in-category alternatives
- » Invest to understand core private label needs across key consumer segments; tailor offerings at the market/store level to maximize relevance among key consumer segments
- » Understand core private label needs across key consumer segments; develop highly targeted promotional campaigns; continually track consumer response to enable mid-program modifications
- » Continually re-evaluate pricing strategies at the market and store level to assure alignment with store goals and to maximize value proposition among key consumer segments
- » Analyze product development best-practices across departments and categories to identify low cost private label innovation opportunities



INTRODUCTION

The evolution of the world private label markets has accelerated in the face of intense financial turmoil.

Turmoil in world financial markets has had a profound impact on U.S. and European CPG markets. CPG marketers are faced with escalating manufacturing costs and dwindling profit margins; channel migration activity has escalated, and consumer shopping attitudes and behaviors are shifting rapidly in the face of economic uncertainty.

Throughout the economic crisis, private label CPG products have played a major role in consumers' survival strategies.

Retailers have relied heavily on private label as well. In fact, retailers in the U.S. and Europe are increasingly leveraging store brands as a key aspect of their differentiation strategies.

But, private label development varies drastically at the country, market, retailer and category level.

The variations are a result of a number of factors. For instance, countries with a highly concentrated retail structure tend to have higher private label share positions. Dominant retailers have the brand equity and consumer loyalty necessary to build private label trial and adoption.

Category dynamics are also at play. Some categories are dominated by a select few brands. These brands have great equity, and invest

heavily in branding and promotion. Innovation tends to be high, and private label share tends to be lower.

While category and country dynamics play a major role in setting private label boundaries, retailer strategies are not to be overlooked. Retailer strategies have been shown to have a profound impact on private label share.

With financial conditions not forecast to improve for at least another 12 months in the U.S. and even longer in Europe¹, this is could be a defining year for private label. As illustrated in the *Journal of Marketing, 2007*, private label growth tends to grow disproportionately in times of economic unrest, and tends not to contract afterward². In a Transforming Economy, private label is well-positioned to compete, and brand manufacturers must be ready for battle.

This report provides insight into current and emerging private label trends in the United States and Europe that will enable manufacturers and retailers to develop and execute private label strategies that align with overall corporate goals while simultaneously addressing the rapidly changing needs of shoppers in crisis.

¹European Commission
Economic & Financial
Affairs

²*Journal of Marketing, 2007*;
Lamey, Deleersnyder,
Dekimpe & Steenkamp



The U.S. private label market has reached a pivotal point in its development, and retailers have turned up the heat with respect to product development and promotion.

UNITED STATES PRIVATE LABEL SHARE TRENDS

Over the past several years, private label has consistently accounted for about 16% of U.S. CPG spending and one-fifth of products purchased. Though not remarkable, the growth trend has been slightly positive each of the past four years. This past year has seen escalating growth rates as consumers increasingly turn to private label in order to save money on packaged goods.

Retailers are helping to fuel private label growth with new strategies including more distinctive, premium labels, innovative packaging, in-store merchandising, and even feature ad support.

For example, Target's Archer Farms brand has implemented innovative cereal packaging. This summer, Archer Farm's introduced a slim oblong-shaped cereal

canister that stores neatly in a cabinet and features a reclosable lid.

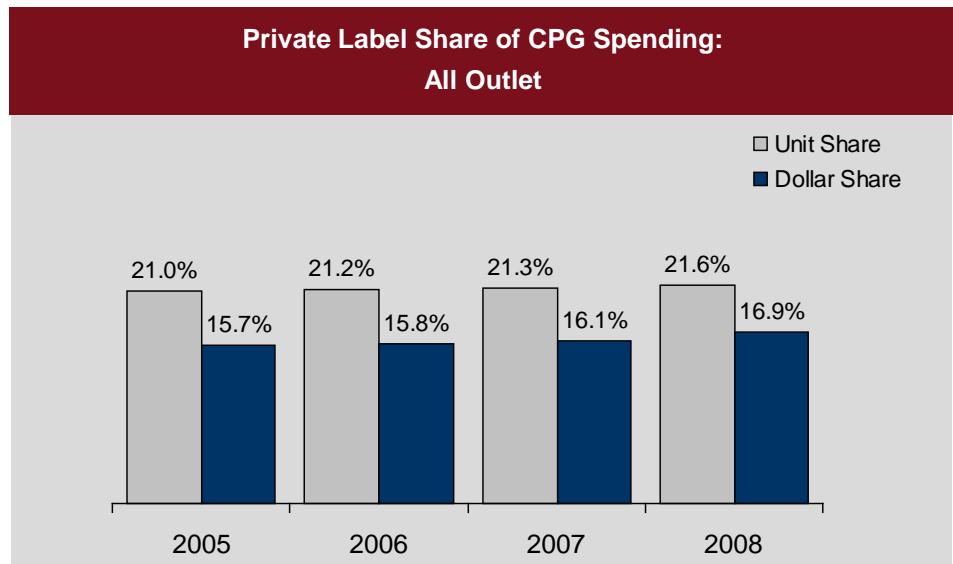
Efforts such as these are successfully changing consumer perceptions of private label. No longer is private label seen as a low cost alternative to brand name products. Consumers increasingly believe that private label offerings are as good, sometimes even better, in quality as their brand name counterpart.

Kroger and Safeway are examples of private label's growth; each have private label shelf penetration of about 25%¹. But private label share growth is happening across retail channels. With ready access to consumer attitudes and behaviors vis-à-vis private label offerings, retailers are well-positioned to drive trial and adoption bringing private label share to new highs.

Private label share growth has accelerated across all income segments over the past year as consumers struggle under intense economic pressures.

IRI, *Transforming Economy: Shoppers in Crisis*

¹ Company Web site; PLMA



Source: IRI Consumer Network™; 52 weeks ending 9/7/2008 and same period prior years



The average discount offered by private label products varies greatly by department.

UNITED STATES PRIVATE LABEL PRICE DISCOUNT BY DEPARTMENT

On average in the United States, private label products cost about 30% less than their brand name counterpart. That discount varies greatly, though, at the department level.

