

The rise and rise of Brand X: Why consumers are seeking out private labels



Euromonitor International

03 December 2008

Euromonitor International's new report: "Private Label: potential in a weakening economy" explains why increasing numbers of consumers worldwide are actively seeking out cheap own-name goods from clothing stores, local supermarkets and retail chains. It examines how private labels – increasingly creative, quality labels in their own right - are gaining a broader consumer following boosted by the current economic downturn and growing consumer demands for one-stop and convenience shopping, but with significant national and regional differences.

Key private label drivers

The report identifies the key drivers behind the growth in own-brand goods including:

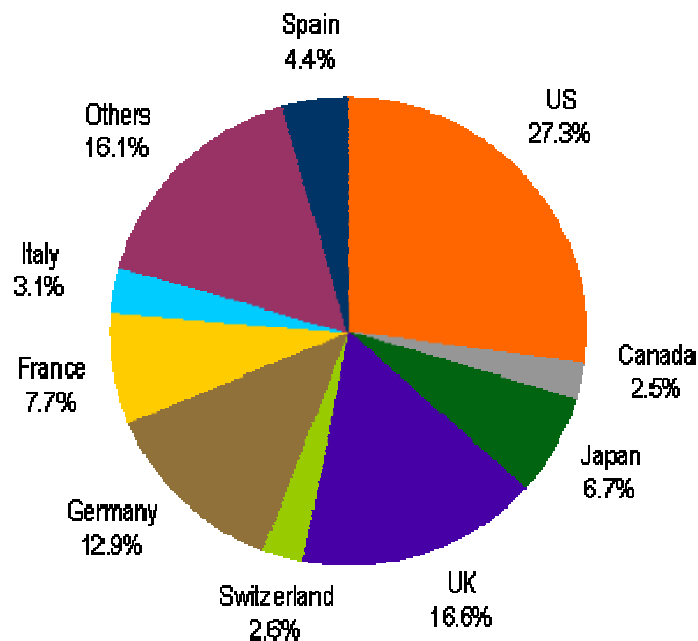
- A link between the success of private label and the extent of levels of retailer concentration - particularly visible in Europe;
- The recent emergence of the "PRAV" – "proud realiser of added value" (not necessarily a lower income consumer) who flaunts their bags from Lidl et al and who has helped to heighten the profile of private labels;
- The fact that credit-crunched shopping appears to have sent upper/mid-income consumers flocking to discount concepts such as Wal-Mart and Aldi, and keen to try out private label products that promise high quality as well as value;
- The trend for retailers to increasingly take a brand-oriented approach to their private labels, creating products that match or are superior in quality to their branded equivalents.

Regional differences

Although the USA has the world's largest market for private label fmcgs in actual terms, with a value of US\$73 billion in 2007, private label penetration, due to the fragmentation of the retailer market, is still much lower than in Western Europe, where the private label share has reached 40% or more in the UK, Germany, Belgium and Switzerland, and over 30% in France, Spain and Portugal. However, the US market has begun to take off in the last year or so, with a notable growth in warehouse club stores such as Costco and retailers such as Safeway already profiting well from private label sales. Major retailers in the West are further leveraging their private label brands by diversifying into the convenience store channel to woo time-pressed, elderly or single consumers in addition to the family market targeted by supermarkets. Convenience store operators such as 7-Eleven already play a key role in Japan, with private label offers comprising 30-50% of their sales.

Chart 1 **Leading Markets for Private Label 2007**

% value shares



Source: Euromonitor International

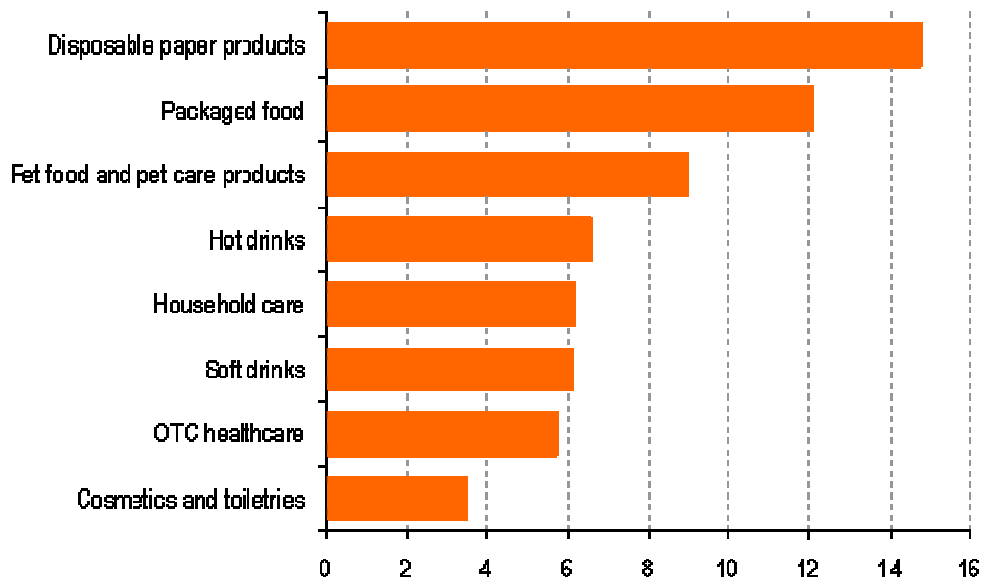
While the presence of private labels in the developing world remains minimal, it is growing as the result of the rapid development of modern distribution networks - notably supermarkets, hypermarkets and discounters - at the expense of traditional grocers and markets. The growth of foreign retailers such as Tesco and Carrefour in Eastern Europe has spurred private labels' fastest growing shares to be manifested in the Eastern European region last year.

Sector trends

- While increasingly sophisticated in recent years, private labels still enjoy a greater share in highly commodified sectors such as disposable paper products and particular categories within packaged food and pet food;
- The hardest subsectors for retailers to enter are those dominated by iconic brands with strong market support such as carbonated drinks, alcoholic drinks and confectionery, and in baby food or OTC products, where a high level of trust is required of a brand;
- The trend towards so-called “masstige” products in the cosmetics and toiletries market is creating an opening for lower priced products, which private label brands are able to fill;
- Within household care products, several retailers have launched high profile “green” lines and are gaining share over industry giants, due to their high share of innovation and low prices;
- Clothing is one of the largest sectors for private labels outside the fmcg sector. Private label accounted for some 45% of total US clothing sales in 2007, reaching more than 65% in categories such as children's clothing. Growth in this sector has been driven by the success of several private label-only retail formats such as H&M as well as the launch of premium brands by grocery labels;
- Many retailers have diversified into service sectors, such as finance and mobile phone services.

Chart 2 Global Private Label Sales by Sector 2007

% value



Source: Euromonitor International

Private label: future directions

- Private label products will benefit from the global economic downturn and the consumer uncertainty it generates, as these goods are seen to offer better value for money than branded equivalents;
- A guaranteed long-term growth of private label goods, given the expansion and consolidation of the major retailers and their continued forays into the emerging markets of Eastern Europe, Asia-Pacific and Latin America;

- New opportunities for retailers to develop products aimed at rapidly growing ethnic populations;
- In line with growing celebrity culture, celebrities will increasingly be employed by major retailers to endorse or advertise their brands;
- Expect a greater emphasis on advertising at retailer level and a greater use of loyalty schemes to target consumers more directly;
- Retailers are likely to expand private label into more product categories and a stress on quality is likely to prove a magnet, particularly to higher-income consumers.