

INSIDE **PRIVATE BRANDS**

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The differentiation imperative



For some time, private brands have been a “me too” offer for retailers in North America. Today, things are changing. Driven by increased competition from new entrants and European retailers, and the need to increase online shopping and home delivery, grocery retailers are searching for ways to differentiate their propositions. As a result, private brands have taken on a new mantra and their growth and development is now center stage in most retailers’ strategies going forward.

This means that following the old “me too” practices of yesterday will not move the needle going forward. Retailers must rethink their private brand strategies.

At Solutions for Retail Brands (S4RB) we provide solutions that help retailers transform their private brand performance and reach new levels of success. Inside Private Brands is a regular publication that

addresses some of the pertinent issues that retailers are facing and explains how we are working with our retail clients to solve them.

This is not aimed at being a newsletter about private brands but rather a publication that offers pragmatic and new solutions to today’s challenges.

In this issue, we talk about our new book series on ‘thinking differently about private brand success’, making SmartLabel a success, how meal kits are developing, and good practices to increase engagement with suppliers. In addition, to spice up the read, we have a thought-provoking piece from an external author, David Orgel, who was the longtime chief editor of Supermarket News, and is now a consultant and industry freelance writer. David knows a thing or two about private brands and talks about getting on the good side of the younger shopper.

Kieran Forsey, CEO S4RB Inc. & SVP North America

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View all of our author’s bio’s in our online edition | info.s4rb.com/magazine

Thinking differently about private brand success

Private brands are no longer secret weapons. Today they are more public than private, representing one of the best-known and most valuable competitive strategies for U.S. food retailers. It's resulted in exclusive opportunities for retailers to battle a wide range of competitors and court a quickly changing customer base.

Private brand is a business that has progressed dramatically from the days of generic products at rock bottom prices. Today these brands are premium, sophisticated, in-tune with new consumer behaviors, and even groundbreaking. They are differentiators in the marketplace, representing one of the few parts of the business that hasn't become a commodity. Based on the trajectory in some other parts of the world, private brands in the U.S. have a lot more runway for growth.

It's even possible to argue that as private brands go, so goes the entire retail organization. It's one of the few things keeping the retailer from becoming a copy of its competitors.

If all this is the case, then why is there so much angst around the U.S. private brand business today? Retailers have taken on more responsibilities with products that carry their brand names, and they aren't always prepared for this level of ownership. Retailers have been challenged by execution problems, national brand innovation, formidable competition, breakdowns in trading partner communications, and inability to capitalize on quickly changing consumer trends. On top of this, retailers don't always realize that consumers today consider the story behind the brand as important as the brand itself.

To help private brand retailers meet these opportunities and challenges, we believe that they should be striving towards a new concept. When suppliers, retail brand owners, category management and marketing teams, along with retail services, are all unified around their private brand strategy, focused on creating a great experience, we call it a state of "Unified Brand Experience."

To achieve this, retailers must work as One Team with suppliers around One View of product performance to ensure the brand's value proposition is being delivered.

Working in this way, retail teams and their suppliers and customers come together as one unique community, creating a virtuous circle of value based on the retailer's private brand strategy.

Unified Brand Experience drives sales, growth and cost reductions through greater efficiencies in supplier and retail team collaboration. A Unified Brand Experience strategy will help the retail teams to be as lean as possible, ensure suppliers are meeting their obligations consistently in an efficient and productive way, and enable all players involved in private brands to act as one team focused on product quality and brand experience.

A successful Unified Brand Experience strategy will turn customers into brand advocates and suppliers into brand champions. Brand loyalty will grow and brand equity will flourish. It will foster greater collaboration between retailers and suppliers, boosting the competitive performance of products and brands. The ultimate goal will be greater revenues, increased margins and sustainable profits.