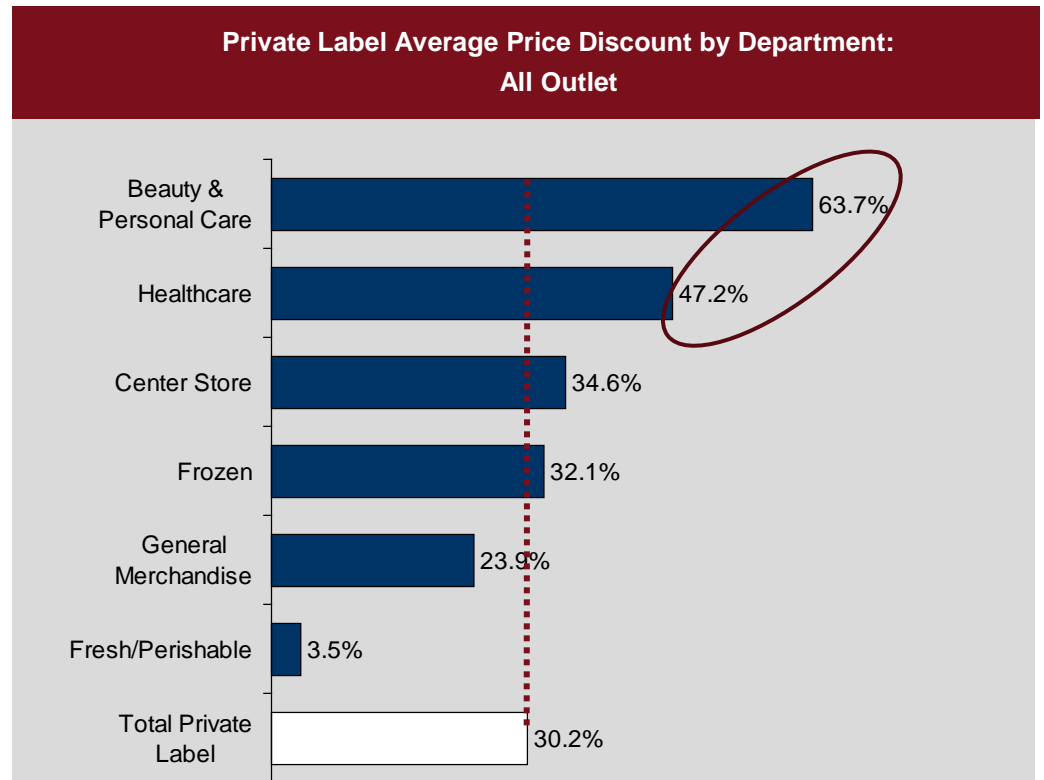
As illustrated in the chart below, for instance, the average private label fresh/perishable item costs only 3.5% less than its branded counterpart.

In the beauty/personal care department, though, private label buyers will save nearly 64% versus branded, on average. The difference is rather remarkable. Private label healthcare products also offer a sizeable, yet less drastic, price gap.

Much of the price gap can be explained by the high cost of innovation in beauty/personal care and healthcare.

Research and development, testing and even packaging are quite costly, and, in the end, most new product ideas actually fail. Those that succeed must shoulder the burden of cost of their own development as well as the cost of those that were not as successful.

Retailers and manufacturers must be on the alert for innovation that works. The key is to watch innovation in every category and across every department. Wherever possible, import proven ideas from other categories- even those from other departments- to create in-category differentiation, then tailor the product to the specific need of the category's key consumer segments.



Source: IRI Consumer Network™; 52 weeks ending 9/7/2008



Widespread adoption of key European private label strategies may lead to a metamorphosis within the U.S. private label market.

U.S. vs EUROPE KEY MARKET DIFFERENCES

Key market differences between the U.S. and Europe have led to substantial differences in the level of private label development and growth. Some of these influences are structural, and will not change significantly in the foreseeable future. Others are more strategic in nature, and are increasingly being adopted by major U.S. retailers.

In the near future, it is not likely that the U.S. private label market will be able to completely close the gap between private label share in this country versus European countries with well-developed private label programs. But, as these strategies gain traction in the U.S., and as European retailers such as Tesco build presence in the U.S., the country's private label marketplace will undergo a startling metamorphosis.

Following is an overview of relative private label development, key market differences, and lessons from Europe that may be implemented by U.S. retailers. The section that follows provides a more detailed look at European private label trends.

Private Label Development

An analysis of 35 leading CPG categories within the grocery channel across countries places U.S. private label share at 17% -- nearly half the level of private label share in Spain and Germany, and nearly ten points below share in France, The Netherlands and the UK.

Key Market Differences

Structural differences between the U.S. and high-share European countries are contributing heavily to the share discrepancies. First, retail concentration is much higher, providing leading European retailers with the scale to drive operational efficiencies and the brand equity to gain trial and loyalty. Second, a far greater presence of hard discounters has created an urgent competitive need for value brands.

In addition, European retailers have implemented sophisticated private label strategies that have broadened appeal across consumer segments and across a broader range of categories than in the U.S.

Lessons from Europe

Sub-branding, under high-equity umbrella brands (which are typically the retailer's name), has been critical to European private label success. Sub-brands include both tiered offerings and niche market lines.

We are beginning to see major U.S. retailers adopting similar strategies. For example, Supervalu's "Own Brands" initiative is a major focus going forward. The multi-tiered private label line has its own Web site, 39,000 SKU's, and it is gaining ground¹. Our Brands will continue to be an integral part of Supervalu's value message going forward¹. Kroger and Safeway are also major private label players; each have above average, and growing, private label share.

¹Private Label Buyer, 09/08



Retailer concentration and strategic sub-branding strategies have brought solid private label development across many European countries.

EUROPE PRIVATE LABEL DEVELOPMENT BY COUNTRY

Private label development varies markedly at the country level. As illustrated in the chart below, private label is much more entrenched across most studied European countries versus the United States, with Italy being the exception. Despite escalating U.S. growth over the past year, European growth rates are outpacing the U.S. market in each of the six countries analyzed.

High levels of private label development and growth stem from several factors.

Retail concentration: In several European countries, such as Spain and the United Kingdom, a limited number of retailers exert an enormous influence on the retail marketplace. As illustrated later in this report, several of these key retailers are in the midst of executing intense private label expansion programs. Not surprisingly, the effect on the overall private label market has been powerful.

