

The Future of Retailer Brands

May 2010





Agenda

- Executive Summary
- Retailer Brand Performance and Forecast
- Consumer Update
- Capitalizing on the 'Retail Brand Era'
- Opportunities for Manufacturers and Retailers

Executive Summary

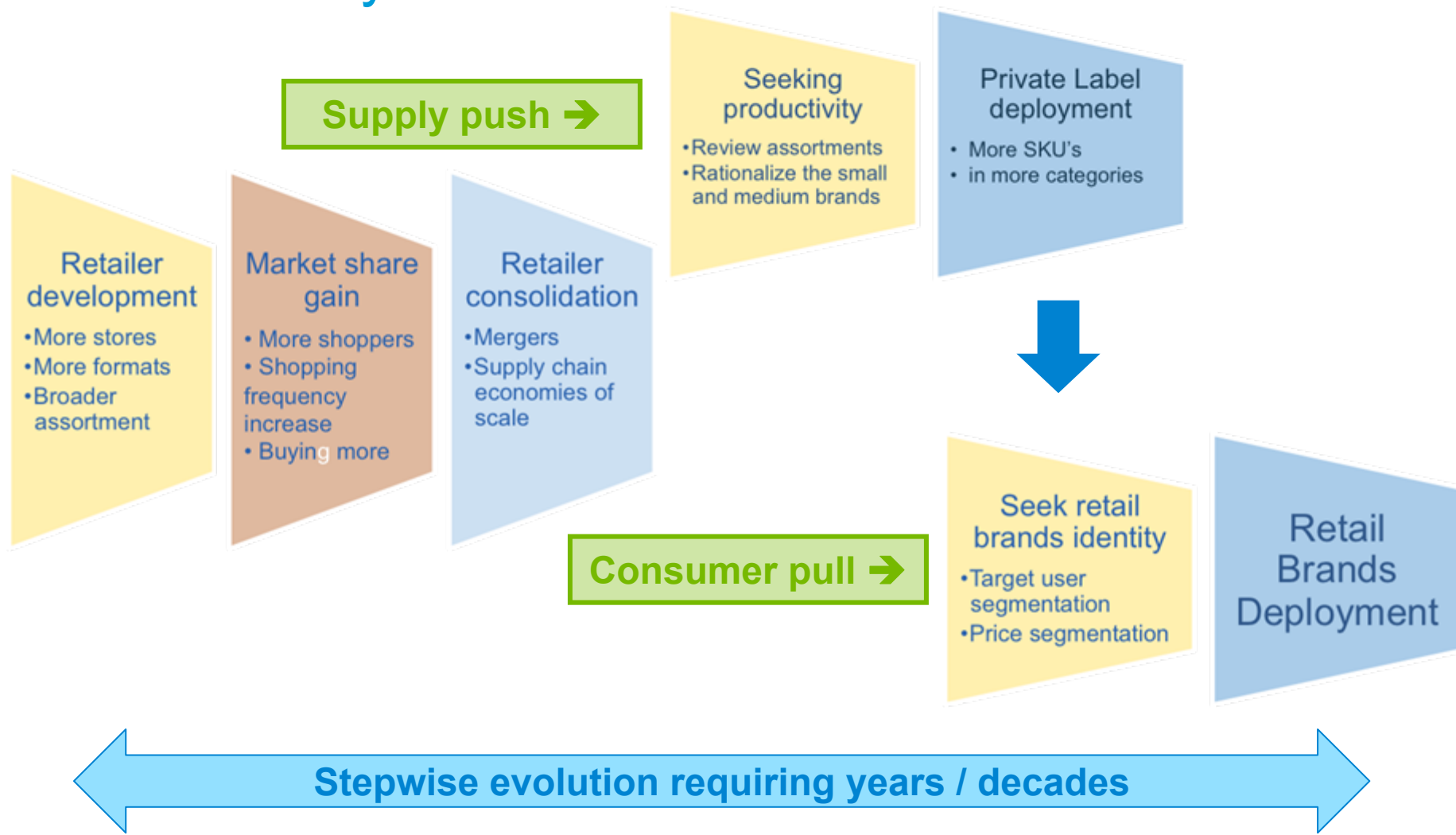
- We are in a new era—the ‘Retailer Brand Era’
- Retailer Brand growth will continue but at a more modest rate than past few years
- Those retailers that operate in the Retailer Brand Era will have the strongest growth for their brands
- Product differentiation and the marketing of that differentiation—or lack thereof on the part of name brands—still a key determiner of retailer brand development



Retailer Brand Performance & Forecast

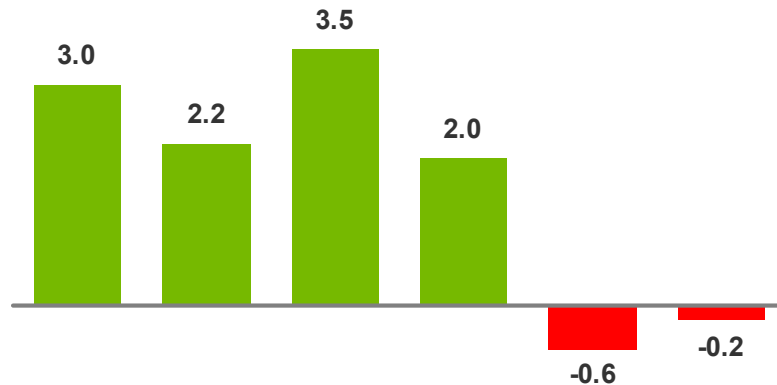
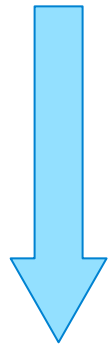


