Deloitte.

The blurring lines of private label and branded goods

What retailers and FMCGs can learn from each other

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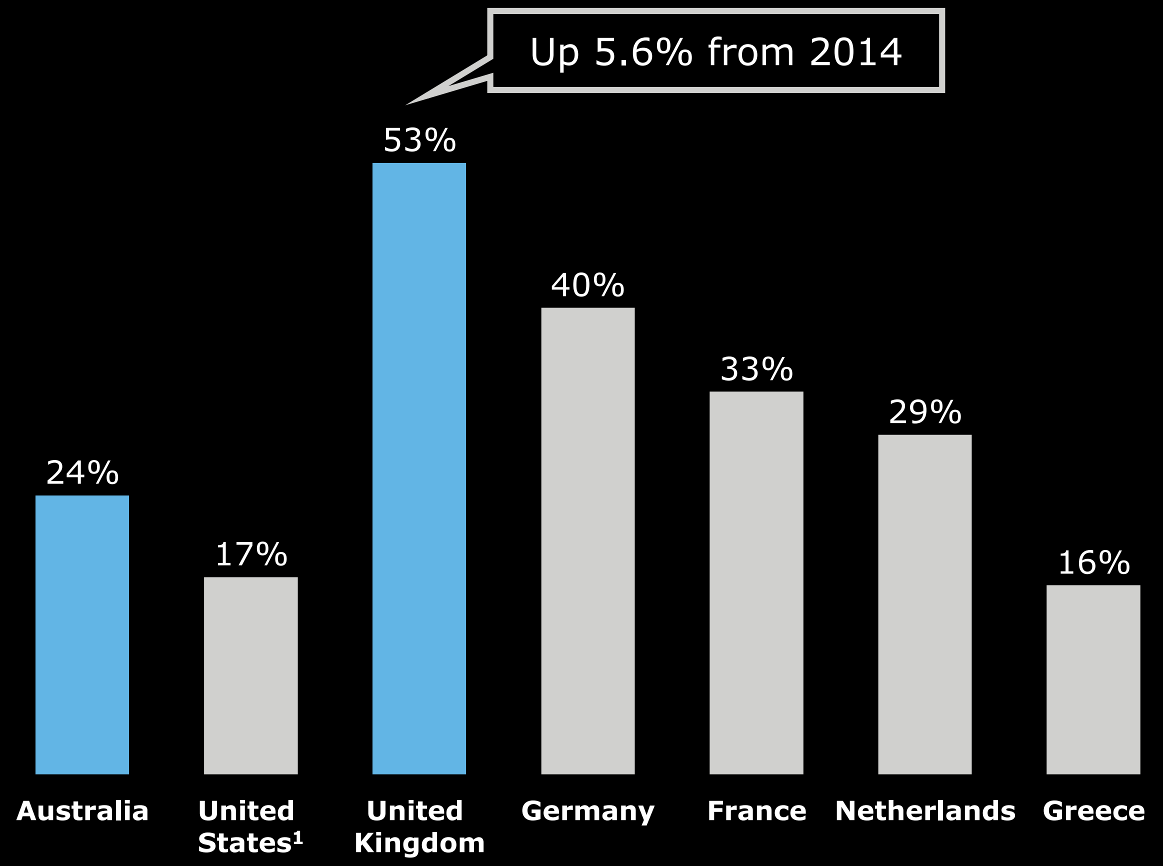
Private Label growth continues to rise across the globe

Private Labels sales continued to grow over the last 3 years, even in mature market such as the UK…

Private label sales as a % of total retail value by country
2017



1) Data for the United States is reported for 2016
Source: IRI, Nielsen, Insideretail

…as multiple retailers have dramatically grown their private label business in the past years

over **10%**

Kirkland Signature, the PL brand of Costco, reported sales growth of over **10%** in 2018, equal to almost **$4 bn** in sales growth

6

Since 2017, Target (US) has introduced over 20 private label brands, of which **6 brands** are generating over **$1 bn** in annual revenues

81%

Amazon private label sales grew by **81%** in **2018** (vs. 2017). Its private label **grocery** category grew by **135%**

