

EMERGING TRENDS IN Private Label Tissue IN NORTH AMERICA

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In the United States (US), retail tissue has long been dominated by three companies, The Procter & Gamble Co., Kimberly-Clark Corp., and Georgia-Pacific. However, a decline in traditional long-term brand loyalty among shifting demographics, higher operational and raw material costs, and rising competition from private label are presenting significant challenges for these industry leaders.

In fact, **2017 was a banner year for private label as the category posted higher growth than any of the leading manufacturers of branded retail tissue products in the US.** Private label brands have leveraged recent and ongoing technological advancements to improve product quality and expand product line breadth, principally to gain popularity among US consumers at retail. This decision is partially driven by the proliferation of discounters on a national scale and the growth of the warehouse club channel. Aldi and Costco, in particular, have been influencers in the retail space due to their heavy promotion of private label retail offerings.

Private label share is expected to reach 30% by 2019, and similar global trends suggest that tissue converters need to prepare for a different and very competitive landscape.

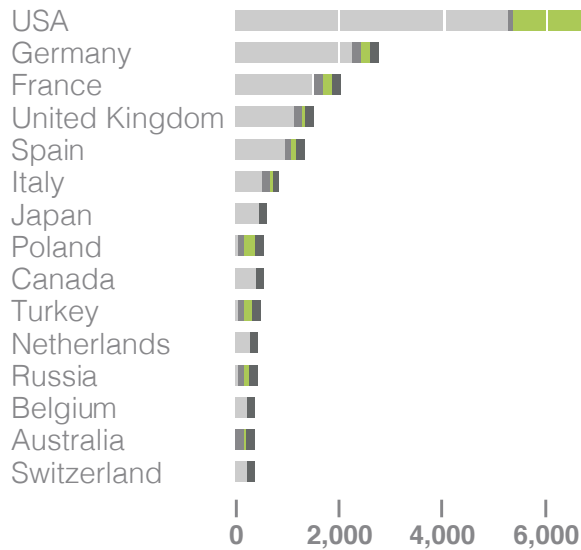


PRIVATE LABEL TISSUE: Outlier Or A Sign Of Things To Come?

The popularity of private label tissue is undeniable. Euromonitor International reports retail sales in 2017 totaling about \$24 billion (USD), with nearly 92% penetration in developed markets and 8% in emerging markets.

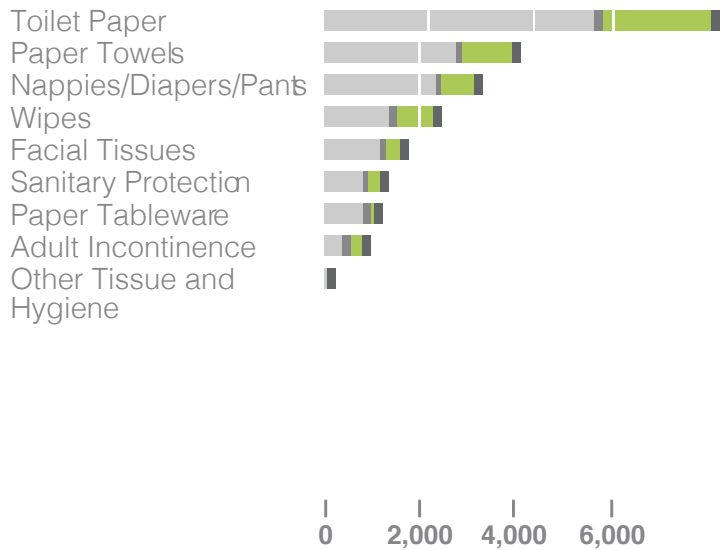
■ Growth ■ Decline ■ 2008 ■ 2017

TOP COUNTRIES



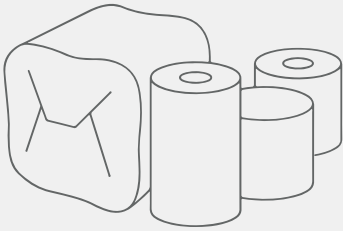
Note: Retail Value, USD mn, Fixed ex rates, Tissue and Hygiene, World, GBO

TOP CATEGORIES



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Global growth is fueled by retailers investing in private label portfolios that encompass a range of price segments from value to super premium — a move that puts private label in a position to continue to usurp sales of branded products. To compete, brands must either choose to try and compete with private label on price by offering discounted promotions, or otherwise justify their premium prices through differentiation. In the US, the latter is a particular challenge since the tissue market is extremely conservative and creating value-added product benefits is difficult. Further, attempting to introduce these types of benefits could alienate customers and/or drive up manufacturing costs, both of which present significant risk to margins.