The Retailer Brand development process takes time—from years to decades



U.S. consumers turned to Retailer Brands in a down economy, but branded now improving

Retailer Brands

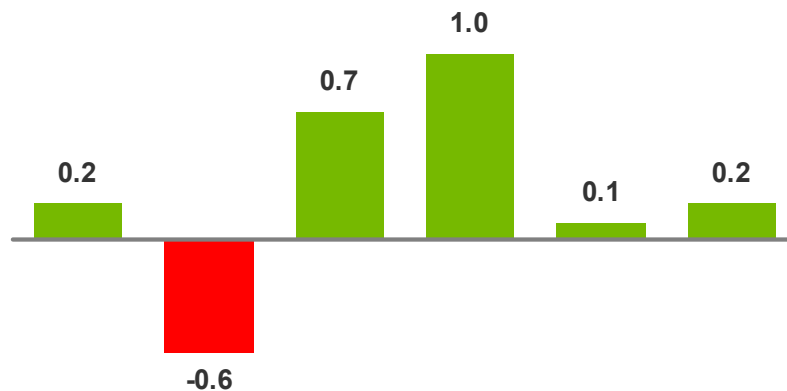
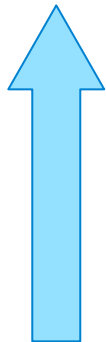


% Unit Sales Growth for last 6 (4-week) periods

Trend Drivers:
Still Growing:

Dairy, Dry Grocery
Fresh Produce, Fresh Meat, Alcoholic Bevs, Deli, Packaged Meat, Frozen Foods, HBA, Non-Food Grocery,

Branded



Trend Drivers:
Still Declining:

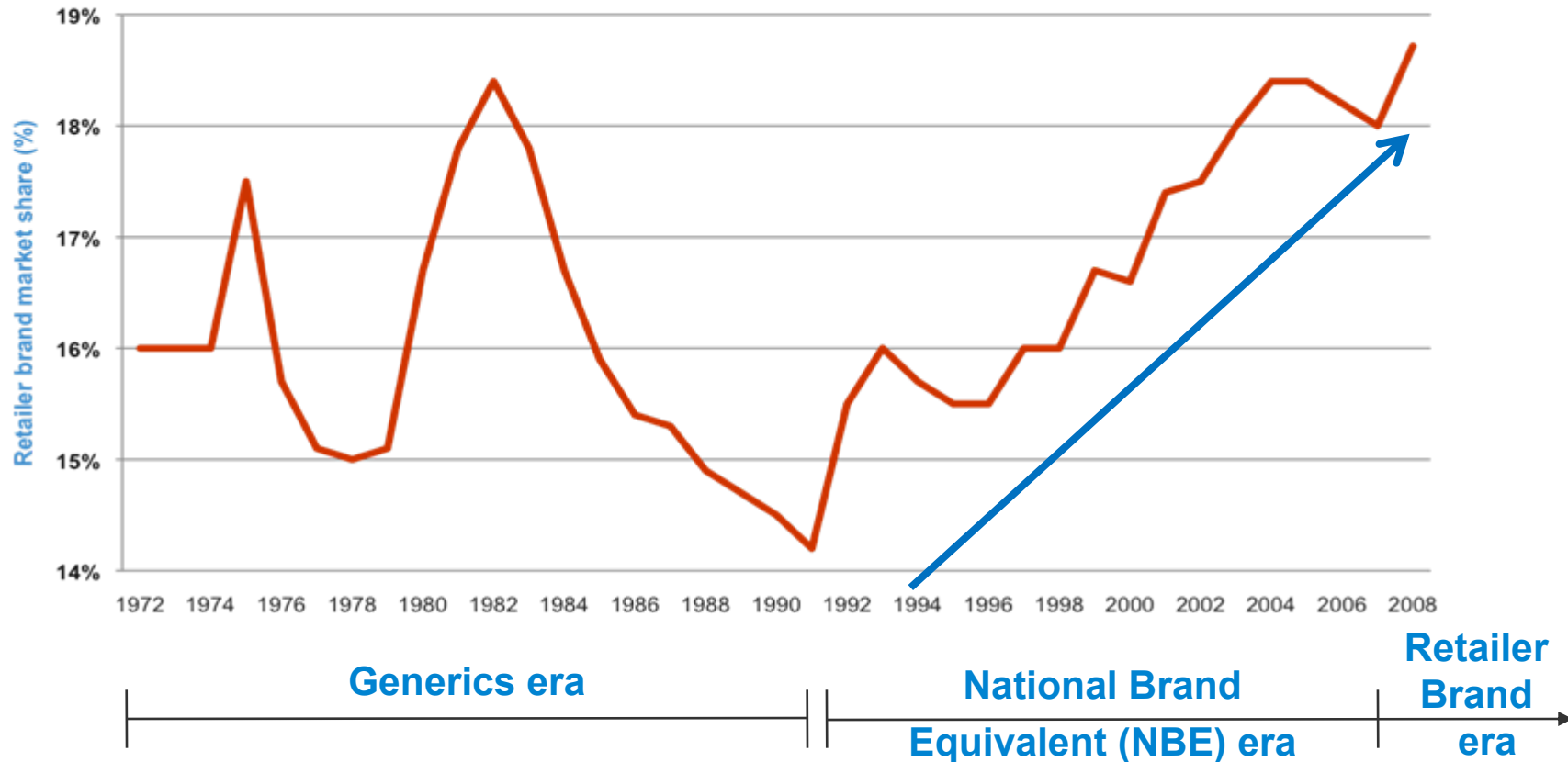
Dairy, Dry Grocery
Packaged Meat, Deli, Frozen Foods, Alcoholic bev, Fresh Produce