Retailers will differ in how quickly they progress along the path of private brand improvement. For Unified Brand Experience, some of the typical milestones include cleaning up data, sharing data, actively engaging and expanding value. The journey, however, isn't exactly the same for any two companies. Programs are adaptable to fit organizational needs and brand strategies. Some companies will begin with a limited initiative, whereas others will opt for wider-range adoption early on.

Read more about achieving a Unified Brand Experience in the recent book series, published by S4RB. You can order free copies at info.s4rb.com/book-series-ubx



Kieran Forsey | CEO S4RB Inc. & SVP North America

Making SmartLabel™ a private brand success story



SmartLabel™ is a smart move for private brands. It's a Consumer Information Transparency Initiative, led by the Grocery Manufacturers Association. The aim is to build trust with customers by providing richer and more accurate product information over and above what is currently on physical labels.

SmartLabel empowers private brand customers to learn even more about the products they buy. Millennial customers in particular are more likely to purchase a product that they can easily research via a mobile device.

Sharing truthful, accurate and timely information about products and the retail brand with customers builds trust through transparency, and provides enhanced customer support.

How do customers interact with SmartLabel?

Each product can have its own SmartLabel web page. Customers access this information by using the SmartLabel product search, visiting the retail/brand website or by scanning a SmartLabel QR code. SmartLabel web pages feature a universal design with intuitive navigation.

SmartLabel and private brand

Retailers will face specific challenges with implementing SmartLabel across their private brand portfolio. Here is some guidance on how to roll out SmartLabel successfully.

1. Establish a simple and centralized access point to all product information

Private brand product information is generally not easy to access and troubled for being inconsistent or, missing altogether. The first goal should be to establish a simple and centralized access point to this information.

2. Engage suppliers with the project

Retailers must ensure they have the ability to efficiently collect and manage product content and information. Our experience is that suppliers are the best resource for this information. It's therefore crucial to leverage suppliers to collect and update

product content, as opposed to outsourcing data collection. In order to succeed with this, retailers need to effectively engage with suppliers.

3. Go beyond the product label

Customers expect to have access to product information that is over and above what is currently on physical labels. Focusing on collecting information that exceeds mandatory attributes provides an enhanced experience for customers. Some examples of relevant information include:

- Certifications that validate sustainability compliance.
- Allergen information providing additional details, such as "contains," "shared equipment," and "shared facility."
- GMO disclosure information detailing whether or not the product includes ingredients sourced from genetically engineered crops.

This "over and above" data can only be captured directly from private brand suppliers.

4. Integrate SmartLabel into business process

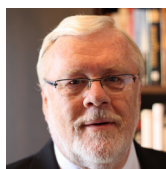
Activities to support SmartLabel need to be integrated into business processes. This is crucial to enabling transparency when adding new products, updating existing products and enriching information. This can be accomplished by working with engaged suppliers that are responsive to private brand product change.

How to participate in SmartLabel

The SmartLabel initiative is a significant undertaking considering the complexities of a typical private brand portfolio (size and scope of product portfolio and large number of product suppliers). To support retailers in adopting SmartLabel, the Food Marketing Institute (FMI) has set up a dedicated online resource containing implementation recommendations. Visit: fmi.org and search for "SmartLabel implementation recommendations".



Steven Howell | Solution Sales Consultant
S4RB



Tom Stephens inducted to the Private Label Hall of Fame

Congratulations to S4RB friend and consultant, Tom Stephens, who has become a member of the Private Label Hall of Fame.

"Tom became the evangelist who marketed the concept of premium private label to supermarket chains throughout the U.S.," PLMA President Brian Sharoff said when inducting Stephens. "With his own company, Brand Strategy Consultants, he has been a tireless advocate for store brands, advising retailers and suppliers on five continents."

In some ways, the high-profile meal kit trend has led to more questions than answers. We know it's been on a growth curve in the U.S., but what are the main reasons? Is the growth likely to continue? And which retailers are likely to benefit from this trend in the future?

