

IEI Congress

Private Label Development continue worldwide

1. Private label is continuing to grow around the world

The sales of private label globally has now reached approximately 25% of total supermarket sales (15 % in 2003) and Rabobank's Food and Agricultural Research Division recently issued a report projecting 50% of world-wide supermarket sales by 2025, whereas Planet Retail Research Cy forecast 30% in 2020. In mature markets in Europe, like, Switzerland (46%), UK(42.5%) Germany ,Spain, Belgium and France all around 28/30%, market share is coming close to these levels, but in Asia and South America there is tremendous room for growth. In Europe itself, private label growth is continuing in the Scandinavian countries and Eastern and Central Europe. Italy and Greece are the only countries where PL stays behind but in Italy the growth is now fast and even Turkey where the start is more recent is catching up. However to day the Northern hemisphere (USA and Europe) account for 93% of PL sales. One of the three major factors driving the market share of PL is the density and globalization of the retail sector which are increasing fast in the emerging countries but remain still limited with the consequence of PL representing only 2 to 6 % of the total retail sales .

2. Which are countries of greatest growth and which are the countries where Pl is stagnant in the world?

In the North,the most significant country for recent growth is the United States where private label languished at 22% for more than a decade after a rapid rise in the 1990's. The consolidation of retailing in the United States(which was much smaller than in Europe) is now opening the way for growth that will take volume market share to nearly 30% by 2015.We also see a recent catch up growth in Scandinavia where the economical slow down have boosted the PL development.

Whereas cases of declining private label share has become rare over the past 3-5 years and usually, if there is a decline, it is a slight or temporary adjustment to A-brand price reductions(or promotions) and very often limited to a certain number of categories. However as it is said above the more mature countries do not show an evidence of strong growth in the average volume or value but more an expansion of PL to categories where they were quite limited or excluded ,including in the services sector (travel services, banking and insurance, hiring of cars or other vehicles, bottled domestic gas sales...).In the emerging countries, as said above, while the

modern trade is fast growing and consolidating (with local and foreign groups) and an increasing part of large cities population is enjoying increased revenues and better information, the PL is developing rather rapidly. However a main limiting factor is probably the lack of suppliers clearly understanding the specific needs of that PL industry, in particular in terms of quality control, traceability, reliable logistic chain....

3. *Which are the great innovation trends?* The most important trend for private label has been the emphasis on **health** (nutritionally balanced, without fat or rather saturated fat, with salt reduction, absence of allergens like gluten, lactose...) . This health trend includes Bio and eventually “vegetarian diets” and even if not so a general “fruit and vegetables revival”. The second one is **convenience** in meal preparation but with a recent trend to “culinary” expansion (while eating out less for economical reasons). It has given rise to supermarkets offering an incredible variety of foods that can be microwaved or are ready to serve when they are taken home, with eventually separate “ingredients” of the recipe to be assembled at the last minute to give the feeling of more active cooking. Private label has excelled in these categories. But at the same time there is a claim for **no additive and no useless ingredients more “natural foods” and the same with the cosmetics and hygiene products** . Next comes the interest of consumers in **ethical products** with a special focus on **environmentally friendly** products, both food and non-food. Here, too, private label is in a leadership role. However the consumers wishes to have more easy to understand and “clear labels”: a great deal of international harmonization will be necessary starting at the EU level where many reference systems compete in nutrition and environmental respectful indications.

Fourth, is the **local or regional trend**, which, of course, varies country by country but has developed internationally. As with the other trends, this trend – because it is local – works best as a retailer brand product and not an international A-brand.

4. *To day’s private label products are more innovative. They are less and less “me too” of the A Brands .*

However in some cases, private label must be similar to the A-brand in order to reassure the consumer that the product is as good or better than the A-brand. A change in the color of the product or the packaging may be interpreted by the consumer as a product which is different rather than similar.