Hard Discounters: Hard discounters

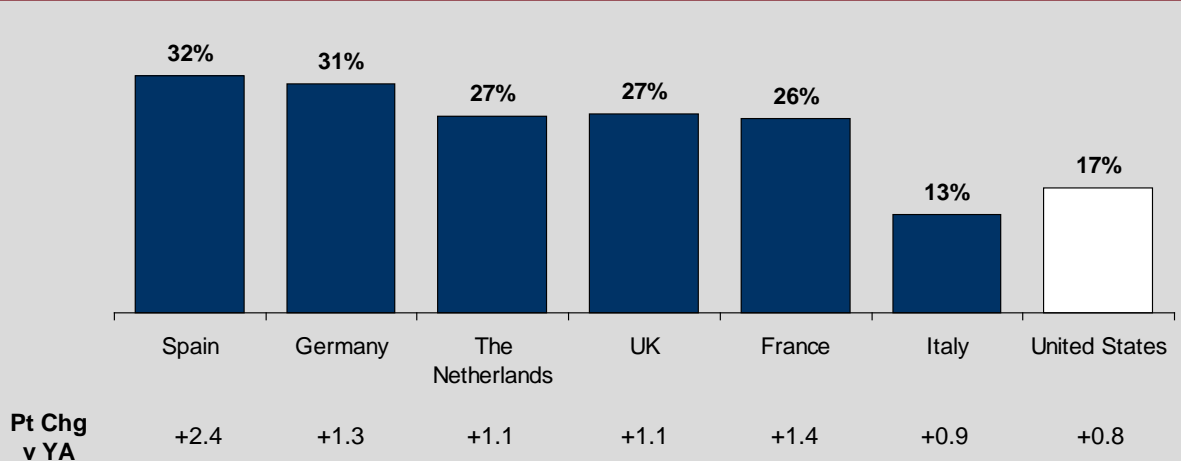
such as Lidl continue to play a critical role in the development of European private label. With 7,000 stores across 17 countries, the retailer's heavy private label focus does not go unnoticed. Hard discounters hold a strong presence in several European countries, including The Netherlands and France¹.

Sub-Branding Strategies: Leading retailers across Europe continue to leverage sub-branding strategies in order to maximize private label appeal across broad segments of the consumer arena. The most popular sub-branding strategies are illustrated on the next page.

Economic Downturn: Like the United States, European countries are being hard hit by economic pressures. Private label is playing a critical role in enabling consumers to stretch CPG dollars further by presenting substitutions within the category rather than forcing consumers opting out completely in order to reduce expenditures.

Leading CPG Categories*

2008 Grocery Channel Private Label Dollar Share by Country



*Based on 36 of the largest CPG categories across the countries studied.

Source: IRI Consumer Network™; 52 weeks ending 9/7/2008; IRI InfoScan
¹ Europanel



EUROPE SUB-BRANDING STRATEGIES

Sub-branding strategies have significantly extended private label reach within European markets.

EUROPEAN PRIVATE LABEL SUB-BRANDS: KEY SEGMENTS

I. QUALITY

Value: Entry price points; appeal to consumers with low disposable income; examples include Tesco's 'Value' brand (U.K.), Carrefour's '1' (France, Spain), and Euroshopper (The Netherlands)

Regular: Positioned as comparable to leading national brands

Premium: Gourmet and regional products; exclusive packaging; examples include Sainsbury's 'Taste the Difference' (U.K.) and Albert Heijn's 'Excellent' brands (The Netherlands)

II. HEALTH AND WELLNESS

Health Claims: Offer specific health benefits, such as low fat, low salt, etc.; front-of-packaging nutritional labels common; examples include Albert Heijn's four-leaf clover system (The Netherlands), and Waitrose's traffic-light labeling (U.K.)

Free From: Products targeting consumers with food intolerances to ingredients such as gluten, wheat and milk; examples include Tesco's 'Free From' line and Coop Italy's 'Senza Glutine'

Functional Foods: Products offering health and wellness benefits beyond basic nutrition; examples include Tesco (U.K.) and Champion (France) products with cholesterol-lowering benefits

Children's Healthy Products: Products low in fat, sugar and salt designed to provide a balanced diet for children; examples include Tesco 'Kids' and ASDA's 'Great Stuff' (both U.K.)

III. ETHICAL

Organic: Organic products addressing both health and environmental concerns, such as Sainsbury's 'So Organic' (U.K.)

Fair Trade: Products guaranteeing that a fair price was paid to producers, including Tesco's 'Fair Trade' (U.K.)

Source: Adapted from *Private Labels in Europe*, by Koen A.M. de Jong, 2007; The Netherlands- Albert Heijn



Private label price discount varies across European countries; economic conditions are heavily impacting pricing strategies.

EUROPE PRIVATE LABEL PRICE DISCOUNT

Price is a major driver of private label trial and adoption. Turmoil in world financial markets has served to amplify the impact of price on consumer attitudes and behavior.

Across countries, private label offers substantial discounts versus nationally branded products. The United Kingdom demonstrates the largest price gap, at 51%, while the private label discount is smallest in Italy, at 21%.

Price gap variations are shifting across Europe, partly because retailers are attempting to navigate difficult economic times. Though overall CPG prices are rising, price increases among private label goods are occurring at a much higher rate.

In Spain, for instance, private label prices are climbing at twice the rate of CPG products as a whole.

The other force behind private label price gap fluctuation is the degree and rate of development among multi-tiered private label lines. Again, variations occur at the country level.

In France and Germany, for example, private label growth is being driven by premium-level private label offerings. In contrast, value- and economy- level private label is driving overall private label growth in the United Kingdom.

Private Label Pricing Among Leading CPG Channels Grocery Channel

<u>Country</u>	<u>PL \$ Share</u>	<u>PL Discount vs Branded</u>
Italy	13%	(21%)
UK	27%	(51%)
France	28%	(40%)
The Netherlands	27%	(25%)
Germany	31%	(30%)
Spain	32%	(38%)
United States	17%	(30%)

Source: IRI Consumer Network™; 52 weeks ending 8/24/2008 and same period prior year; IRI InfoScan

Note: Price gap analysis based on price per volume among select key CPG categories



Private label is well-entrenched across staple CPG categories.