Source: Scantrack®, a service of The Nielsen Company; (FDM w/ Walmart) ending 04/19/2010 (versus prior year)



We are experiencing the start of a new era in Retailer Brands

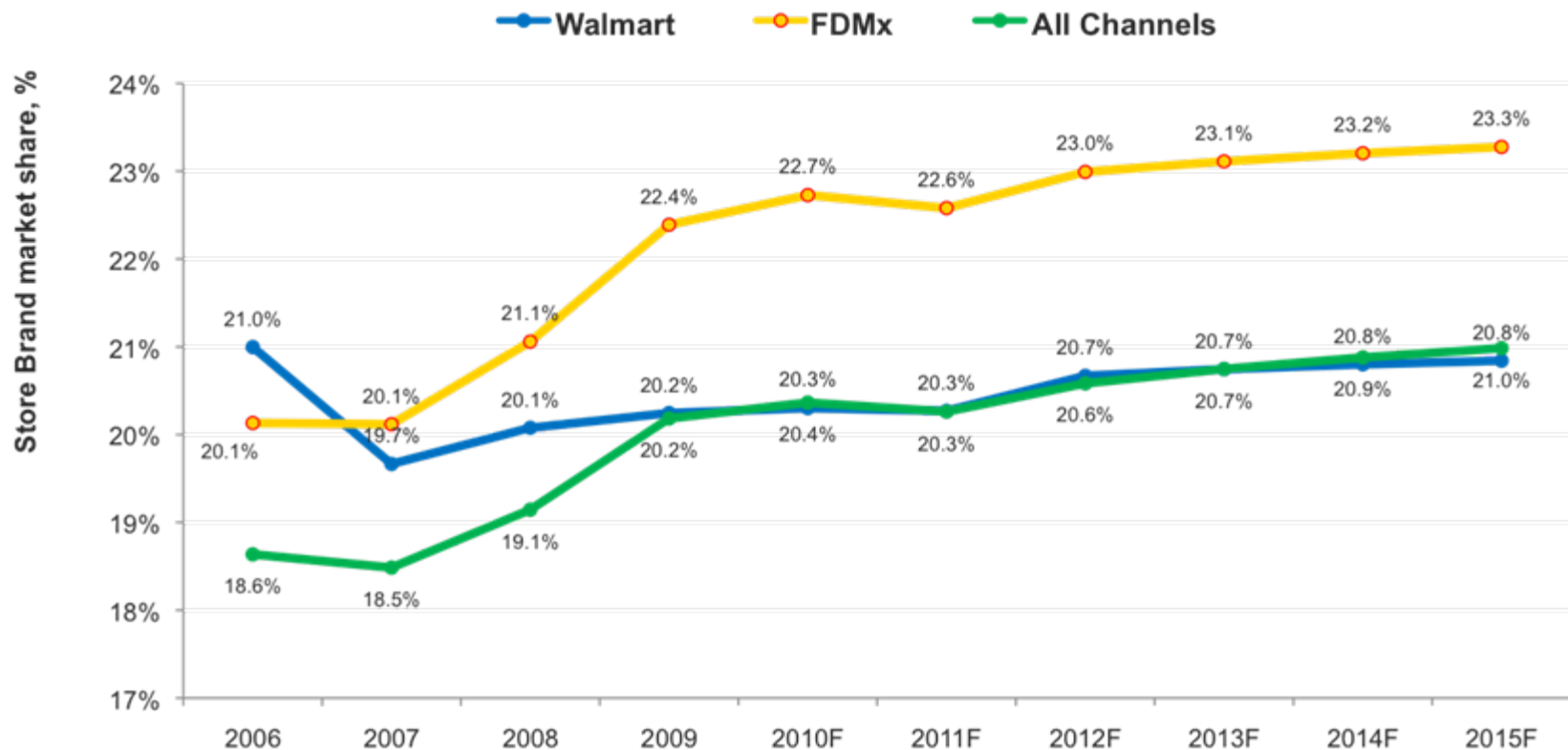
U.S. Retailer Brands over time



Source: Hoch Banerji (1993), ACNielsen, BEA, Conference Board, Canback Dangel analysis

Nielsen predicts slower Retailer Brand unit growth into 2015 than during '07 & '08