Beyond that exception, private label certainly has become more innovative than ever before and in many cases creates categories and products for which there is no A-brand. According Innova Research Insights the number of yearly PL products innovations launched world-wide has doubled between 2005(7.500) and 2009 (16.000) and now accounts for about 17% of the total of yearly innovations. This can be seen at the Idea Supermarket of PLMA's upcoming international trade show (Amsterdam 24,25 of May 2011) where several hundreds of PL innovations will be presented at the New Products Expo and on the 2000 international suppliers (from more than 70 countries) booths.

Also many small medium companies launch a new product under their brand looking for a retailer interested to produce it under it's own label and so a few months later the innovation is now available in PL.

5. Some sectors are still reluctant about private label

Retailers around the world have demonstrated that no sectors are "immune" to private label if the retailers invests sufficient time and resources to give consumers top quality at a reasonable price. Even cosmetics, which were a difficult category for private label, has shown growth in recent years. It is the same with the baby food where A brands are dominant but where there are recent successes in PL, in France for instance (Auchan, Système U...). Wine and beer are examples of another type of sector which, in some countries, are the domain of A-brands but in other countries private label is the category leader. This subject must be seen country by country, where the consumers "culture" is quite important and category per category. In fact this is the second key factor :economical situation and expertise of the consumers combined with cultural culinary and consuming /buying habits determine the PL penetration..

6. There is a segmentation between eco, standard and premium PL products which exists worldwide. .

This segmentation which is one of the strong points of PL, and is now imitated by the A brands, takes place everywhere because all consumers are not alike. Some have a need for high-quality premium products. Some need low priced products to feed or dress their families. It is common in the evolution of private label. However it is different country per country :premium and "thematic" PL products account for less than 8% of the whole of PL sales (2.6% of retail sales in total) in France whereas in the UK it is twice these shares. In the "new "countries the development usually starts as

it did in our own with “budget” PL then comes the standard segment and premium appears later.

7. *Consequences of the rising cost of raw materials since a few months?*

This is a global problem which affects retailers and wholesalers everywhere as well as manufacturers of all types. Retailers and their private label suppliers are under a great deal of pressure to maintain costs: competition between retailers, State pressure to keep the prices of daily products as low as possible... But, if the A-brands go ahead with larger price increases, it will only help demonstrate the savings and value of private label to consumers. However the worse risk for PL would be to low the quality to keep the prices steady. It does not seem to be the case in general up to now. However we observe in Europe that problems of consumption shrinkage faced by some suppliers on their home markets (like Spain) pushes them to be extremely aggressive on neighboring markets (France, Portugal..) and this could generate a contagion in SME's possible bankruptcy through out the borders.

8. *What is the profile of private label suppliers? Are they big multi-national companies specializing in private label or SMEs?*

If we speak from our experience with PLMA's annual trade shows which reflects the situation in general: Private label suppliers come in all sizes. Probably as much as 40% are small and medium size companies who make both branded and private label. Another 20% are small and medium size companies who specialize in private label exclusively. The remaining 40% are large companies with many different product lines, different brands, and multiple private label. In France, SMEs account for more, at least 70% of the PL supply whereas in UK PL is produced mainly by larger companies like the Hazel Wood Group. However the big international groups show a growing interest in Private Label.

In some cases, these companies produce A-brands in their home country only and compete for private label business everywhere else. In other cases, the large companies separate their private label business from their A-brands with different sales and marketing management and eventually separated subsidiaries.

Also some large groups specializing in PL have emerged like Cott in Canada which is specialized in Cola drinks all over the world, Refresco from the Netherlands specialized in soft drinks, Mac Bride a Belgium group but

working world-wide in the cleaning products, Lemoine a french Cy
supplying PL cotton sticks for the ears in PL in 80 different countries.....

**In general, however, whether they are big or small, they must be
serious about their commitment to private label in order to succeed.**

*This will be my conclusion taking these words from our President
Brian Sharoff*

Paris the 13th of May 2011

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