EUROPE CROSS-COUNTRY DEVELOPMENT: STAPLES

Across key staple CPG products, private label is quite well-entrenched. As illustrated below, private label is above CPG average across nearly all categories in every country studied, except Germany. German data shown below are abnormally low because Aldi, the dominate player in the German market, is not included.

The exception to this trend is the United Kingdom's bread & rolls category. In the UK, white bread has long been a staple food in the British diet. But, in fact, white bread consumption has fallen at double digit rates over the past several years.

In contrast, consumption of brown and wholemeal bread has skyrocketed over the same period¹. The change is largely attributed to increased awareness of health benefits of these types of breads.

High innovation levels vis-à-vis brown and wholemeal bread products have served to thwart private label's hold on the UK's bread & rolls category.

Innovation has been equally powerful in the United States, as detailed in IRI's October 2008 Times & Trends, *Private Label 2008: Shopping Patterns Shift in a Transforming Economy*. In fact, innovation has been a key private label mitigation strategy in the United States for several years.

Shown below, the toilet tissue category, historically a commodity category, has seen much innovation over the past several years. As a result, private label share of toilet tissue sales is below averages, and is actually flat versus 2005.

**Grocery Channel 2008: Private Label Value Share by Country:
"Staples" Categories**

	<u>FRANCE</u>	<u>GERMANY*</u>	<u>THE NETHERLANDS</u>	<u>ITALY</u>	<u>SPAIN</u>	<u>UK</u>	<u>US</u>
Bread & Rolls	30%	9%	43%	26%	36%	22%	27%
Frozen Vegetables	65%	38%	50%	54%	70%	N/A	39%
Milk	40%	54%	57%	13%	35%	74%	63%
Natural Cheese	35%	NA	42%*	17%	37%	59%	40%
Paper Towels	56%	24%	60%	33%	69%	60%	19%
Toilet Tissue	60%	55%	53%	23%	68%	46%	14%
Total Top CPG	26%	31%	27%	13%	32%	27%	17%

Source: IRI Consumer Network™; 52 weeks ending 8/24/2008 and same period prior year; IRI InfoScan

¹ Source: Farmers Guardian, June, 2008

* In The Netherlands, the Natural Cheese category includes both Natural and Processed Cheese categories; Germany's category-level analysis excludes Aldi

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



Heavy brand investment has mitigated private label share gains across countries.

EUROPE

CROSS-COUNTRY DEVELOPMENT: LOW-SHARE CATEGORIES

In some categories private label development is below average. In these categories, large multi-national manufactures are clearly dominant players.

Examples include carbonated beverages, cereal, coffee and laundry detergent. Within these categories, brand investment, in terms of promotion and innovation, is significant.

As reported in last year's report, Spain represents a notable exception to this trend. In Spain, private label penetration of cereal, coffee and laundry is significantly

higher versus other studied European countries, though still below category average.

The strength of private label within these categories can be attributed largely to the dominance of two major retailers, Mercadona and Dia. Both have well-established private label lines, and play a major role in the country's private label marketplace.

Grocery Channel 2008: Private Label Value Share by Country: Low Share Categories

	<u>FRANCE</u>	<u>GERMANY*</u>	<u>THE NETHERLANDS</u>	<u>ITALY</u>	<u>SPAIN</u>	<u>UK</u>	<u>US</u>
Carbonated Beverages	7%	5%	14%	5%	10%	9%	8%
Cereal	20%	13%	21%	6%	31%	20%	10%
Coffee	15%	6%	26%	5%	26%	16%	13%
Laundry Detergent	10%	6%	15%	6%	29%	N/A	5%
Total Top CPG	26%	31%	27%	13%	32%	27%	17%

Source: IRI Consumer Network™; 52 weeks ending 8/24/2008 and same period prior year; IRI InfoScan
 *Germany's category-level analysis excludes Aldi

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



Private label performance in France is strong, particularly across food and beverage categories.

EUROPE FRANCE

With just over 26% share of CPG spending, private label is very well-entrenched, and growing, in France. As is the case in many countries, private label traction is intensifying as French consumers struggle in difficult economic times.

In fact, as the chart below and to the right indicates, an analysis of leading CPG products reveals that very few private label categories are actually losing share.

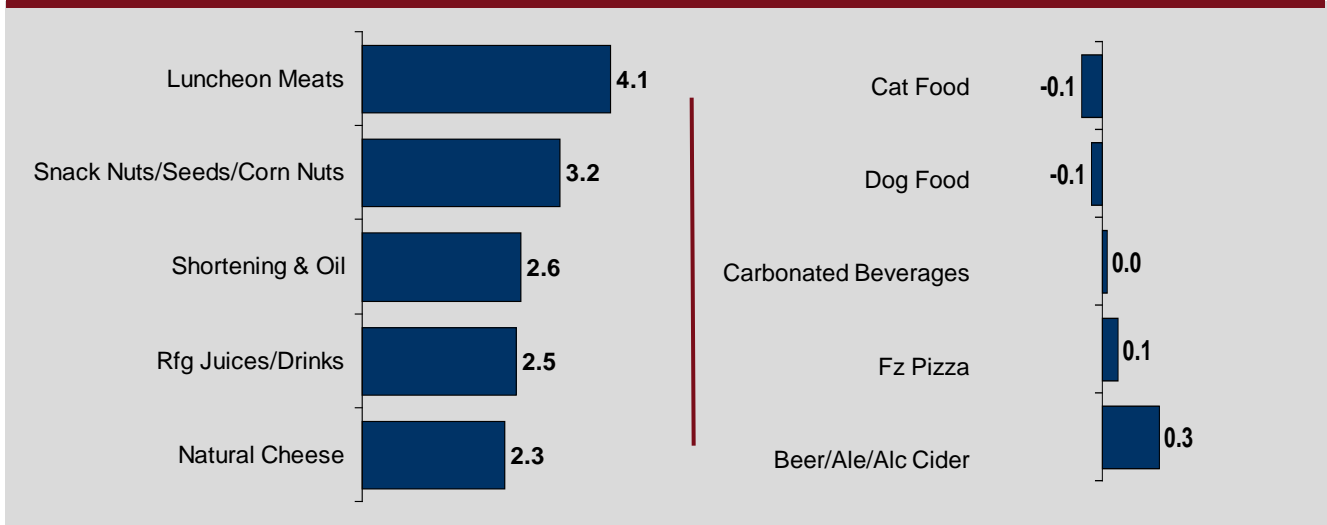
To the contrary, private label share gains are quite strong across many key categories. Shown in the left chart below, food categories are big winners for retailers touting private label offerings. Among the leading CPG food categories studied, private label posted positive gains across the board.