Source: retailers websites

In line with global, growth in private label sales in AU outpaced branded-products…

Total private label dollar growth is

1.8

times higher than branded products

AU Private label vs National brand sales –
MAT to April/May 2017

PRIVATE LABELS

▲ **3.9% VALUE**

▲ **4.8% UNITS**

NATIONAL BRANDS

▲ **2.2% VALUE**

▲ **2.1% UNITS**

Source: IRI Marketedge (‘private label: the Rise and Evolution of private label in Australia; 2017)
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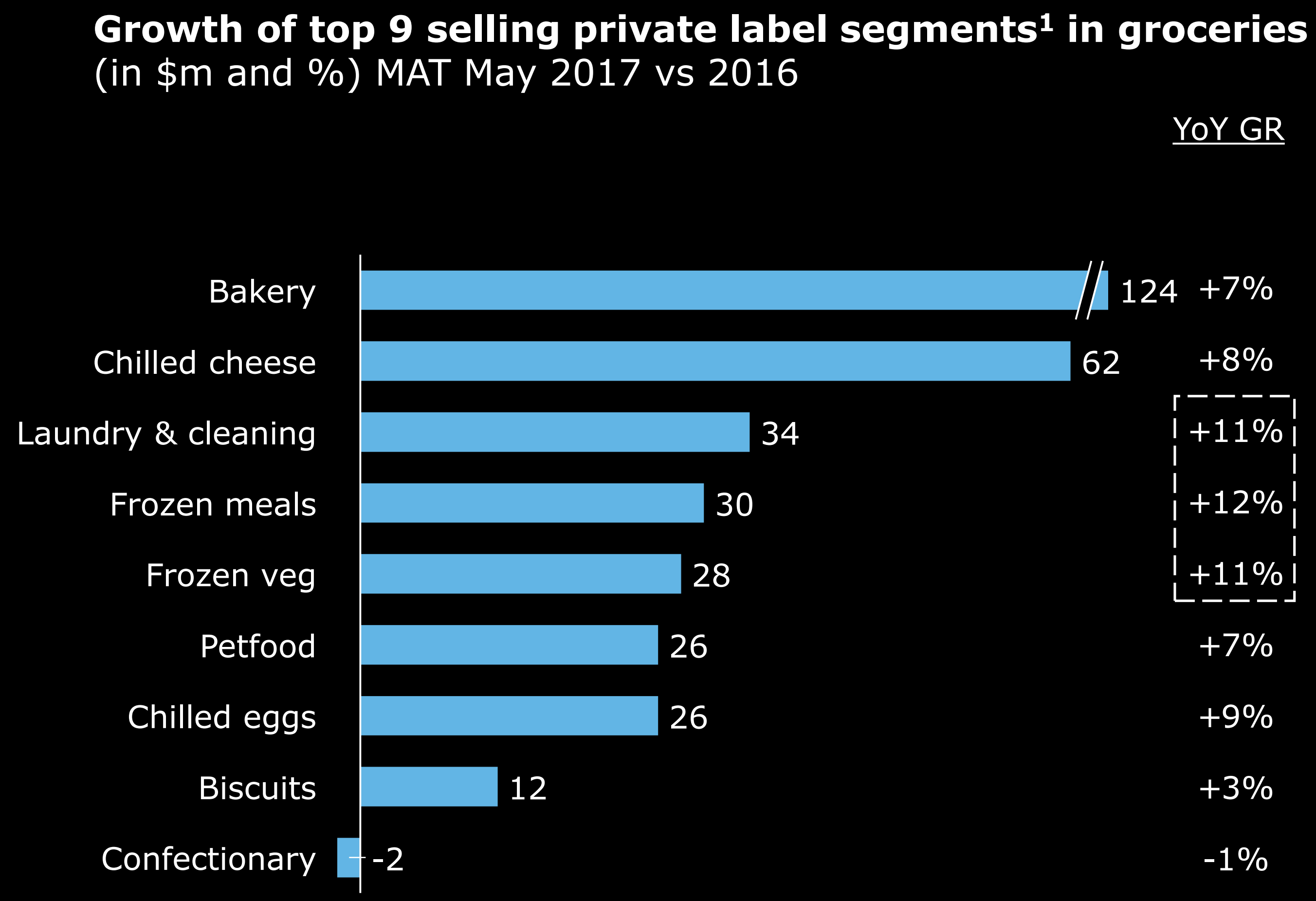
…especially on packaged groceries categories



