

Store Brands Flex Muscle in Weak Economy

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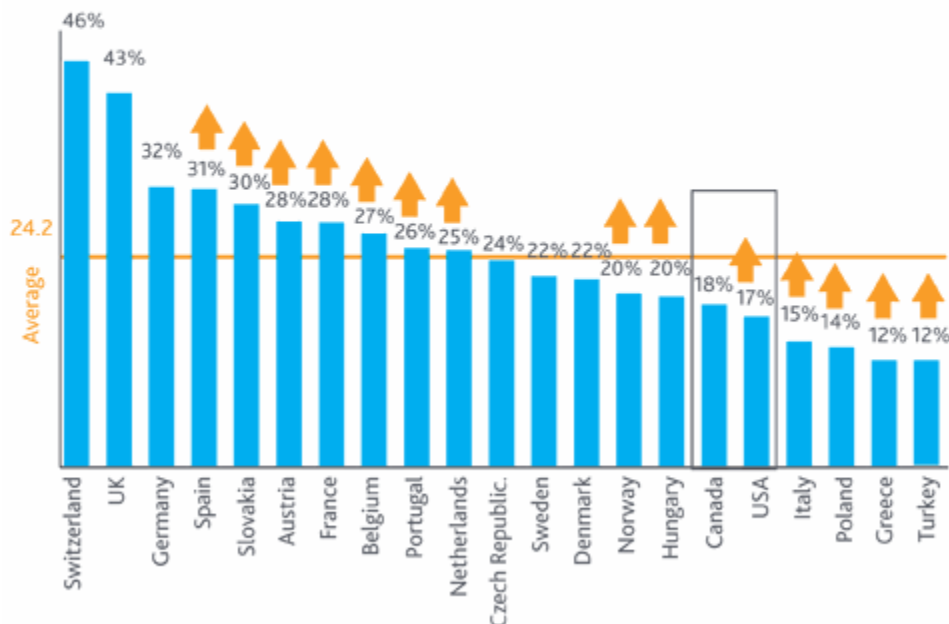


SUMMARY: Everybody, everywhere likes a good value, which is why store brands outperformed national brands in the U.S. on an average unit sales growth basis and has posted gradual gains over time in this country as well as in many European countries. Turns out, heavy store brand buyers are good for sales overall, leading the charge on unit growth, unit spending and trip frequency criteria. Store brands have won favor among younger households, boding well for long-term store brand prospects.

Prompted by belt-tightening as consumers respond to the long-tailed economic downturn, store brand offerings posted value or currency share gains in two-thirds of the 21 European and North American countries Nielsen studied, picking up an average of 1.3 share points during 2009. The U.S. trajectory was more pronounced, with store brands advancing to a 17.3% share of dollars and a 21.9% share of units by March 2010—up 2.1 and 1.9 points respectively from 2007. Branded products, however, still drive the vast majority of dollar (82.7%) and of unit (78.1%) sales.

Private Label Share Varies Across Europe and North America

Average share gain of 1.3 share pts
Average share loss of 0.5 share pts 2009



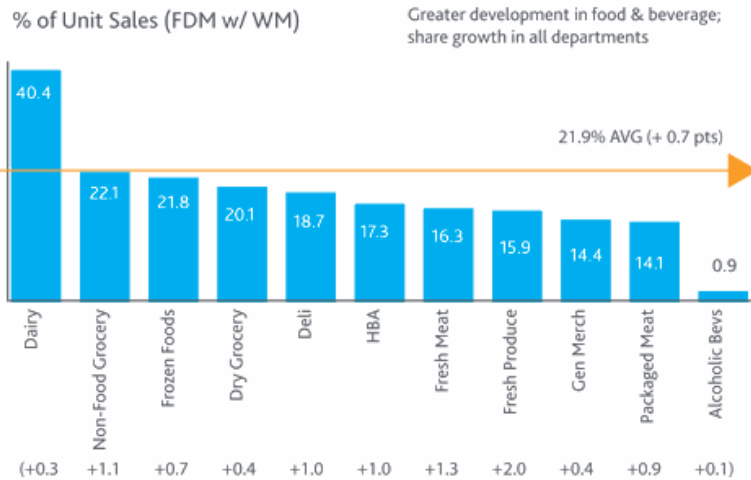
Source: The Nielsen Company Calendar Year 2009 – Value based on local currency

Even as store brands secured their spot on consumer shelves, branded offerings demonstrated consistent, gradual improvement over the last half of the year. During this time, store brand average period unit sales grew by 2.5% while brands realized incremental growth of 0.4%. Increases in promotional support behind branded products helped stabilize a declining trend.