As reported in IRI's French Case Study, *Impact of Crisis on Consumer & Shopper Behavior*, the bulk of private label share gains are coming from premium-tier private label offerings.

Like consumers elsewhere, French consumers have adopted a very conservative shopping mentality. Purchases that can be put off, are being put off. And, shoppers are looking for less expensive alternatives to necessary items. While consumers are willing to trade in order to save, perceived quality is a critical consideration in product selection.

Health and beauty/personal care products and home care products are being hard hit by these behavior changes. These products are taking a back seat to more pressing items, such as food and beverages, as consumer look to cut costs wherever possible. While branded products are struggling, private label is performing well in these departments. For example, laundry detergent and paper towels each experienced volume declines this past year. Private label, though gained value and volume share in each of these categories.

**FRANCE: Grocery Channel Private Label Value Share Point Change
Leading CPG Categories with Largest Private Label Gains/Losses**



Source: IRI InfoScan, 52 weeks ending 8/24/2008 and same period prior year; IRI's "Impact of Crisis on Consumer & Shopper Behavior", June 2008 (A French Case Study)

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



In the German market, premium-tiered private label offerings are fueling sector growth.

EUROPE GERMANY

Private label in Germany is strong, with an estimated 31% share of the CPG market.

At its inception, German private label offerings were limited to economy-tiered products. Over time, though, private label lines have been extended to include mid-tier and some premium-tier offerings as well. It is the premium end of the spectrum that is fastest-growing today.

Hard discounters dominate private label in Germany.

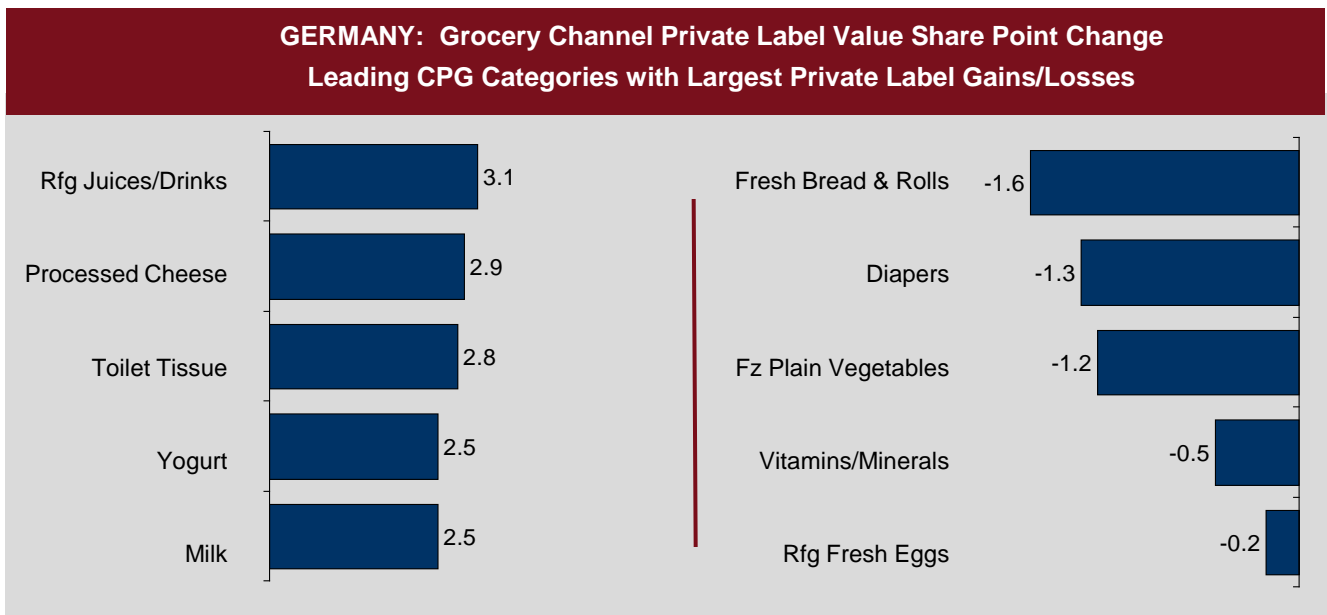
Aldi is a clear market leader in German private label, boasting an estimated 20% share of the market. About 90% of Aldi sales are derived from its private label offerings, and the retailer continues to heavily leverage innovation as a growth driver.

Lidl is another hard discounter with a formidable private label presence. Lidl garners about 50% of its sales from private label product lines.

Retailers Rewe and Edeka play heavily in on the economy- and mid-tier end of Germany's private label spectrum. With premium offerings growing quickly, though, the retailers are poised to enter this segment of the market in the near future.

Private label growth transcends a broad range of CPG products. As illustrated below, private label food offerings are faring well in Germany's transforming economy.

Growth is expected to continue at a steady pace, fed by economic struggles and innovation at the high end of the private label spectrum.



Source: IRI InfoScan; 52 weeks ending 8/24/2008 and same period prior year; "Is Own Label Putting the Squeeze on Brands?"
Note: Category-level analysis for Germany excludes Aldi

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



The Italian private label market is experiencing escalating growth rates; growth has been at double-digit rates throughout 2008.