1) Ranked by sales growth
Source: IRI Marketedge (‘private label: the Rise and Evolution of private label in Australia; 2017)

Changing consumer needs and trade structures are fuelling much of the growth

RETAILER

Changing trade structure – need for differentiation

Margin pressure

CONSUMER

Consumer spending – affordability

Evolving needs create white space

Source: Monitor Deloitte
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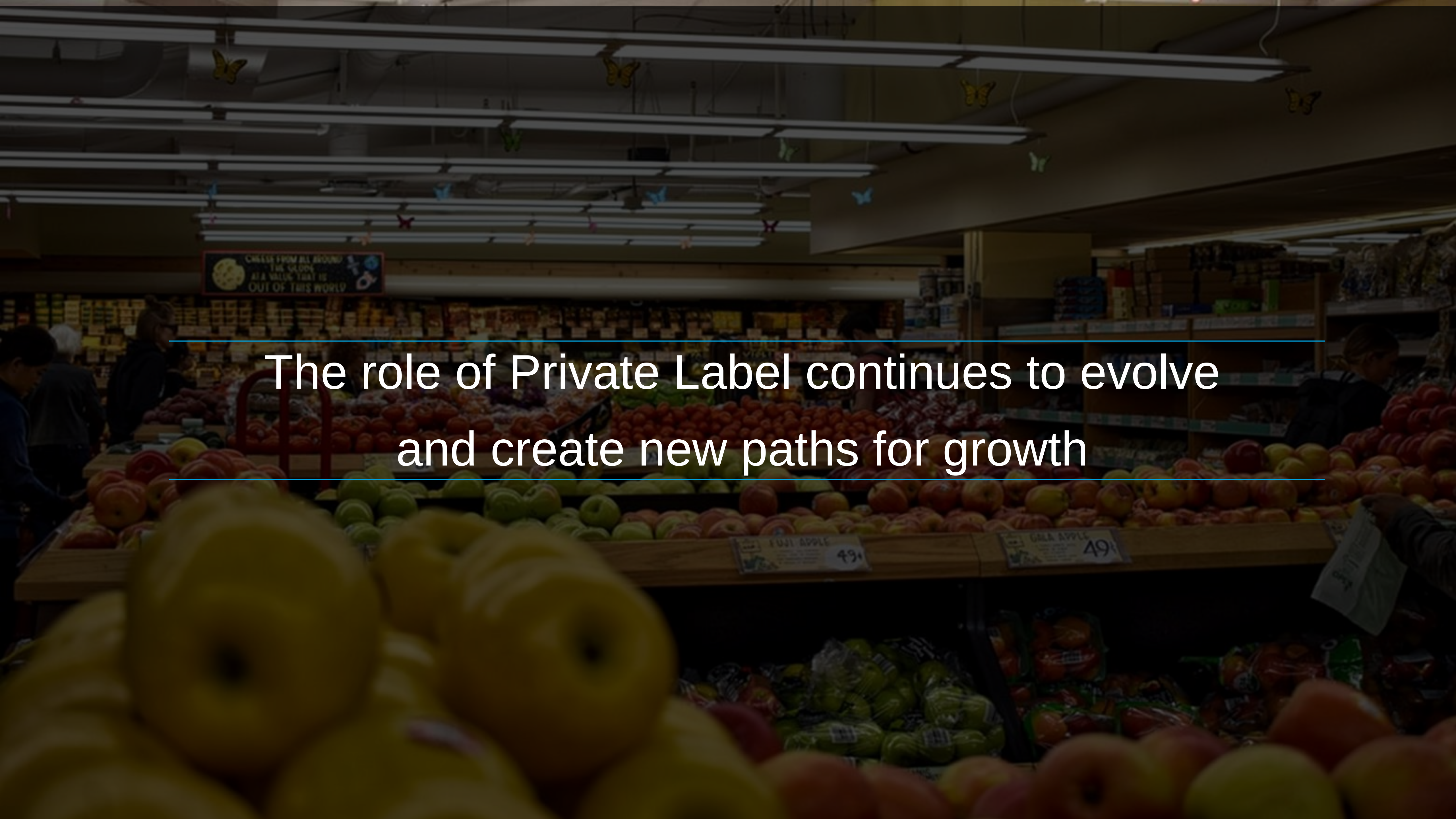
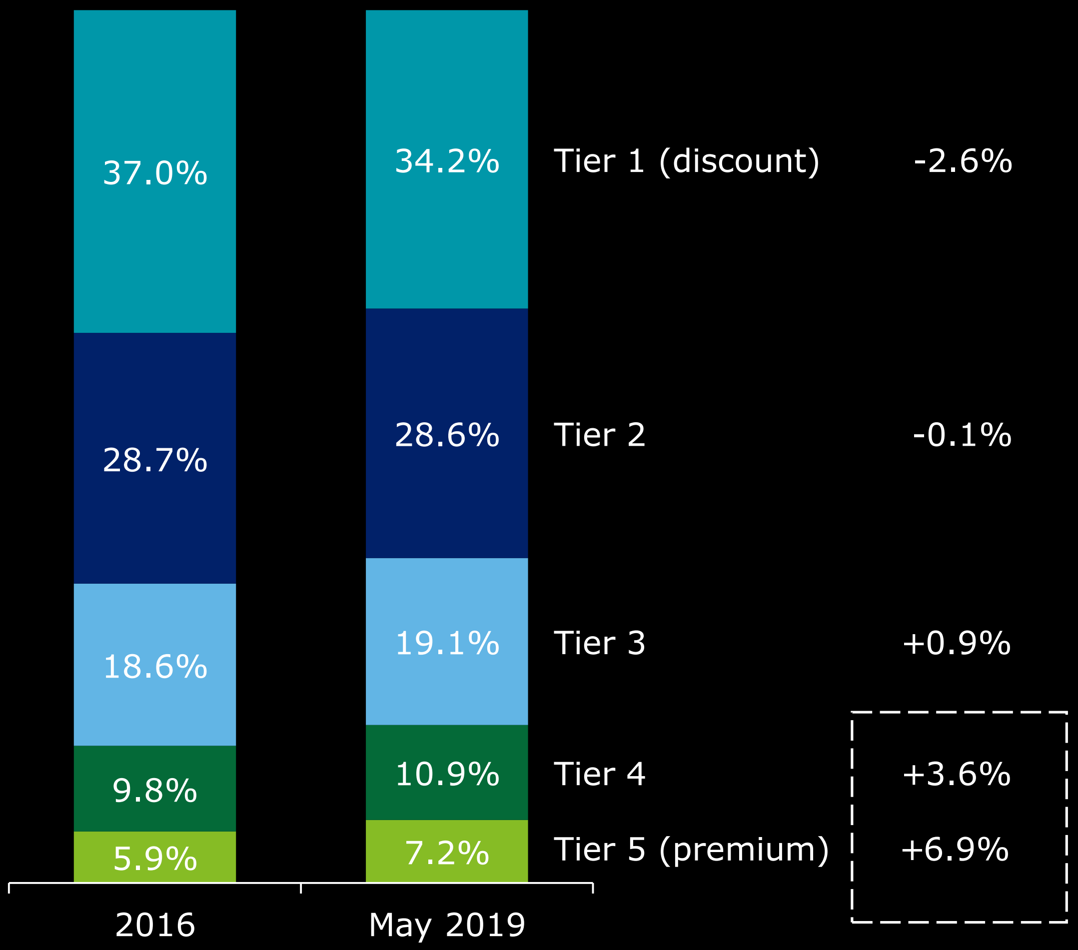