Retailer Brand Units Market Share Forecast : 2009–2015

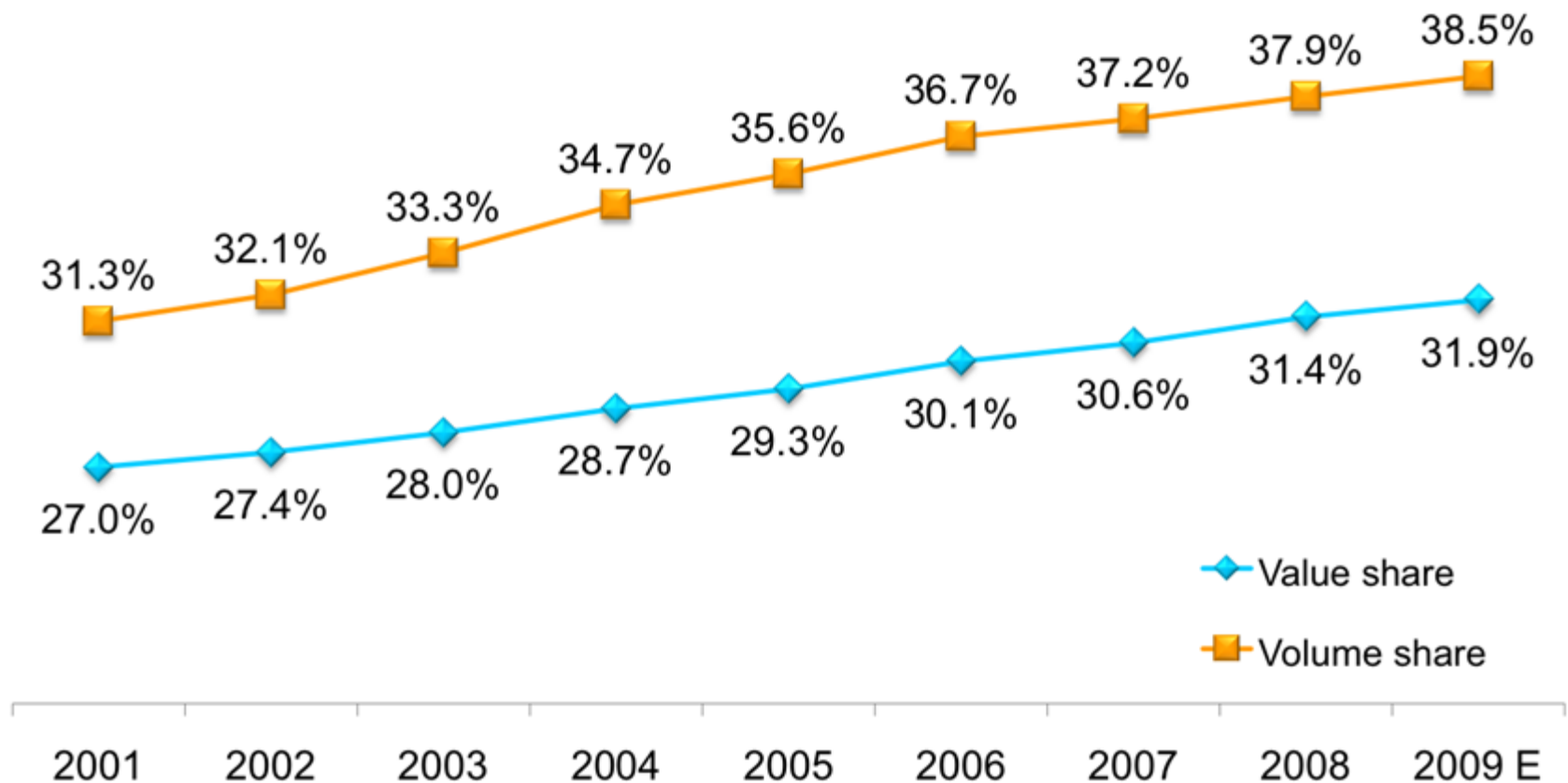


Source: Nielsen Scantrack and Nielsen Homescan data.

Source: 4i Consulting Forecast, copyright 2010. Forecasting results are estimates built on a series of qualified inputs and assumptions to predict future results. Actual results may differ as unpredictable factors may influence final results. All forecasts are tested and validated utilizing 95% confidence level intervals and are statistically sound based on the factors utilized for the exercise. R ranges from 80 to 90% for the typical category; lower where historical data periods are limited



Retail Brands grew quickly in Europe: 7 points in 8 years





U.S. consumer spending on Retailer Brands lags most key European countries

Retailer Brand Spending

	2008 spend per inhabitant				2008 spend per household			
	Mio of inhabitants	€	£	\$	Mio of households	€	£	\$
Belgium	10.4	€375	£300	\$ 551	4.4	€886	£709	\$ 1,303
France	60.5	€354	£283	\$ 520	25.3	€846	£677	\$ 1,243
Germany	82.7	€548	£438	\$ 805	39.3	€1,153	£922	\$ 1,694
Italy	58.1	€96	£77	\$ 142	22.4	€250	£200	\$ 368
Netherlands	16.3	€362	£290	\$ 532	7.1	€831	£665	\$ 1,222
Spain	43.1	€246	£197	\$ 362	15.2	€697	£558	\$ 1,025
UK	59.7	€634	£508	\$ 944	26.1	€1,451	£1,161	\$ 2,159
USA	298.2	€193	£152	\$ 283	112.7	€509	£403	\$ 749
Total	629	€299	£238	\$ 440	253	€745	£593	\$ 1,097