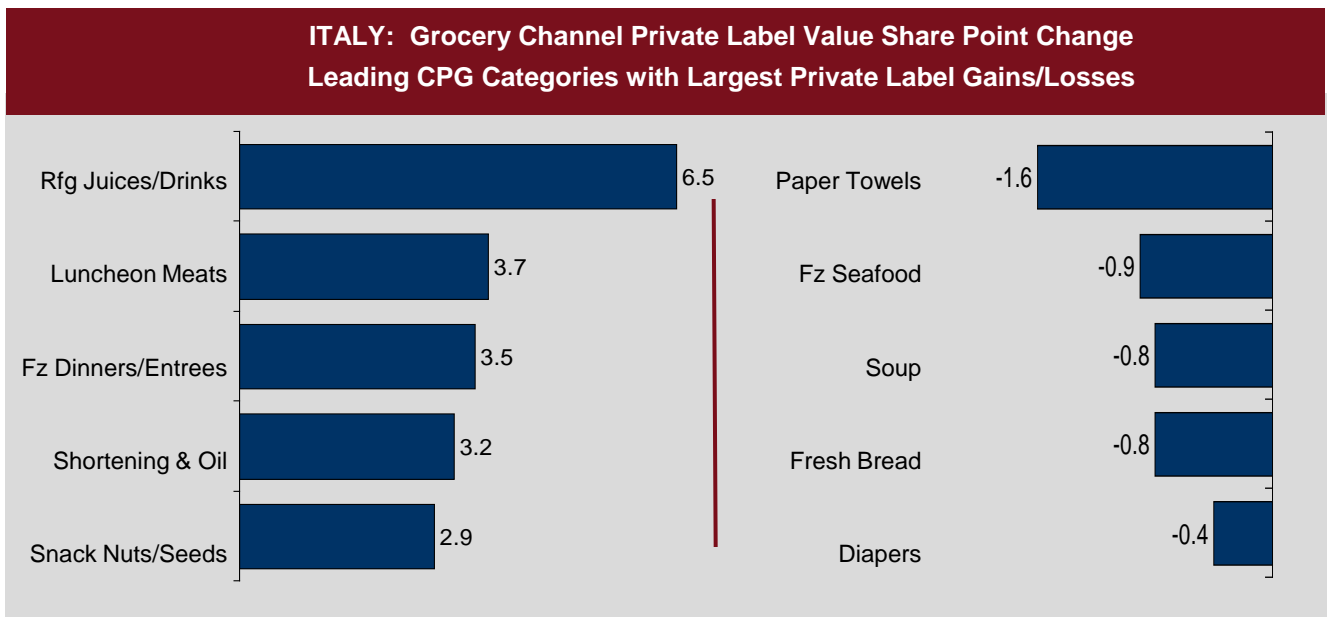
EUROPE ITALY

Though private label penetration is lower in Italy versus other European countries studied, the Italian private label market is currently experiencing double digit growth rates.

CPG marketers in the Italian marketplace are increasingly focusing on private label as a key differentiation strategy. Private label offerings are expanding rapidly, and are frequently offered in a tiered fashion, ranging from premium-level products to the low-price value line. Within Italy, though, premium-level lines are seeing increased emphasis in attempt to drive appeal among wealthier shopper segments.

The economy is also a major driver of private label's share growth. For example, the chart below and to the left highlights key growth categories in Italian private label. Not surprisingly, many of these categories are key meal component and ingredient items. As is the case in many countries today, Italian shoppers are struggling to reduce expenditures in the face of difficult economic conditions. With an average price discount of 21% versus national brands, the value offered by private label has broadened appeal quickly over this past year.

Private label development will benefit from increased focus and penetration in the foreseeable future.



Source: IRI InfoScan; 52 weeks ending 8/24/2008 and same period prior year; "Is Own Label Putting the Squeeze on Brands?" (Case Study, August, 2008)



With clear market dominance, Albert Heijn plays a major role in the Netherlands's private label arena.

EUROPE THE NETHERLANDS

Private label has existed in The Netherlands for several decades. Initially, private label focused on what is today known as mid-level brands; these products were perceived to be of lesser quality and were sold in generic packaging.

Circa 2004, the country's leading retailer, Albert Heijn, introduced a premium level of private label products. For several years, Albert Heijn was the only retailer to offer premium private label arena, and was able to gain a strong foothold in the country's private label marketplace. In 2007, other players entered the market, and private label offerings grew to include budget, value and premium offerings.

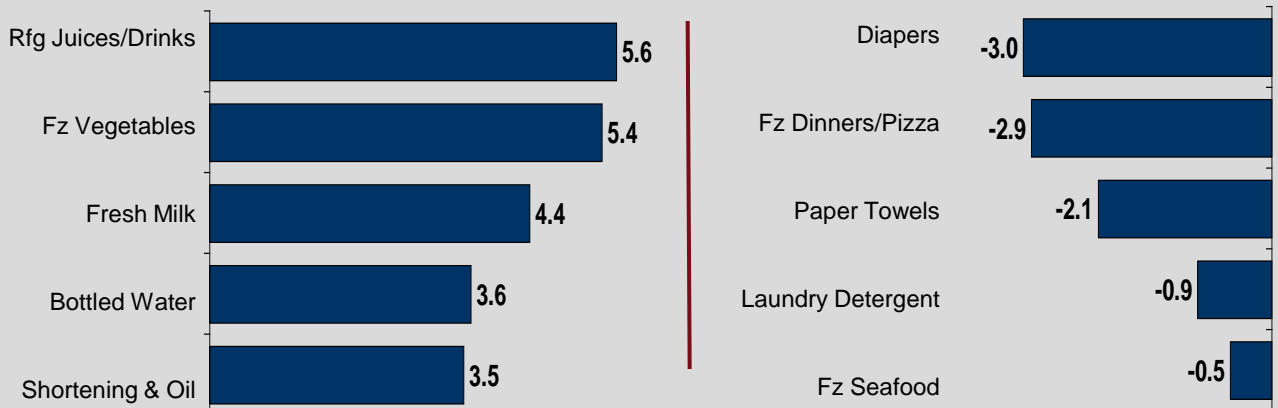
Albert Heijn remains a clear leader in the Netherlands's private label market, in terms of size and innovation. The retailer's dominant position in the CPG marketplace serves to fortify its brand equity image as well as consumer loyalty.

Currently at 35% of CPG sales, the Netherlands's private label market is gaining one share point annually. As depicted below, several categories are outpacing the average growth rate by a wide margin.