The role of Private Label continues to evolve and create new paths for growth

From a cheaper version to a more premiumised product…

The market share of premium tier private labels has increased over the past three years, now totalling 18.1% in the US market

Private label value share by price tier in the US market (%)
2016 vs 2019 May / Nielsen



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i.e. innovation in convenience, health and sustainability

Source: company websites

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Aldi has added several private labels (e.g. SimplyNature, Earth Grown) that offer **organic**, **non-GMO** and **vegan** options

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Target's proprietary brand **Good & Gather** launched in Sept 2019 offering **organic** and **wholefoods** and is expected to be a multi-billion dollar brand with over 2,000 new products by end of 2020,

Source: company websites

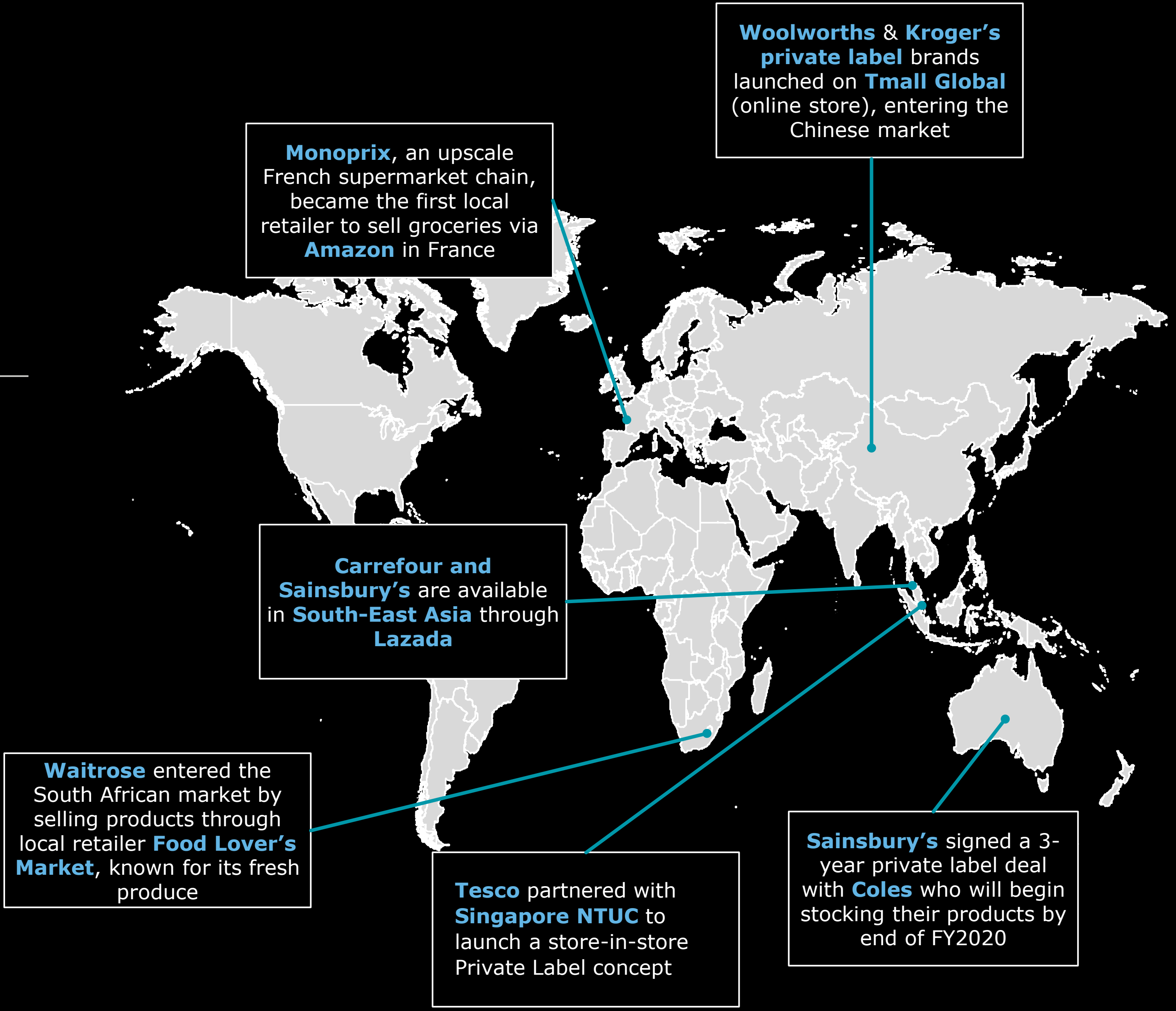
PL are creating new paths to grow by expanding the category or launching new ones…