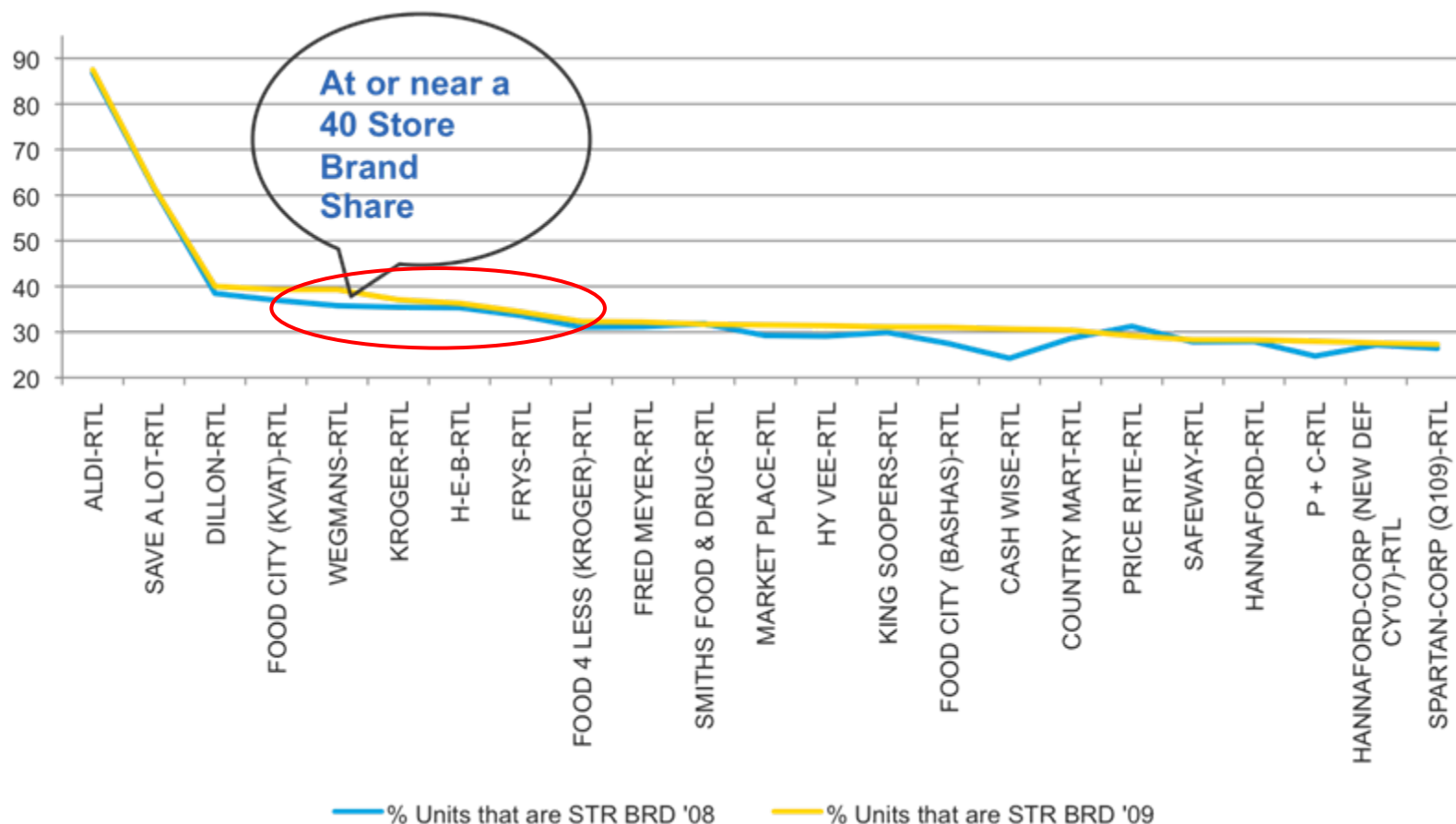
FX rates: 2008

€ £0.80

€ \$1.47

£ \$1.86

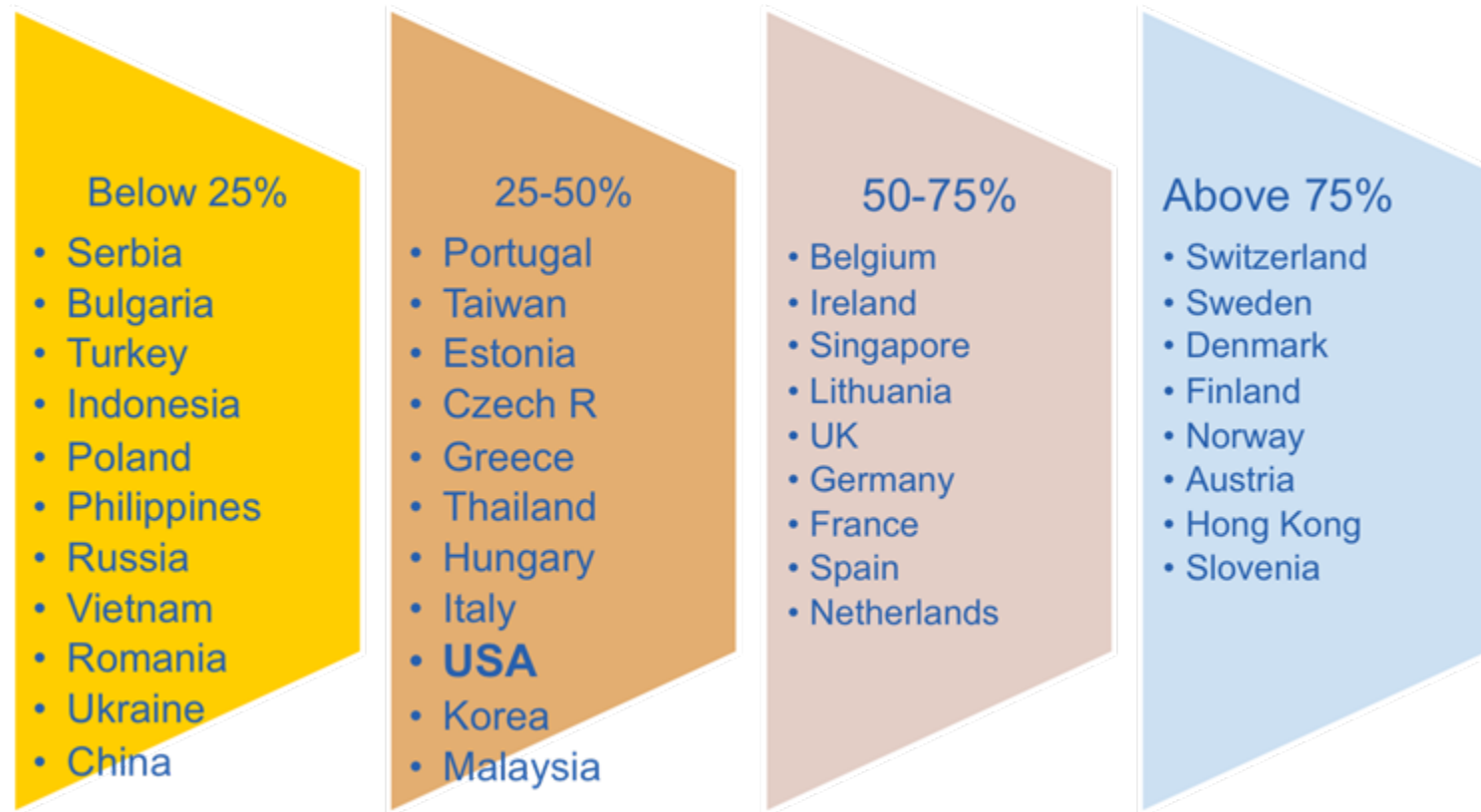
Many major U.S. Food/Drug/Mass retailers already have Retailer Brand unit share of 25–40%