Much of the growth of private label is in categories where innovation is weak and/or difficult. For example, milk and frozen vegetables are commodity categories in The Netherlands.

Refrigerated juices/drinks is an interesting category. Much of the juice in The Netherlands can be refrigerated for up to three weeks. Private label offerings, largely made available through Albert Heijn, have a much shorter shelf life. Private label juices are viewed quite differently versus their branded counterparts. Innovation in private label juice is high, and private label refrigerated juices are really viewed as a category separate from national brands.

THE NETHERLANDS: Grocery Channel Private Label Value Share Point Change Leading CPG Categories with Largest Private Label Gains/Losses



Source: IRI InfoScan; 52 weeks ending 9/7/2008 and same period prior year

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



Mercadona's geographic expansion is playing a key role in the growth of the Spanish private label marketplace.

EUROPE SPAIN

Of the European countries analyzed in this report, private label share of CPG spending is highest in Spain. Private label performance is quite strong in Spain, with share points climbing two points this year, to 32%.

The structure of the Spanish CPG market is fairly concentrated. Mercadona, a local Supermarket giant, is clearly a dominant player.

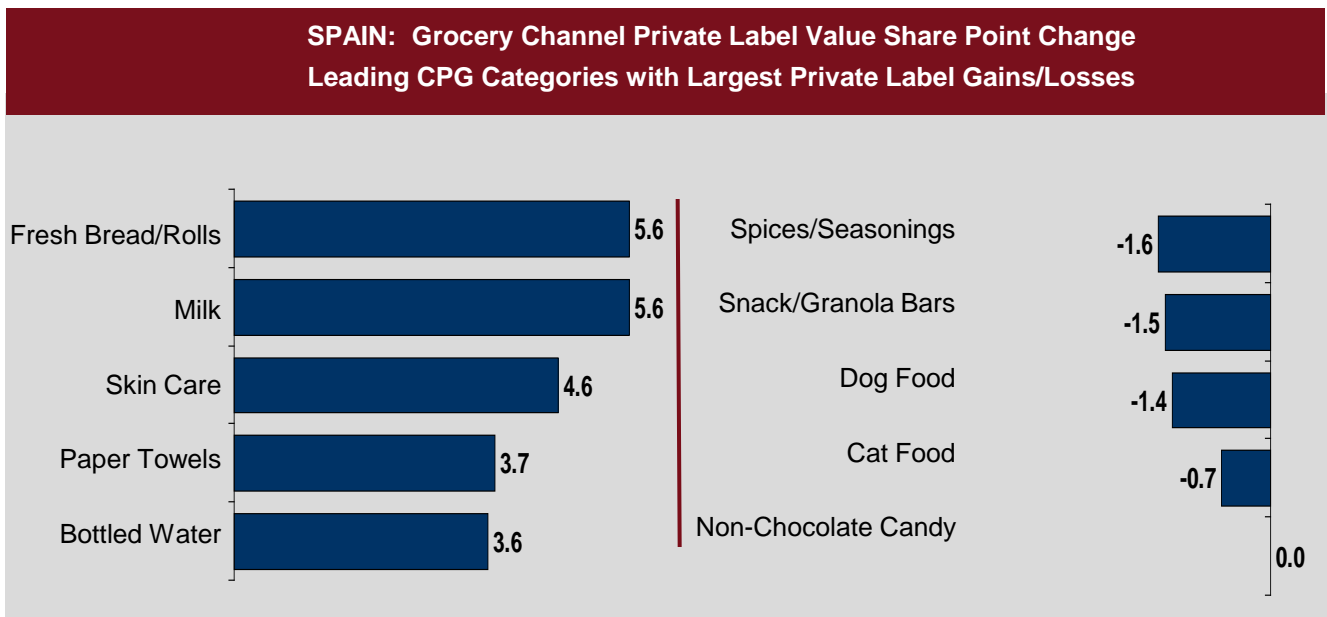
Over the past year, Mercadona has been executing a huge geographic expansion. With private label representing 50% of Mercadona store sales, the impact on the country's private label market has been, and will be significant.

Price is also playing a major role in spurring private label growth in Spain. With an average price discount of 38% versus national brands, private label is poised to win amid difficult economic conditions.

Private label's low price point has also been favorable to Spanish retailers during this recent economic crisis. Because private label goods in Spain are so much less versus their brand name counterpart, retailers have been able to absorb cost increases and maintain margins by raising the prices of private label goods, and still not impact market share performance.

As illustrated in the chart below and to the left, private label share among top CPG categories has been growing at a healthy rate.

Beyond price and market concentration, growth is attributable to an extension of private label lines. Across several key retailers, including Alcampo, Caprabo and El Corte Inglés, value- and economy- tier offerings have been extended. Consumer response has been favorable, and retailers are winning share.



Source: IRI InfoScan; 52 weeks ending 7/29/2008 and same period prior year

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



In the UK, private label growth is strongest in value- and economy-tiered private label products, at the expense of premium offerings.

EUROPE UNITED KINGDOM

With an estimated 27% share of CPG spending, private label is well-entrenched and growing in the UK marketplace. In fact, private label gained 1.1 points over the past year.

UK private label growth is being driven by a number of factors. First and foremost, Sainsbury and Tesco, both major players in the UK CPG arena, have invested heavily in private label over this past year.