Sainsbury's launch of Classic Cola was a hit, with price point ~28% lower than Coca Cola, attracting new consumers with lower purchasing power

Tesco's private label expanded from a single brand to several, each of them targeting a specific customer segment to extract maximum value within each category

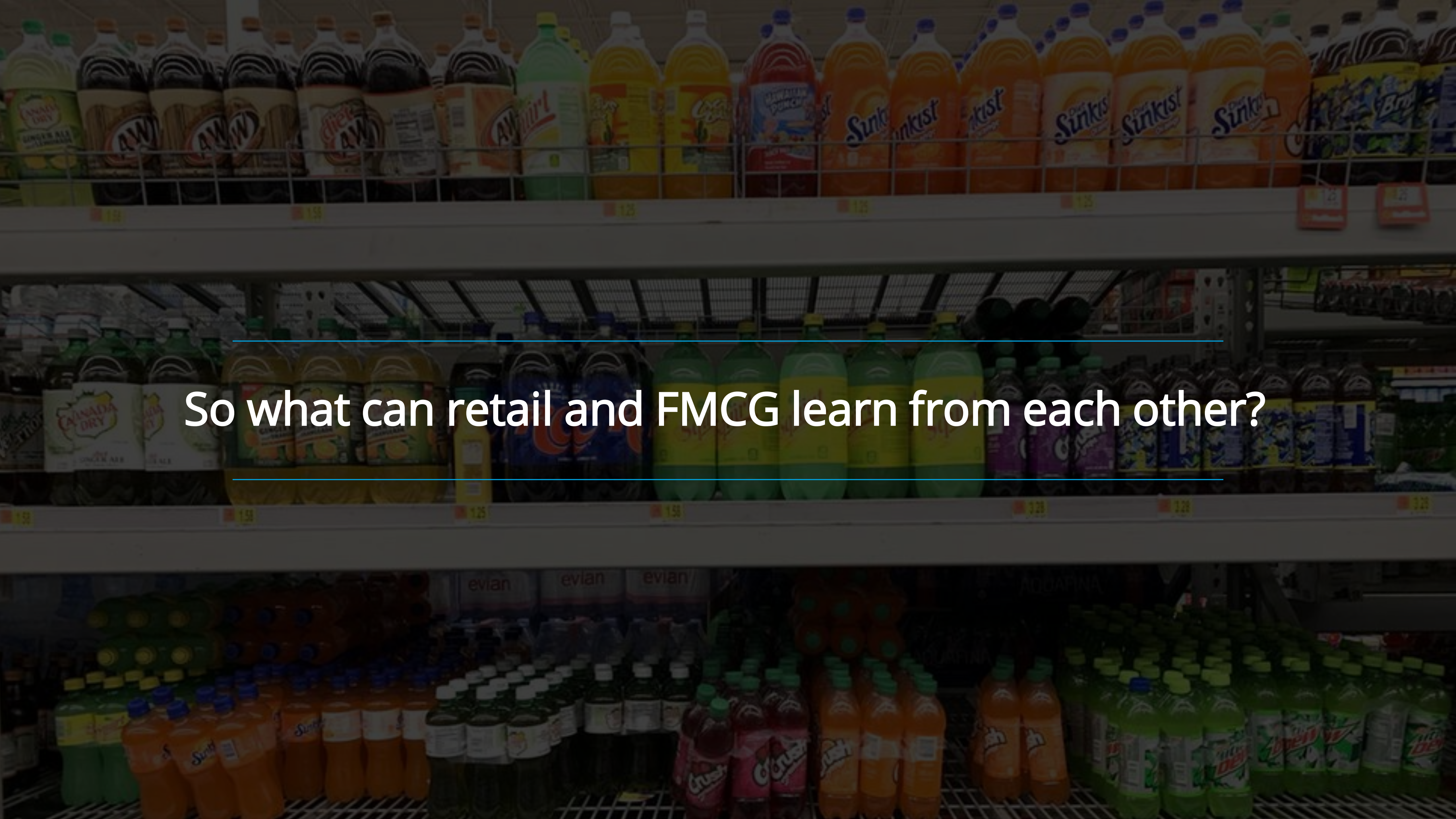
Source: Monitor Deloitte, company's website, Harvard Business Review