We might even ask, what exactly is a "Meal Kit"? Is it a convenience meal? Is it a healthy option? Does it use fresh produce? Is it more cost effective than purchasing the ingredients separately? The straightforward answer is, we can answer yes to any of the above. Customers are ultimately drawn to meal kits that offer it all and if a fresh meal kit cannot check all the boxes, it will be less likely to draw customers.

According to Nielson, 9 percent of U.S. consumers have purchased a meal kit within the last six months, 6 percent exclusively online. That's over 10 million households. 25 percent of consumers say they would consider buying a meal kit in the next six months. That's equivalent to 30.1 million households, so the market is clearly there.

Customers like the convenience of meal kits, the freshness, the ease, and the portion control. But these are not the only reasons people are buying meal kits. One surprising statistic is that 72 percent of customers who buy these kits do so to simply try new foods.

Companies like Blue Apron have given U.S. customers the chance to cook with fresh ingredients without stepping foot in a store, but some online meal kit companies have seen a slight decline in subscribers.

Many customers still prefer to purchase groceries at the store. Traditional grocers are paying attention and looking to capitalize on the opportunity. Whole Foods is experimenting at some stores with displays that feature a recipe and all the raw ingredients a shopper needs to prepare it. Walmart recently began listing meal kits from third-party brands on its website. Could this be a precursor to a Walmart-branded, packaged meal kit sold in-store?

With their private brands, grocers have an opportunity to create a unique offering for their customers. H.E.B has already launched its "Meal Simple" range, offering chef-inspired meals from simple soup kits to Salmon Piccata. Kroger is offering kits with pre-measured ingredients.

In the U.K., private brand meal kits are used as a tool to establish 'Food expert' credentials for a retailer. Retailers like Waitrose and Marks and Spencer have ranges of meal kits that are targeted as dinner party alternatives. Dishes like chicken with chili, mango and sticky coconut rice give the customer confidence in the food skills of that retailer through their private brand.

In the U.S., more traditional grocers are accelerating their own meal kit offerings and seeking out partners to grow this business in stores. Competition for meal kit companies is growing by the day, and the winners will be those who can fulfil the original goals of offering a fresh meal kit, as well meeting the needs and shopping habits of today's customer.



Robert Neill | Solution Consultant
S4RB

GUEST COMMENT

Getting on the good side of Millennials



There's been more written about Millennials than about any other generation. Marketers have studied terabytes of data to understand these younger customers, even though this

generation hasn't even reached its full potential yet.

Despite all the analysis, some brand owners still struggle to understand what these customers want. It's crucial for the private brand community to make sure it's on the good side of this emerging generation.

Fortunately, private brands has a considerable head start. Millennials are showing a passion for store brands that goes beyond the interest levels of other generations.

Last year's The Power of Private Brands report, produced by Food Marketing Institute, shows that Millennials are relatively heavy private brand buyers.

However, if you're going to win Millennial shoppers, you need to earn their business every day. Younger customers, rather than embracing store brands overall, appear to judge one item at a time. That was another key insight from last year's valuable FMI research. If Millennials like a private brand item, they will broadcast it everywhere, especially via text or social media. They are willing to be advocates.

So what gets Millennials excited about private brand? We know they want value, taste and quality, which isn't unlike other generations. Millennials are often value-focused due to budgetary constraints. They are often more adventurous with taste experimentation.

Millennials also tend to seek non-traditional product attributes. A case in

point is simpler ingredient profiles that are free from chemicals, preservatives and artificial ingredients. This was a key insight in a clean label white paper that S4RB sponsored last year for FMI.

Millennials are gradually shifting the discussion from clean label to clear label. Clear involves additional aspects such as transparency, authenticity, and the origins of items. Clear shines a spotlight on supply chain, and topics such as sustainability, humane treatment of animals, and ethical treatment of employees. Brand owners will need to achieve deeper relationships with suppliers to succeed with clear label. Getting this right will endear younger shoppers to private brands.