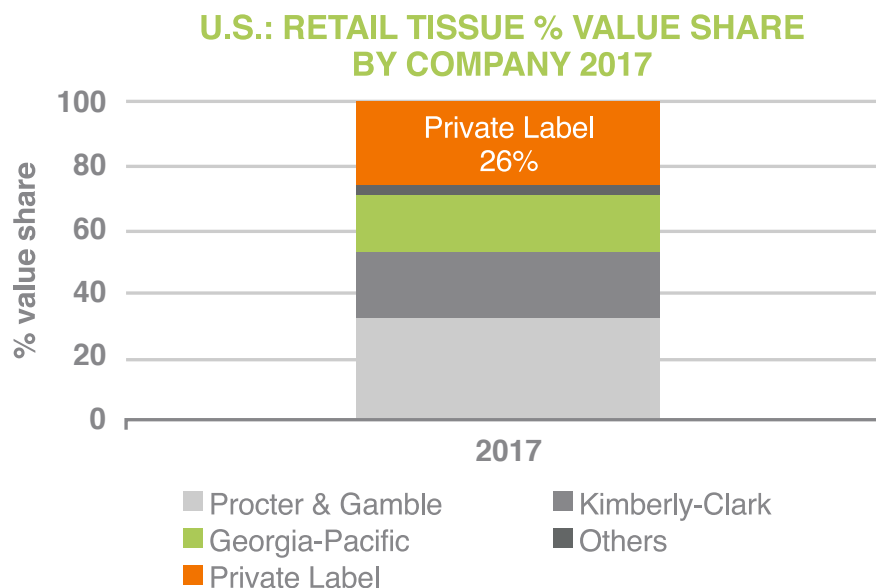
LEVELING THE PLAYING FIELD

Visibility and technology have made price point a lesser consideration in a category once nearly completely defined as being a “low-cost alternative” to branded tissue. Today retailers are revamping packaging to compete with branded products on the shelf for consumer dollars, not only visually but in terms of quality.

Technology gives private label tissue backing for premiumization and quality claims related to absorbency, skin benefits, comfort, and the like. Likewise, being able to segment private label products to address these particular consumer wants and needs is on pace with branded products, further narrowing the perceived competitive advantage.

US PERSPECTIVES ON PRIVATE LABEL TISSUE

Despite these advancements, **private label tissue sales in the US lag behind Western Europe by a significant margin — as much as 35% by some estimates.** While closing this gap is unlikely due to a saturated US market, slow growth and other factors, it’s interesting to note that private label tissue is gaining ground over “the Big 3” brands in the U.S.:



This disparity may be partially explained by the 2008 economic downturn, as middle-class disposable incomes and spending power shrank. **The continued trend away from branded tissue, however, is more likely a reflection of shifting demographics.** The rising percentage of Millennial consumers — predicted to balloon to around 46% by 2025 — is driving change. This group grew up with a prevalence of private label products and no particular allegiance to iconic brands, making quality a key selling point and one on which private label brands have been proving themselves.

RETHINKING THE COMPETITION

Beyond shoppers there's the undeniable influence of the retail environment on both branded and private label tissues, more specifically the changes to the competitive space:

- » Grocery stores, mass merchandisers and warehouse clubs collectively accounted for 70% of tissue sales no less than five years ago. Now, discount stores are capturing a good share of those sales, principally because consumers were conditioned to shop there during the Great Recession. Once they realized affordable quality was within reach, they chose not to return to full-price chains.
- » E-commerce is becoming a player in tissue sales, with 6-7% of bath tissue and paper towels purchased online annually. Nielsen estimates that Amazon alone accounts for about 60% of total sales.



WHAT'S NEXT FOR TISSUE CONVERTERS

The emergence of private label tissue coupled with transitioning consumer preferences and purchasing channels present prime opportunities for tissue converters in personalization, novelty and added value.

Predominant supermarkets, hypermarkets, drugstores and discount chains have widened their product range and seek suppliers that are able to offer the best variety, quality control and product development.

In fact, roughly 90% of new tissue investments in the United States are purposed for private label production, many of which will be done by mid-level and some small converters that must balance innovation and quality with the typically lower margins generated by private label tissue. Because of this, private label producers must be particularly cognizant of controlling production costs and overall equipment effectiveness (OEE) to remain competitive.

While many lack large in-house teams dedicated to maximizing operational efficiencies that are found in The Procter & Gamble Co., Kimberly-Clark Corp., and Georgia-Pacific, private label producers can gain a substantial competitive advantage by investing in the latest technologies and strategically partnering with an OEM that will help them leverage those assets.

Fabio Perini North America (FPNA) can help tissue converters of any size maximize efficiencies, profitability and competitive advantage in private label tissue production with:

- » **Customized equipment** that allows for consistency, quick changeovers and quality control among and between product segments
- » **Proactive 24/7 customer service**, technical guidance and spare parts availability
- » **Next generation technological innovations**, engineering and production capabilities
- » A modern **Pilot Line, the support of Engraving Solutions and the PIVOT lab** offer tissue converters services aimed at optimizing production processes, product innovation and analytics

As a global brand with a regional presence, FPNA prepares you for what's next in private label tissue production with a constant focus on creating product and process differentiation, including **WECARE** value-added life cycle solutions that provide training, equipment auditing, technical support and remote assistance services that optimize the OEE of converting and packaging lines.

Contact **FPNA online** or at **1.920.336.5000**
to learn more about how we can help you.