…and are increasingly creating new paths for growth by selling into new channels/ markets



Source: retailers websites

In doing so, Private Label has become truly branded



So what can retail and FMCG learn from each other?

FMCG's core strengths are often retailer's greatest weaknesses

BRAND BUILDING

MARKETING (INCL. DIGITAL)

CHANNEL MANAGEMENT

Source: Monitor Deloitte

Retailers' core strengths are often FMGC's greatest weaknesses

SHOPPER INSIGHTS

INNOVATION / SPEED TO MARKET

STRATEGIC SOURCING

Source: Monitor Deloitte

Moves and investments are being made by FMCGs to address these gaps…

FMCGs

Direct-to-consumer → **Shopper insights**

Start-up incubators/ accelerators → **Innovation**

Blockchain / buying alliances → **Strategic sourcing**

Source: Monitor Deloitte

FMCGs

Direct-to-consumer → **Shopper insights**

Start-up incubators/ accelerators → **Innovation**

- In 2017 Unilever-owned Hellmann's partnered with on-demand delivery start-up Quiqup for its first Direct-to-consumer trial, targeting London shoppers likely to make 'impulse purchases'
- The concept consisted of an on-demand recipe delivery via the Quiqup platform and app – consumers could choose their favourite recipe and get all the fresh ingredients delivered at home in an hour

Source: company website

FMCGs

Start-up incubators/ accelerators → **Innovation**

- Mars Food launched its Seeds of Change accelerator program, designed to help US and Australian early stage food-focussed companies to develop :
  - The program focusses on world flavors, plant-based eating, easy solutions and responsible food – all of then being hot trends for Mars
  - Out of 200 applications, 10 start-up were selected to be part of the incubator
  - Each selected start-up gets $50,000 and a tailored 4-month programme to scale its operations

Source: company website

FMCGs

Blockchain / buying alliances →

Strategic Sourcing

WILLIAM GRANT & SONS
INDEPENDENT FAMILY DISTILLERS SINCE 1887

- WG&S, an American based spirits company, is set to implement blockchain technology to track drinks from source to store
- The new functionality will enables WG&S to tackle the counterfeit issue that is affecting premium products shipped abroad

Source: company website

And retailers are making moves to address the capability gaps with FMCG…

Brand Building

Investment in brand management, advertising and marketing capability

Digital Marketing / paths to purchase

Partnerships with WeChat mini programs for social selling

Retailers

Source: Monitor Deloitte

Brand mana-gement

Investment in brand management, advertising and marketing capability

Retailers

- **Loblaw (No Frills, No Name)** has been one of the few private retailer brands successfully marketing its brand end-to-end
- They started own **Media Agency** and launched No Frills 'Haulers' and No Name **campaigns** with great success

Source: company website

Digital marketing / paths to purchase

Partnerships for social selling

Retailers

A.S. Watson Group

AS Watson, a health and beauty retailer, has used **Social selling to open up the Chinese market**

Users of Watson's mini program on WeCHat can recommend and sell products to their own WeChat followers, KOL leaders use tags to promote the products

Source: company website

So the PL vs Branded race continues…

....but the game has changed

Lines are blurring between PL and branded..
there is much to learn from each other…
creating new opportunities to partner

Those who are open to learn, innovate and collaborate to build meaningful brands and consumer connections will be the winners in this new world