Source: Nielsen Homescan data 52 weeks ending 3/20/2010

Retailer concentration is increasing, but U.S. has long way to go

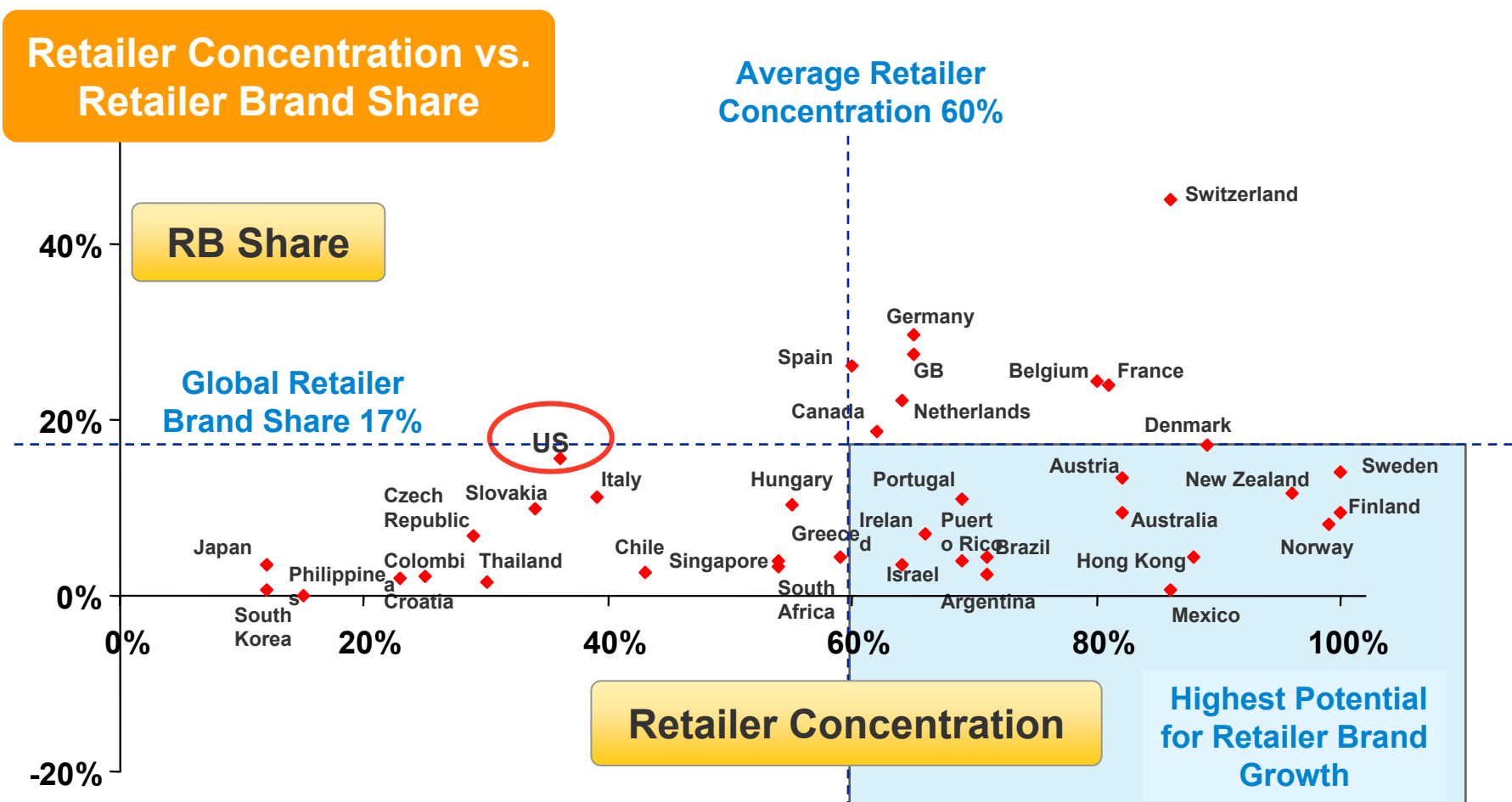
Percent Share of Top 3 / 5 retailers (*)