A Force at Retail

Store brands demonstrated its power by capturing a 20 unit share or higher in 48 of the 117 categories analyzed by Nielsen. Store brand share fluctuated widely by department from a high of 40% for the dairy department, to a low of less than 1% for alcoholic beverages. This mirrors the typical pattern of store brand strength in commodity categories like milk, eggs and sugar, as well as those with little “consumer-perceived” differentiation such as first aid or wrapping materials.

U.S. Retailer Brand Unit Share Varies by Department



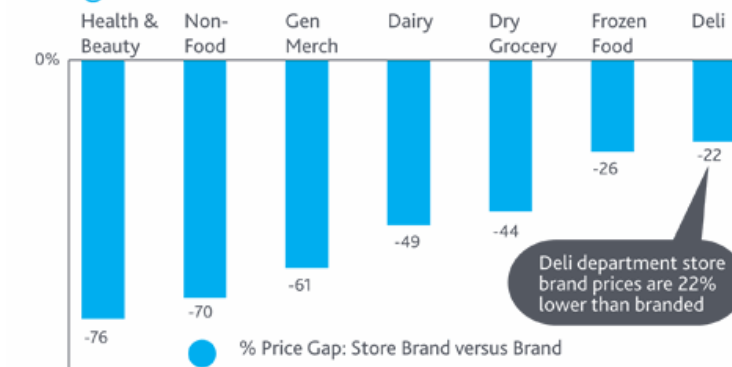
Source: The Nielsen Company, Scantrack®, (FDM w/ Walmart) 52 weeks ending 03/20/2010 (versus prior year)

In categories with a history of strong brand marketing support like beer and candy, or those with a high demonstrated level of innovation such as deodorants and detergents, store brand share remains relatively weak and undeveloped. The low hanging fruit for store brands involves cherry-picking sales at the expense of smaller brands with commensurately smaller marketing support budgets.

The Price Point

Significant real price gaps between store brand and national brands present an opportunity to drive category sales by narrowing the gap in select categories such as those with a high consumer value perception. Consider the upside of making a strategic pricing move to support store brands. To demonstrate the impact of a unilateral, almost imperceptible one cent price gap decrease across categories, Nielsen calculated the yield at up to \$400 million in incremental annual unit sales due to increased volume.

In Departments & Categories with Extreme Price Gaps, the Potential to Enhance Sales is Significant



Source: The Nielsen Company, Scantrack®, (FDM w/ Walmart); 4-weeks ending 01/23/2010

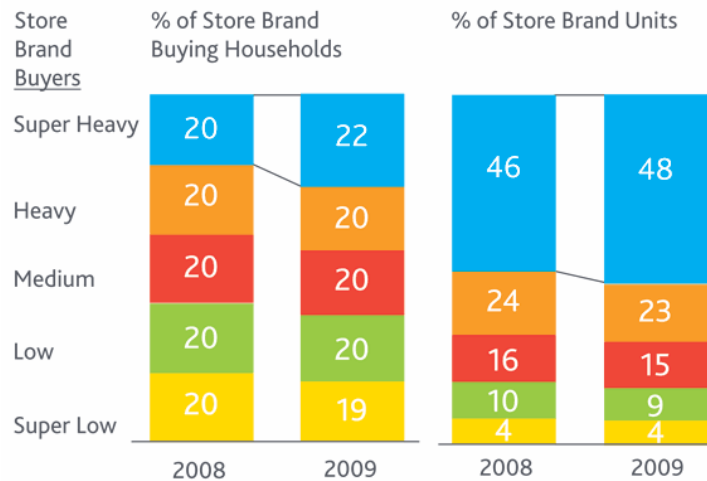
Other strategies available to successfully compete with national brands require that retailers adopt and adapt the branded playbook. That means investing in store brand programs that highlight product innovation backed by aggressive advertising and promotion campaigns. However, don't forget that branded products hold the majority share position in most categories. Retailers need to balance their efforts to ensure they give the proper focus to the national brands and regional brands that dominate most store shelves.

