

Private Label Winning Battle of Brands

Marketers Face Moment of Truth As Retailers' Lines Soar to Historic Sales High

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BATAVIA, Ohio (AdAge.com) Package-goods brands face their greatest crisis and strongest threat from private label since at least the early 1990s. And that's the good news.

The bad news is that this time could be a lot worse -- more like the U.K. or Canada in the 1970s than the U.S. in the 1990s, according to some industry watchers. They predict a structural slowdown in consumer spending that could last four to 10 years, which, combined with increasingly marketing-savvy and aggressive retailers, could conspire to push private-label shares to a dizzying high -- as much as six times the roughly one-point gain already seen since the recession began in December 2007.

Clearly, the marketing and pricing decisions marketers make now could go a long way toward shaping how their brands fare for the balance of a difficult recession. "One thing you don't want to do is create a consumer who shifted to private label and then have to spend a lot to get them back," said Kimberly-Clark Corp. Chairman-CEO Tom Falk at the Consumer Analysts Group of New York last week.

He wasn't alone. At the CAGNY conference in Boca Raton, Fla., a number of package-goods executives acknowledged the growing threat from private label. But all of them felt it would be their competitors who would lose share.

"Of course there's a shift to private-label at this point," said Procter & Gamble Co. Chairman-CEO A.G. Lafley on Feb. 19. "But it's not nicking us."

Taking a hit

It depends on how you define a nick. Mr. Lafley has conceded that P&G is losing share in such bedrock categories as laundry detergent and toilet paper, to value brands in the former case and private label in the latter. And the company missed its long-term organic sales growth target by two points last quarter at 2%.

P&G's principal rivals, Unilever and L'Oreal -- the former growing faster than P&G last quarter, the latter slower -- both scrapped earnings goals for 2009 this month, leaving the door open to cut prices or hike advertising to combat weak volume and private label, said Sanford C. Bernstein analyst Ali Dibadj. P&G, by sticking to its earnings and margin targets, may have a harder time doing that and face more pressure on its market shares.

What's particularly surprising of late is the drift toward private label has been occurring even in categories where it was never a factor before, such as feminine protection or skincare, Mr. Dibadj said.

All in all, private-label market shares grew 0.8 percentage points to 21.9% of volume and 0.7 points to 17.1% of dollars in all package-goods categories and retail channels last year including Walmart, according to Information Resources Inc.

More troubling for marketers, the pace accelerated over the course of the year and reached all income ranges. For example, private-label grew only 0.1 point in the first quarter but 1.3 points in the fourth quarter among households earning more than \$100,000 annually, according to IRI.

The unthinkable

At the same time, volume is shrinking in staple categories where that once seemed impossible, with unit sales of shampoo, for example, down 7.7% last year in all channels, including Walmart.

"Portion control is in," said Thom Blischok, president-consulting and innovation at IRI.



Healthy gain: Over-the-counter drugs and health-care products, such as Walmart's Equate, were one of the fastest-growing segments for private label in 2008, according to Information Resources Inc.

So is private label, he said, though he declined to compare the current situation either to the U.S. in the 1990s or the U.K. in the 1970s, saying it's likely to be different, and possibly worse by some measures.

In some ways, the past year has been like a high-speed replay of the late 1980s and early 1990s, with a series of price hikes followed by consumer flight to private label, and some advertisers cutting media spending and hiking promotional spending to combat declining volume.

Over time, however, package-goods players corrected this through a series of restructurings to cut costs. P&G led an effort to restrain promotion spending and increase ad spending. That, combined with an improving economy, has held private-label shares largely at bay since the mid 1990s.

But this time around could be harder on manufacturers for several reasons. First, after all those waves of cost cutting, package-goods marketers are already a lot leaner. That makes P&G more agile, Mr. Lafley said. But it could also mean less fat to cut to fund stepped-up advertising and product-development, said Mr. Dibadj.

Savvier retailers

Retailers are also a lot bigger and smarter than in the 1990s, with most major players having hired top consumer-package-goods marketers to lead their own efforts.

In 1990, Walmart was in the early stages of a massive national expansion but built its basic consumer proposition on selling branded merchandise at better prices than competitors. Today, Walmart's growth curve has flattened, and the giant, now with its own set of CPG-trained marketers, is starting to look to private-label growth for profit, much like its even-slower-growing competitive set. Walmart is preparing a spring rollout of its revamped Great Value bargain brand and has staffed up to begin development of improved house brands at premium tiers.

"It is like the U.K. and Canada in the 1970s," said Burt Flickinger, principal of consulting firm Strategic Resource Group, noting a combination of retailers poised to aggressively push private label with an economy that could see constrained consumer spending for much of a decade.

"There is no previous period that exactly parallels where we are today," said Mr. Blischok, who believes consumer spending could remain weak for four to eight years and lead to a "downturn generation" that learns to scrimp and save permanently, including buying more private label.

But the threat to brands goes beyond that. "Retailers have been talking about destocking, taking out the No. 3 or No. 4 brands, for more than a decade," said Clorox Co. Chairman-CEO Don Knauss at CAGNY. "We're finally starting to see that happen." Walmart, particularly, is aggressively looking to winnow brand assortments and category footprints in some cases, he said.

Staying above water

Likewise, Ian Friendly, chief operating officer-U.S. retail at General Mills, said in a conference with reporters at the meeting, "I wouldn't want to be the No. 4 chocolate-cake maker."

Executives of Kraft, Kellogg, General Mills, Con Agra and Sara Lee all said that advertising will be a key component of keeping their brands top of mind, and Mr. Lafley noted that P&G brands have pumped out a combined 100 separate "value messages" in advertising to argue for their superiority over private label in recent months.

But the response to the downturn also has become increasingly promotional. In one case in December, a mommy blogger bragged of how she combined P&G coupons, rebates and drug-store promotions to buy two bottles of Olay Regenerist facial cleanser for free and get \$8.66 in cash back.

"We're starting to train consumers that the deal price is the only price," Mr. Blischok said. "We're pumping out the morphine of deal, deal, deal. And we need to be talking value."

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General Mills, Kraft ally with stores

Some major marketers are finding ways to work with -- rather than against -- private-label products, with store displays that showcase their offerings side by side.

At the Consumer Analysts Group of New York conference last week, General Mills executives said they are working with retail customers on Old El Paso-branded taco stations where consumers can presumably stock up on store-brand cheese, vegetables and meat to complement their kits. General Mills CEO Ken Powell said the programs have been so successful that some grocers are considering permanent installations in the shopping aisles.

Kraft has developed a program with Meijer to provide stations that pair Kraft lunch meats and cheeses with Meijer-branded bread. When asked if that sort of thing helps when retailers quibble on price, Kraft CEO Irene Rosenfeld said, "Well, it certainly helps when you can promote their products as well." Besides, she added, "you've got to make a sandwich with bread, and we don't make bread."

-- Emily Bryson York