(*): Top 3 retailers in European markets; Top 5 retailers in Asia Pacific and U.S. markets



Lack of consolidation will keep U.S. Retail Brand growth more modest than found in many other countries



*Retailer concentration measured as the share of sales held by the top five retailers within each country

* Source: ACNielsen Global RB study 2005 (analysis of 38 countries reviewing 80 categories across 14 larger product areas) 52 weeks to April '05 vs. YAG

Summary—Key Takeaways

- We are in a new era for retailer brands—the ‘Retailer Brand Era’
- U.S. Retail Brand development will continue to grow modestly due to a lack of retail consolidation.
 - Some U.S. retailers already at European levels and will grow faster than the U.S. as a whole



Consumer's View of Retailer Brands



Who buys Retailer Brands?...

EVERYONE!





Demographic trends do not favor Retailer Brands

Retailer Brand buyers:

- Younger households
- Non-Hispanic
- Larger HHs—those with children at home
- Heavier spenders overall

Brand buyers:

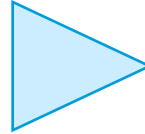
- Older HHs
- Hispanic
- Smaller HHs
- Lighter spenders



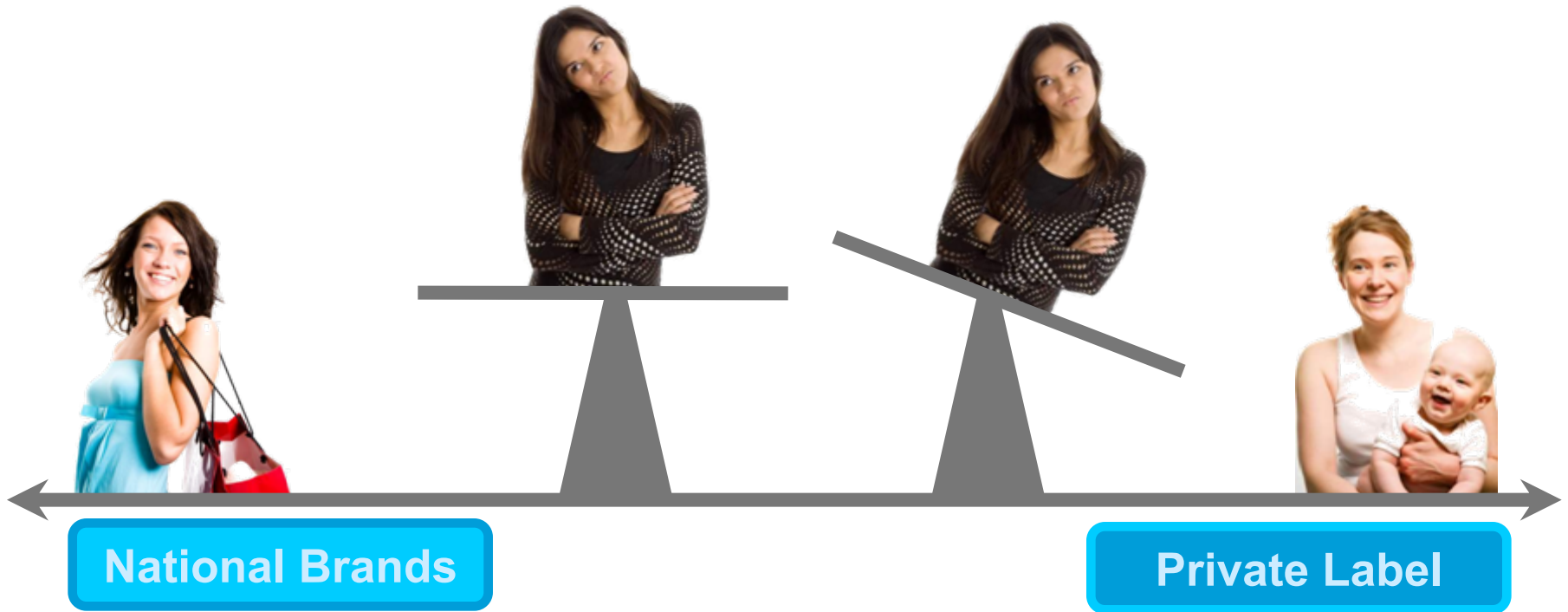
We are not talking about every shopper

The SHIFT is in the MIDDLE ... the FENCE-SITTERS

PRE-recession



POST-recession



Two big reasons why Retailer Brand growth seen in last two years will be sustained



