Don’t Blame Private-Label Gains on the Recession

No-Name Brands Have Been Picking up Momentum for Past Decade Across Demographics

By Emily Bryson York

CHICAGO (AdAge.com) -- Private label growth didn't start gaining momentum in the downturn.

Not only have private label brands been gaining share for the past decade, experts say these gains are the single-biggest problem facing branded packaged goods players. House brands, once a staple of lower-income households, now enjoy roughly equal penetration among demographic segments. Improvements in quality and packaging have helped removed the stigma attached to buying a no-name product.

According to an NPD study released today, house brands now make up 24% of all food and beverages served in U.S. homes, up from 18% in 1999. Stripping away beverages, private label accounts for roughly 30% of all food served in U.S. homes. And 97% of households purchase unbranded products from time to time.

"This is a trend, but not just because of economic difficulties," said Harry Balzer, chief industry analyst at the Port Washington, N.Y.-based research firm. He said that private-label consumption appeared flat over the past year. Survey participants told NPD that they chose private labels because of price and value, but many also felt the quality is similar -- if not superior to -- name-branded products.

Bill Schober, editorial director of the In-Store Marketing Institute, maintained that the economic decline has absolutely goosed private label's market share. He pointed to Information Resources Inc. data showing private label growing to 25% of all grocery unit sales during 2008, a 1% increase over the previous year. Data from IRI, a Chicago-based market research firm, excludes Wal-Mart and club stores. Mr. Schober added that private label accounts for about 20% of all dollar sales, evidence of the segment's discount proposition.

"They've clearly been aiming at the middle of the market," Mr. Schober said, and doing a good job, he added, with quality, packaging and presentation. Better-looking boxes and higher-quality products have helped remove the stigma attached to house brands. "It used to be if you friends came over and you bought generic peanut butter it would be embarrassing," he said.

Now, Messrs. Balzer and Schober said, private labels are threatening branded players, particularly in third-, fourth- and fifth-place market positions. Package food companies have begun tacit admissions of the growing threat. Con Agra said last month that it would begin to de-emphasize its Act II popcorn in favor of its better-selling Orville Redenbacher brand.

"When we come out of this economic slide, this is probably the single biggest thing that's going to be facing branded-food manufacturers," Mr. Balzer said.

At the Consumer Analysts Group of New York Conference in February, Sara Lee CEO Brenda Barnes said that she would be focusing marketing dollars on products with leading market-share positions. Kraft CEO Irene Rosenfeld said that her company was building in-store displays with retailers that showcased Kraft products together with private-label offerings, such as bread, which Kraft doesn't make.