It's crucial to create an accurate picture of how Millennials are changing in real time. This can be supported by relevant data and insights, but also by observation of behaviors. Companies need to get this right now, because otherwise it will be much harder down the road.

David Orgel | Food retail industry consultant

Private brands continue to provide avenues for growth



There's no shortage of challenges facing the U.S. food retail business. These include brand loyalty, customer demands, evolving technology and heightened competition from online giants and discount retailers. But even with this challenging environment, grocers remain optimistic. Some 51 percent of respondents to Progressive Grocer's Annual Report survey say that they're more optimistic about the retail climate than they were last year.

Looking forward, the U.S. grocery market is forecast to be worth over \$1,722 billion by 2022, with strong growth expected in both the online and discount channels, according to figures from IGD, the international grocery research organization. However, optimism and opportunity do not ensure growth and success. Pressure on sales growth and share will continue. In a recent article in Retail Dive, Diana Sheehan, Director of Retail Insights for Kantar Retail, wrote, "The fight among retailers will be how to attract more grocery dollars from families with a key focus on the Millennial shopper as they grow up and grow into the household shopper role."

The stores that survive will be ones that meet the expectations and desires of the changing customer and shopping environment.

Traditional grocers are increasingly using their private brands to stand out from the competition. A report by Cadent Consulting group indicates that private label dollar share could reach 25.7% by 2027, growing more than 8.0 percentage points from where it is today. Nielsen estimates that last year nearly one in every five items sold in U.S. supermarkets was a store brand. Private brands claimed 18.4% dollar share and 22.3% unit share, and total market size was pegged at \$150 billion.

According to an article in Food Dive, "Industry forces that could drive up private label share include a supermarket sector

increasingly emphasizing private labels as a differentiator and margin builder; aggressive expansion by Aldi and Lidl with stores that rely almost exclusively on a private brand assortment; and Amazon's growing grocery focus, which now includes leveraging Whole Foods 365 label as part of its growth plans."

There are numerous examples of retailers investing in their own brands. Retailers like Kroger, HEB, Costco, Lidl and Trader Joe's offer products that are not only on par with national brands, but also unique in many product categories.

Kroger generates more than \$20 billion a year from its private label brands. Store brands comprise 25.6% of Kroger's sales and 28% of units sold. The supermarket chain has grown its Simple Truth natural and organic label into a \$1.6 billion brand in just three years.

Amazon.com has also been turning up the private label heat. Since it acquired Whole Foods Market, it has begun selling the 365 by Whole Foods brand on Amazon's website, potentially bringing new customers to that line.

S4RB predicts that premium private brands will grow in the U.S., echoing the big success stories in the U.K. It's common knowledge now that premium private brand products can attract and retain customers. Premium private brands also provide the opportunity for a clearly differentiated value proposition, compared to 'me too' value private brand products.

U.S. retailers will need to clearly define their private brand goals and game plans. This means understanding the kinds of differentiation that will add value in their unique marketplaces. That's the formula that will lead to success for individual companies.



Steven Howell | Solution Sales Consultant
S4RB

Solutions for Retail Brands has launched its latest UBX cloud services platform



Designed to help retail private brands to grow and succeed, the core Affinity™ package allows retailers to add different modules depending on their needs. These modules can help retail teams to improve innovation and speed of product development, as well as build supplier relationships and encourage customer advocacy.

For more information please visit: info.s4rb.com/affinity

The relationship between a retailer and supplier is about much more than just acquisition of products to be sold. A good retailer-supplier relationship is no longer just about sourcing.

In a competitive market where margins are shrinking and suppliers have a breadth of retailers available to them, partnering with the right suppliers and developing them has never been more important. Yes, it's actually important for a retailer to develop its suppliers.

Why is development crucial? Investing in supplier development has a dual benefit to a retailer. Not only can a better and more developed supplier get its products onto store shelves quicker, but it also understands what it means to be a private brand supplier for that retailer. It's this sense of collaboration that allows a private brand supplier to fully buy into a retailer and become committed to developing that relationship.