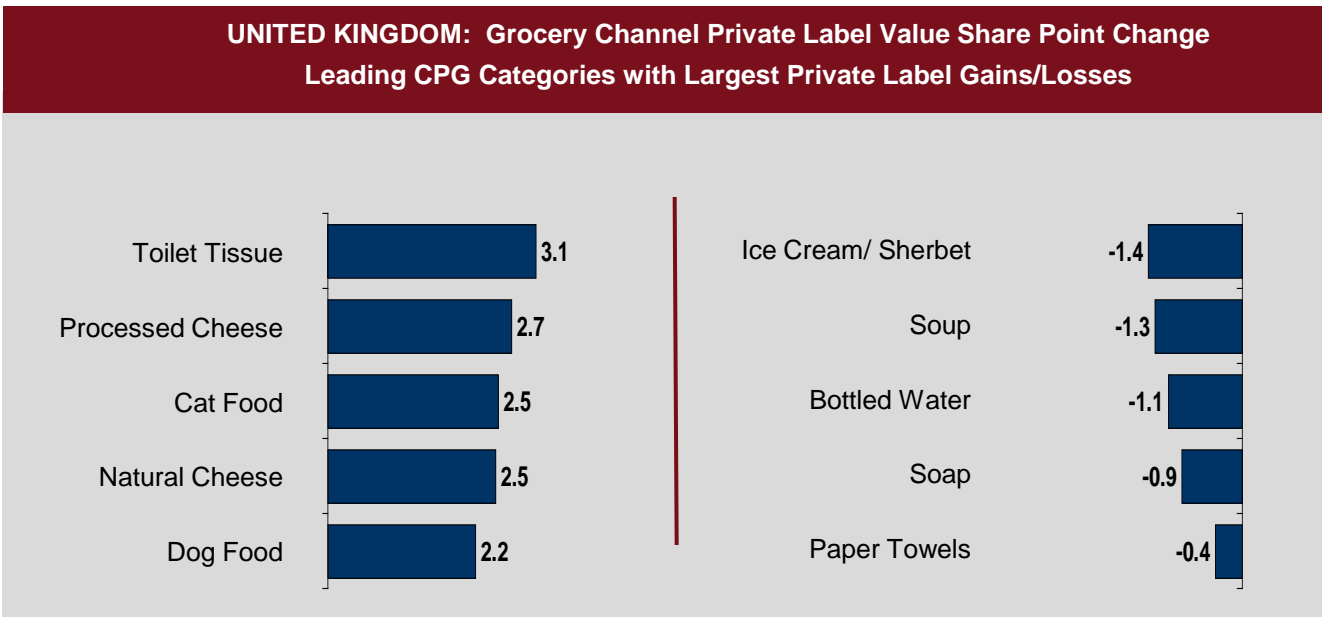
Sainsbury, for example, recently launched a huge cross-media promotional campaign themed “Switch & Save”. The campaign focuses on the ability of the store brands to significantly reduce grocery expenditures without sacrificing quality.

Sainsbury boasts positive results from their efforts, reporting a recent survey which reveals that 53% of their shoppers feel that national brands are losing importance, and 73% are satisfied with private label alternatives.

Tesco, another major UK retailer, also launched a major private label initiative, including online and TV promotional support, as well as several new private label product rollouts.

Private label is serving UK retailers well. Because private label in the UK is significantly lower versus nationally branded counterparts, retailers have been able to raise prices, and margins, without sacrificing share gains. Branded manufacturers, however, have been forced to limit price increases and absorb more of the cost increases in order to remain competitive.

As illustrated below, private label share gains cut across departments, and share losses are limited to a small share of CPG categories. Much of the growth stems from value -and economy-tiered products, at the expense of premium private label offerings.



Source: IRI InfoScan; 52 weeks ending 9/7/2008



CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to develop effective brand strategies vis-à-vis private label should consider the following action items:

- » Continually identify and assess brand-specific opportunities and risks with respect to private label
 - Invest to identify optimal price gaps versus private label
 - Build trial and/or repeat purchase within categories that demonstrate growing private label threat through BOGO and multi-unit promotions
 - Explore expanded distribution opportunities across channels and retail accounts with low private label development

- » Refine competitive strategies vis-à-vis private label
 - Re-evaluate pricing strategies to ensure alignment against needs of key consumer segments
 - Invest in product and packaging innovation within categories that demonstrate growing private label presence
 - Assess feasibility of multi-tier offerings across key categories/product lines, either alone, or in partnership with key retailer accounts

- » Continually measure and monitor share shifts
 - Test-market product, pricing and promotion changes prior to roll-out
 - Track and benchmark store-level shifts relative to private label among key retail partners
 - Mitigate private label gains with targeted promotions against high-priority consumer segments; support promotions with solutions-based merchandising



CONCLUSIONS CPG RETAILERS

Retailers seeking to grow private label share should consider the following action items:

- » Continually identify and assess private label opportunities and threats
 - Invest to understand core private label needs across key consumer segments
 - Tailor private label offerings at the market level
 - Support private label with highly targeted marketing campaigns, including in-store display and feature ad initiatives

- » Continually refine private label development strategies
 - Evaluate feasibility of multi-tier offerings across key categories/product lines, either alone, or in partnership with brand manufacturer partners
 - Continually re-evaluate pricing strategies at the market and store level to assure alignment with store goals and to maximize value proposition among key consumer segments
 - Analyze product development best-practices across departments and categories to identify low-cost private label innovation opportunities

- » Measure and monitor share shifts on an on-going basis
 - Test-market product, pricing and promotion changes prior to roll-out
 - Track and benchmark store-level private label share shifts relative to national brands
 - Create targeted promotions against high-priority consumer segments; support with solutions-based merchandising



RESOURCES

To gain insight into opportunities across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI Consumer Network™

Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.

IRI AttitudeLink™

IRI's custom survey capability that can be executed via email, telephone or Internet; the ability to link attitudes with actual purchase behavior enables clients to track sales across custom attitudinal segments.

IRI's Private Label 2009: Understanding Emerging Trends & Key Success Factors In Private Label

Coming in early 2009... IRI's Consulting & Innovation team will release its latest thought leadership report focused on emerging trends and key success factors in private label. The broad-based report analyzes the U.S. private label marketplace from the viewpoint of consumers, retailers, and manufacturers. This report represents the culmination of comprehensive primary and secondary research and uncovers emerging opportunities for both retailers and manufacturers. From a full four-year analysis of proprietary scan data, the report provides the latest private label share and volume growth performance across retail channels as well as food, beverage, and nonfoods categories. Much of the report is built upon a proprietary shopper survey which provides private label shopper insights across key consumer segments and categories. Also included is a series of best-in-class retailer case examples based upon proprietary trade interviews with retailers and manufacturers.

For more information, contact Sean Seitzinger at sean.seitzinger@infores.com

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>>> MORE INFORMATION

In the United States: Please contact Susan Viamari at susan.viamari@infores.com with questions or comments about this report.

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About IRI

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit <http://us.infores.com>

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