Private Label in Europe 2012

Is there a limit to growth?

Executive Summary

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SymphonyIRI Group

Insight.
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Introduction – Driving growth

The ***SymphonyIRI Group Private Label in Europe 2012 Special Report*** reveals how Private Label (PL) is helping consumers across the continent reduce the cost of their weekly shop.

Most leading retailers have well-established multi-tiered PL offerings but they face the challenge of how to remain innovative to retain customer loyalty whilst demonstrating that buying PL does not have to mean compromising on quality.

This detailed Special Report demonstrates that across the nine macro-categories surveyed – alcoholic drinks, ambient food, chilled and fresh food, confectionery, frozen food, household, non-alcoholic drinks, personal care and pet food/pet care – PL remains on average 30% cheaper than equivalent national brands (NB).

For European shoppers suffering recession and stagnant wage inflation the economic reasons for choosing PL is clear, but the price gap does vary. It is widest in Greece, France and Germany but much narrower in the UK and Italy. The price difference is closing overall as NB's respond to PL's growth by investing in aggressive pricing and promotional strategies to retain market share.

Although NB's are still driving growth in many categories, PL is often responsible for a disproportionate share of growth in relation to its share of the market, and in some cases it provides the only volume growth. This report outlines where and why PL is growing and explores current and emerging PL trends across Europe in the UK, France, Spain, Italy, Germany, Greece and the Netherlands. It also provides retailers and FMCG brand owners with valuable insight into how the on-going economic pressures are affecting shopper behaviour and brand loyalty in food and non-food categories.

We at SymphonyIRI look forward to helping FMCG retailers and manufacturers navigate through what remains a very challenging economic environment across Europe.

Rod Street
Executive Vice President, International Consulting
SymphonyIRI Group

Private Label in Europe

Executive Summary – Current and emerging trends

The recession across Europe has continued for longer than expected and retailers are more conscious than ever before of the importance and value of their own brands.

PL's share is rising across Europe with its value share up 0.5% at 35.6% and unit share also up 0.5% at 45.1%. Its share has risen in every food category, although the picture for non-food is less clear across the continent.

Manufacturers are fighting hard to protect their value and unit market share with clever promotion and pricing strategies, the re-engineering of some lines and the launch of new variants. Retailers are also being more creative. Venture Brands in particular are appealing to shoppers who might not otherwise consider PL.

Of course, retailers still need high-profile NB's which effectively act as category 'sponsors' to tempt shoppers into store and into the category.

One way to grow sales of PL and NB is for retailers and manufacturers to work more closely together to track and analyse shopper behaviour. They must also be braver and more innovative when it comes to new product development and packaging. It can be tempting to rein in R&D investment in a recession but creativity and new value is a powerful sales driver and differentiator especially in such a long economic slump.

Nevertheless the rationalisation of brands in many categories has accelerated, but stores must be careful not to alienate shoppers who will always want to buy their favourite brands. Retailers also need to be aware that PL could soon effectively hit a ceiling in some categories making further share drives counter-productive and even eroding value, although it is difficult to judge ahead of time where this limit might be.

NB's must analyse what is happening in each category and respond accordingly as different issues are at play here. Promotions to reignite brand loyalty will tempt consumers back to manufacturers' brands but price rises cannot be avoided if raw material costs, particularly in food, keep moving up. Rising costs are a challenge that retailers promoting their own labels cannot ignore either.

During a recession retailers rightly focus more on PL because it delivers a higher margin return and stores have greater control over category, in-store displays and promotions. The growth in PL has prompted NB's to spend more time assessing the competitive risks in each category, developing and adjusting their portfolio and how they approach individual retail chains.

In all seven countries PL promotional support is growing less quickly or falling faster than the total market. Volume on deal for PL brands is consistently lower that the total FMCG average support across Europe. The differential is typically 10% points. Italy, the UK, the Netherlands and Germany have seen volume on deal increasing in 2012 whilst promotional support has declined in other countries. Some retailers feel a need to promote on a category by category basis and this is shaping NB's activity.

All across Europe retailers have been investing in their PL ranges to ensure that there is something for shoppers at every price point in a category. The dynamics in each national market may be different but the underlying drive is consistent.

With the growth in PL there is a question as to whether in some categories we are approaching a ceiling beyond which PL cannot go without undermining a retailer's share of shopper. There is some evidence that too much PL in any category can damage margins for all and reduce shopper traffic.

Executive Summary – Countries highlights

- **United Kingdom** - In the UK, champion of PL sales in Europe, retailers are spending more on marketing, including additional TV advertising, to reiterate to consumers that buying PL does not mean compromising on quality. Aldi, Asda, Morrison and Tesco are all shouting louder than ever before about their PL and the improvements and innovations they have made to their own brands.

- **Netherlands** - Established retailers such as Albert Heijn are working hard to develop their PL so they retain consumers at a time when discounters such as Lidl and Aldi are expanding their branch networks. One indication that shoppers in the Netherlands are still finding it tough financially is that 'value' remains the best-performing tier of PL and it is rapidly expanding its on-shelf presence.

- **Greece** - The dire economic situation in this country is a blessing for PL, which appeals to hard-pressed shoppers because products are on average 45% cheaper than NB. In fact, PL has doubled its market share in supermarkets and hypermarkets in five years.

- **Spain** - The Spanish are also huge fans of PL, which takes a 41.5% share of sales, the second highest of all the countries surveyed. Leading retailers such as Mercadona and Eroski are increasing their ranges with more launches in non-food areas, such as perfumery. We are also seeing the introduction of more PL ranges at different price points and new PL lines that are healthier and greener.