At S4RB, we have seen first-hand how the supplier on-boarding tools we provide can make a huge difference to the relationship between a supplier and retailer. As an example, Waitrose, a highly respected retailer in the U.K., puts a huge emphasis on sourcing both local and regional products and working with smaller suppliers. As a result, efficient on-boarding that helps suppliers of all sizes to quickly, accurately and efficiently complete self-assessments is a high priority; this is something that the Waitrose Engage platform facilitates. This is a platform created for the retailer by S4RB.



A Waitrose supplier inducted using the Engage platform, said: "Waitrose was incredibly supportive. The information contained on the Waitrose Engage website was amazing and provided all the necessary answers. The approach Waitrose took was therefore extremely refreshing and provided a real boost to our business."

The online portal, which allows a supplier to register, complete a self-assessment, provide product and company data and communicate directly to a member of the Waitrose purchasing and procurement team, eases the transition for a supplier to become a partner. This commits them to the Waitrose cause and creates a sense of loyalty to the Waitrose brand.

Currently, the term loyalty is used in the retail environment to refer to the brand loyalty a customer has to a particular retailer or brand. However, loyalty is just as relevant in referring to how a private brand supplier engages with a retailer. In a research report published by the Capre Group, it was stated that 'in this new shopper paradigm, suppliers and retailers must stand side-by-side to unlock new levels of growth.' In the current, ever-evolving private label marketplace, one of the fundamental changes that is needed is a move away from a transactional, highly-tactical form of relationship to a shared environment of control and access.

INTERNATIONAL NEWS

Trends within private brand growth



Anil Parmar | Solution Consultant
S4RB

Private brand products continue to provide a huge growth opportunity for retailers around the world. These products act as both differentiators and margin builders in an increasingly competitive and aggressive market, and supermarkets now boast products that are not only on par with national brands, but exceed them in quality and innovation.

Countries in Europe lead the way when it comes to private brand footprints. However, private brand has many growth opportunities across the world, and the details differ by specific countries.

South Africa is proving to be a growth driver for private brands. In 2017, market share climbed to over 20 percent, and further growth is expected in 2018. Much of this is playing out against the backdrop of local economic challenges: customer confidence is down, inflation remains high, and the average customer is facing a high level of debt. The increased positive customer perception about private brands stems in part from advances in innovation and quality.

In Australia, private brands continue to advance on the momentum sparked by the success of discounter Aldi. Retailers such as Woolworths, which boasts 37 percent share of the grocery market, continue to energize private brands by focusing on differentiation through evolving ranges, such as organic and ready-to-eat products.

In Asia, the convenience sector is a fast-growing retail segment. The rise of 7-Eleven in Taiwan and Thailand suggests this is a part of the world that is likely to see further retail innovation, which creates opportunities for private brands.

Even the biggest private brand markets face hurdles in further advancing the business. In the UK, 18-34 year old shoppers are visiting larger stores more frequently, but despite these extra visits, retailers are still challenged to convince shoppers to put more items into their baskets. There's an opportunity here for retailers to provide more innovative products to satisfy this group.

Speaking of younger shoppers, there's no doubt that Millennials have contributed to the global shift towards private brand products. In the U.S., for example, Millennials have proven themselves to be private brand advocates. Millennials represent about 24 percent of the global population, and studies show they are more likely to research products before buying. They will embrace private brand items that satisfy their need for quality and transparency.

In short, private brands are well positioned to grow in many parts of the world, as long as retailers and suppliers keep abreast of the different needs of individual markets and customers.



Anil Parmar | Solution Consultant
S4RB



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ABOUT SOLUTIONS FOR RETAIL BRANDS

We are an private brand grocery retail specialist, providing consultancy and retail supplier engagement expertise.
Via our Affinity platform, we help retailers evolve their own brand products, ensuring quality, consistency and competitiveness while improving the efficiency, accuracy and cost effectiveness of their interactions with suppliers.

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