

# WHITE PAPER

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## Branding and Packaging of Private Label

Today, private label is no longer the plain stepsister of branded offerings. PLMA's *2009 Private Label Yearbook* reported that private label sales in the United States jumped by more than 10% in 2008, hitting a record high of \$83.3 billion — particularly impressive given the onset of the recession last year.

More than half of that volume came from private label sales in the supermarket channel alone, which grew a remarkable 9.4% to \$53.8 billion, compared to branded goods in the same category, which grew only 1.4%. In the past five years, private label supermarket sales have risen 22%, outstripping the 10% increase managed by national brands in the same period.

Top private label supermarket products in 2008 were milk, bread and baked goods, eggs and fresh produce, which saw unit volumes in excess of 1 billion each. Flour, pasta, shortening and oil, dry vegetables and cheese posted the highest year-to-year gains in terms of dollar volume, ranging from 21% to 36%. Private labeling has traditionally been strongest in staple food products, but in the past year private label sales in the vitamin and supplements category was one of the highest in the industry, weighing in at \$458 million, while private label sales in the health and beauty sector grew to a 20% unit share.

On the supermarket scene, cheese, jams, spreads, toppings, spices and seasonings as well as pet care products all made it to the 2008 top ten list of private label dollar volume gainers. Cheese led the pack with a resounding 71.1% private label unit share, with spices and seasonings also holding their own at 31%.

As more cost-conscious consumers seek to stretch their food and beverage budget, supermarkets and major retailers are responding to this demand by extending their private labels. This white paper raises the following questions: Is this recent surge of private label demand in the food, beverage and supplement industry just a short-term savings strategy for consumers, or will sales continue to grow beyond this economic downturn? Also, how can packaging affect consumers' decision to purchase private label products?

### **How the Recession Has Affected Private Label Brands**

In the wake of the global financial crisis and recession, private label presence has increased in supermarkets for two main reasons: (1) to meet consumers' demand for more economically-priced alternatives, and (2) to provide higher margins for retailers. The profitability of private label is substantial, with margins that are generally 6% to 10% higher than national brands.

The primary appeal of private label brands, especially during a recession, is price. A recent poll by PLMA revealed that 75% of American shoppers agreed that the economic downturn was a determining factor in their decision to switch to supermarket private label brands. While price may be a significant factor in purchasing habits, it is evident today that being "just as good, at a lower price" is not enough. As consumers become more savvy, both in terms of price and quality, they have come to expect more and pay less, challenging private label brands to match (or even exceed) national brands in terms of quality, not just price.

The recession has proven to be an excellent opportunity for retailers to reinvent their private label brands, decreasing their dependence on national brands while at the same time differentiating themselves from their competitors and winning market share. Retailers have extended their private label brands across the food, beverage and supplement spectrum, encouraging customer loyalty and driving sales on the whole as shoppers begin to look at their store as a trusted brand for all their needs.

The world's top retailers all boast successful private label programs that are defying the recession and delivering excellent margins. Wal-Mart, the largest grocery seller in the United States, announced in early 2009 that it will reintroduce its Great Value line of food with new

packaging, specifically targeting consumers wanting to pay less; for British retail giant Tesco, private label products have accounted for more than 55% of its sales since 2004.

Regional and high-end retailers can also benefit from private label programs. U.S. grocer Kroger Co. is capitalizing on its private label program, which has become one of the most extensive in the industry. The *Wall Street Journal* reported that 27% of Kroger's fourth-quarter revenues came from its own private brand program, which thoroughly beat out profits generated by national brands.

### **Branding and Packaging: Private Label versus National Brand**

In the past, retailers and grocery stores did not invest much thought or money into packaging their private label brands. Now retailers go to great lengths to ensure the packaging of their private label products at least match those of national brands, or are even more distinctive.

When a private label brand appears in more stores, it is able to gain familiarity and reputation through high visibility — being seen by more consumers more frequently. At Kroger, 35 percent of the products sold in its nearly 2,500 stores were house brands, up from 31 percent five years ago.

As the private label industry grows, national brands are threatened as they now have to compete for limited shelf space side by side with the retailer's own private label products. Some retailers also give more shelf space to their own products, on which they earn better margins, further squeezing national brands by making them less visible.

National brand manufacturers are being forced to rely on the well-known brand images they have spent years and billions of dollars to create, along with a large advertising-marketing budget. However, this expenditure can substantially impact the bottom line, particularly on low-margin food and beverage items that make up the majority of sales in the supermarket channel. Private labels avoid these hefty expenses and are more likely to be profitable.

When a private label brand appears in more stores, it is able to gain familiarity and reputation through high visibility — being seen by more consumers more frequently. 7-Eleven, the nation's largest chain of convenience stores, is an example of this. It already has under its

belt phenomenally successful private label brands such as the Slurpee and Big Gulp, both of which each make more than \$100 million sales every year.