Super Savers

Heavy buyers made a bigger impression on store brand sales in 2009 versus 2008. Comprising just 20% of households and 46% of store brand unit sales in 2008, super heavy buyers expanded to 22% of households and chucked up nearly half (48%) of store brand unit sales. Not only did super heavy store brand buyers ring up big store brand sales, they also accounted for 34% of total purchases across the store in 2009.

Store Brand Sales Driven by Heaviest Buyers

48% of Unit Sales from 22% of Households

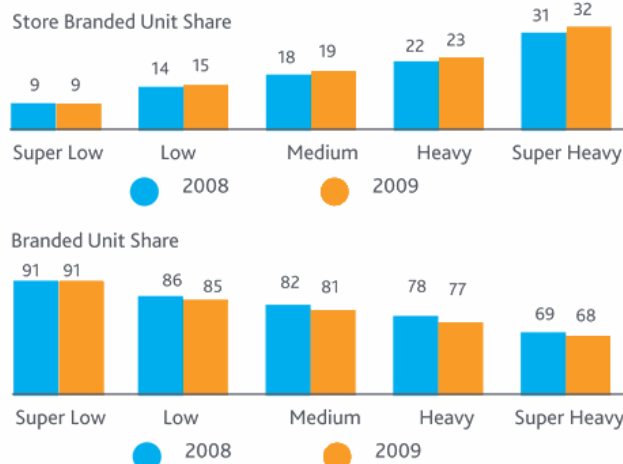


Source: The Nielsen Company

To put super heavy buyer clout into perspective, their all category buying rate is three times that of the super low store brand buying segment, and they deliver twice as many buying occasions as super low store brand buyers.

Even as the recession amped-up super heavy store brand buyer activity, store brand unit share also increased across the lighter store brand buying households examined. However, brands dominate the overall share picture as they commanded 91% of super low buyer unit sales, 85% of low, 81% of medium, 77% of heavy and 68% of super heavy user volume.

Although Store Brands Gained Share in Every Segment, Brands Dominate All



Source: The Nielsen Company, Homescan®, all outlets

Buyer Profiles

In contrast to the manufacturer coupon model, where the heaviest users are the most affluent consumers, store brand heavy users cluster in the middle income range with annual household earnings of \$30,000 to \$69,999. While it's logically consistent that bigger households, with more mouths to feed, would be focused on a savings-based shopping strategy, store brands also have a loyal following among two-person households looking for value.

Perhaps surprisingly, younger female heads of household have a propensity to shop store brands, which is contrary to the conventional brand management wisdom of targeting young buyers to secure their loyalty early on. At the opposite end of the spectrum, the lightest store brand shoppers are men over the age of 65. Heavy store brand buyers tend to be white vs. ethnic households that live in comfortable country or plain rural living areas with 3+ person families. Brands beware—the demographic segment that experienced the fastest growth in store brand unit sales among the heaviest store brand buyers came from households with incomes of \$100,000 or more.

Store Brand Buyer Profile (it's not who you think)

- Middle income families (between \$30-\$70K annual incomes)
- Reside in “plain rural living” and “comfortable country” areas
- Larger households with 3+ members
- Younger female head of household
- Fastest-growing segment is families making \$100K+

Tiered Offerings

Long gone are the days of generics with stenciled package labels. Today's store brand portfolio is multi-tiered and can include a value tier with low opening price point, national brand equivalents with comparable quality at a savings, and a premium or specialty strata such as a natural/organic label, one-of-a-kind innovative items or a line that does not include the store name at all.

No matter which direction the economy takes, consumers have had a taste of life in the store brand lane, and they like it! Expect store brand quality to climb, along with price points, while the store brand SKU list expansion continues offering premium and unique items never before available.

Store Brand-Boosting Strategies

1. Close the price gap
2. Enhance product quality
3. Advertise aggressively
4. Promote consistently
5. Shelf advantageously
6. Reward heavy buyers
7. Stimulate new user trial
8. Cross-promote complementary items
9. Retain high penetration, high frequency and strong niche brands

Concentrated Strength

In most countries, the concentration of a few dominant retailers correlates well with higher store brand share, but there are exceptions. This is also true in the U.S. where higher store brand shares in markets are served by a few dominant retailers. With the likelihood of continued consolidation of U.S. retailing in the years to come, expect to see continued growth in store brand shares.

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