- **Germany** - The Germans have a particular fondness for PL ranges and they tend to purchase them regardless of whether or not they are on promotion if the quality is good. However, PL deals remain prolific here with off-shelf displays dominating. Although there is evidence PL promotion volumes are reducing as many PL brands feel they are strong enough to compete with NB without having to promote quite so much.

- **Italy** - The disposable income of Italian shoppers took a massive hit after VAT rose to 21% and soaring raw material prices pushed up the cost of many brands. It means PL volumes are generally flat as Italian consumers hunt out the cheapest deals, whether PL or NB. Retailers such as Conad and Esselunga are responding aggressively to this trend by increasing shelf space for their PL at the expense of some NB.

- **France** - Shoppers are less price sensitive in France where NB's are still driving value sales growth in almost every category. There may be a retail price war going on but for many French consumers buying decisions are dictated more by health and wellness considerations. Also, they are concerned about the origin and the quality of the ingredients. In fact, there is evidence that PL prices are actually increasing faster than NB prices in France.

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Turning key insights into actions

Key Insights	Actions
PL has increased its share across Europe with a value share of 35.6% and unit share of 45.1%. Value shares vary from 16.8% in Italy to 50.5% in the UK.	PL growth indicates the strengthening of retailers' approach and continued down-trading pressure in grocery. A projection of the changing shape of tiers and shares in each category should be used to help take pre-emptive positions and used to build a strong overall category offer.
PL share of food categories has increased in all countries in the past year but non-food is increasing only in the Netherlands, Italy and Spain.	Food manufacturers in particular need to review brand propositions for saliency and value in the face of continued pressure on shoppers. Variation by country and category illustrates the vital importance of reviewing at this level to develop specific strategies rather than taking a broader approach.
PL lines cost on average 30% less than an equivalent NB. The price gap is widest in Greece, France and Germany and narrowest in the UK and Italy.	KPIs that measure both price gaps and share trends are a critical part of metrics for managing category positions effectively. These should be related to shopper behaviour for a fuller picture of change drivers.
Manufacturers are promoting more aggressively and developing more sophisticated pricing strategies to retain their market share. In all seven countries PL promotional support is growing less quickly or falling faster than the total market.	Price sensitivity remains a key driver of share trends and one factor in the growth of PL. Promotional and price optimisation is a critical weapon in addressing this. Suppliers need to evaluate everyday price positions and use promotional investment carefully to build volume, position and consumer saliency.
The on-going recession is putting pressure on research and development budgets but product innovation is a key differentiator for both PL and NB.	For retailers and suppliers alike, distinctiveness on the key category buying dimensions is of the greatest importance in strengthening market share and pricing power. With funding constraints money needs to be targeted to those categories with the highest potential returns.
Retailers need to review growth rates in their PL share of shelf and category against their share of trade to be aware of saturating categories with PL and losing growth potential.	Retailers need to consider PL portfolios category by category (not merely consider good/better/best positions) to identify opportunities for growth. Assortment remains a critical penetration and shopper retention driver, category by category.
Only in Spain and the Netherlands has more than 50% of FMCG value growth across food and non-food been driven by PL. However in many countries, such as Spain, PL is responsible for a much higher share of growth than NB.	Manufacturers need to examine both value and volume positions in categories, by retailer, to understand risk factors and the sustainability of current portfolios in the face of sustained economic pressure on households.

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About the Report

• This report contains data gathered from seven countries in Europe: France, Italy, Spain, the United Kingdom, Germany, the Netherlands and Greece. The data has been sourced from SymphonyIRI Group retail databases.

• Macro-categories we are looking at are: Chilled & Fresh Food, Ambient Food, Frozen Food, Non-Alcoholic Drinks (it includes Tea and Coffee), Household, Personal Care, Confectionery, Pet Food/Pet Care and Alcoholic Drinks (it doesn't include Wine for the UK and Greece).

• Total Food includes all human food, drink (including alcohol but not Wine for the UK and Greece) and confectionery, and Total Non-Food includes all health, beauty, household, pet, and personal care.

• The market channels used for each country in this report are as follows:

Country	Channels used
UK	Hypermarkets, supermarkets and drugstores
SP	Hypermarkets and supermarkets
GR	Hypermarkets and supermarkets
GY	Hypermarkets, Supermarkets and hard discounters (excl. Aldi)
NL	Hypermarkets and supermarkets
IT	Hypermarkets and supermarkets
FR	Hypermarkets and supermarkets

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

• **InfoScan Census®** is a syndicated retail tracking service that enables manufacturers and retailers to acquire industry insights used to make better business decisions. InfoScan Census utilises the data that SymphonyIRI Group collects from grocery, drug, and mass merchandise retailers to provide the most comprehensive and accurate syndicated data offering in the Fast Moving Consumer Goods (FMCG) sector. With access to accurate, granular detail by category, geography, measure and time period, clients have the tools needed to develop marketing and sales strategies based on product performance, distribution, and promotion responsiveness.

• **Analytics Advantage™ Suite** provides global solutions for all strategic marketing needs. It enables retailers and manufacturers to get fast and in-depth category insights and dynamic analysis for identifying growth opportunities and to measure business impact in terms of return on investment, sales and profit. Analytics Advantage Suite goes from in-store interviews to advanced modelling solutions.

About SymphonyIRI Group

SymphonyIRI Group, formerly named Information Resources, Inc. ("IRI"), is the global leader in innovative solutions and services for driving revenue and profit growth in FMCG, retail and healthcare companies. SymphonyIRI offers two families of solutions: Core IRI solutions for market measurement and Symphony Advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management. SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organisation. For more information, visit www.SymphonyIRI.eu.

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