7-Eleven has used its distinguished and widely visible store presence to leverage entry into premium private label brands. It launched its own premium private label beer Santiago, which cost slightly more than the average domestic but less than top-selling import Corona. Beer is, to a great extent, all about packaging and image; Santiago's product packaging was similar to Corona's, and 7-Eleven hoped that it would be seen as the latest trendy brew. 7-Eleven also did not need to spend billions on advertising — millions of 7-Eleven shoppers in thousands of stores would walk in and see Santiago beer right there in front of them.

While private label brands save on major advertising costs, private label packaging has to do more than national brand packaging because these products are not advertised. The package itself, therefore, must convey to the consumer a professional brand and consistent quality — all this in a split-second glance on the store shelf. Furthermore, it is crucial that the package is functional and easy to use when the consumer takes the product home. The experience with a product's packaging can make or break a store brand's success. Positive experiences are likely to build loyalty to your store brand and stimulate future purchases while negative ones can push the consumer right back the national brand.

### **How Packaging Influences the Consumer's Purchasing Decisions**

Packaging is vital, not just to set the product apart on the retail shelf and attract customers, but also to preserve the quality of the product. *Food & Beverage Packaging* magazine reports that more shoppers use packaging as a critical factor in their decision to choose private label or national brands. In fact, despite the recession, 73% of shoppers are willing to pay more for at least one superior packaging attribute.

Improved packaging can give a winning advantage, such as packaging vegetables and salads in bags to preserve freshness, fruit and berries in clamshell containers that reduce damage, ketchup and mayonnaise in squeeze containers, and nuts and snacks in on-the-go containers. Going beyond traditional freshness seals, some recent innovations in packaging can detect

changes in the environment or the contents (such as moisture, odors or oxygen), alerting consumers that the integrity of the food has been compromised.

In the wake of several well-publicized food contamination cases, consumers are placing increasing importance on assurances of freshness and quality. Going beyond traditional freshness seals, Kroger's private label packaged salads carry a 16-digit code that shoppers can enter at HarvestMark.com to learn more about the salad's origin, packing location, ingredients, as well as the date and time the product was packed.

Ease of use is another key packaging element that many consumers are willing to pay more for. A package should be easy to open, dispense, and close such as Weatherchem Corporation's LiquiFlapper® Closure. This closure was designed with these features in mind and it is ideal for dispensing salad dressings, sauces, syrups, creamers, specialty milks, and other pourable liquids. In October 2009, the Association for Dressings & Sauces gave the Package of the Year award to Briannas Dressing bottle for its LiquiFlapper® closure, which opens easily and closes with an audible “snap” that ensures locked-in freshness. It is 10% lighter than other flip-top closures, and its teardrop-shaped orifice offers controlled directional flow and ensures a clean, mess-free experience.

Packaging should also reflect current social and behavioral thinking, such as using environmentally friendly and recyclable material. 30 to 40% of shoppers expressed willingness to pay more for refillable or reusable packaging, which not only saves the earth but offers the benefit of long-term savings for the customer.

Consumers are also smart enough not to be fooled by unnecessarily large packaging; conversely, shoppers indicate they would choose private label brands that offer superior packaging that is user-friendly, practical and convenient, such as packages that fit better into refrigerators with limited space.

### **The Future of Private Label**

Private label products have achieved the highest success in the food industry. Almost 80% of supermarkets and food retailers have increased the number of private label products

offered between 2006 and 2008, demonstrating the increasing importance of private label to their business model. National brands will continue to face increasing pressure to hold down their prices to compete with private label, especially because of their reliance on sales through these retailer's stores.

To maintain growth, supermarkets and mass retailers need to diversify their private label portfolios, extending beyond low-priced staple goods into more luxurious premium goods such as organic products, competing with national brands at the higher end of the market. Kroger has expanded its private label organic food line by 60 products, offering consumers a selection of foods that are free of artificial ingredients, including pasta, waffles, tea, peanut butter and milk. Wal-Mart is actively expanding and improving about 750 of its Great Value private label offerings, from chocolate-chip cookies to laundry detergent, and branding the Great Value label more prominently on packaging.

Savvy shoppers today are planning out their purchases more carefully than ever before, and private label brands have frequently beaten national brands at their own game. As more consumers turn to private label goods instead of their branded equivalents in premium market segments, it is likely that the recent dominance of private label products will continue beyond the recession.

While price used to be the sole overriding factor in customers' purchasing decisions, it is evident today that being just as good at a lower price is not enough. Consumers have come to expect more in terms of price, quality and packaging, challenging private label brands to match and even exceed national brands in these aspects to hold on to their current market share advantage.

*With more than 35 years of packaging experience in a variety of markets, Weatherchem Corporation created the award-winning LiquiFlapper® closure, a revolutionary innovation for pourable products.*

*We take pride in providing manufacturers, contract packagers and private label retailers with the industry's most practical and convenient packaging designs across a wide range of products, from vitamins, spices and seasonings to pet food and chemicals.*

*We can help you take your product to the next level by creating a superior packaging solution that will meet your unique needs, enhance user-friendliness, and give your customers the assurance of quality that will guarantee satisfaction and brand loyalty.*

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