**1. The secret is out:
It's (often) just
as good**



**2. “Savvy Shopper”
is a badge of
honor**



The Retailer Brand shopper “new” mentality

Out with
“cheapskate”...

...In with *“savvy shopper”,
“frugalista”, “deal maven”*

Out with *“they might
not like me scrimping”...*

...In with *“they’ll probably
think it’s just as good”*

Out with
“it might be terrible”...

...In with *“they’ll love that
there’s dessert, too”*

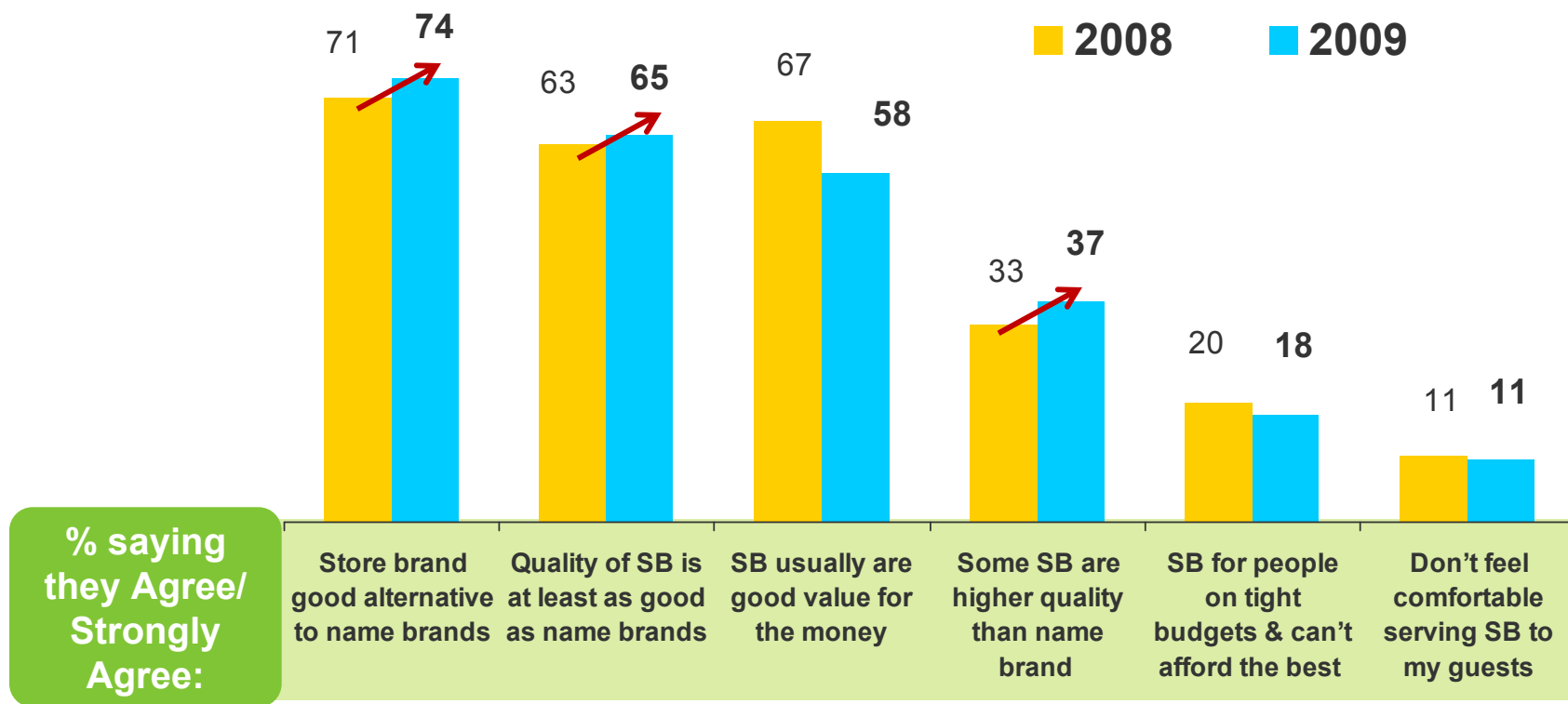
Out with *“take the wrapper
off before they see”...*

...In with *“tell my neighbor
what I’ve discovered”*



Consumer perception of Retailer Brand quality is strong and still growing

Consumer panel survey on Retailer Brands: Quality and Price/Value



Source: Homescan®, a service of The Nielsen Company, Panel Views survey 2008 & 2009



Consumer interviews uncovered two reasons consumers do not buy more Retailer Brands

1. Product Performance—Retailer product does not perform in some categories
2. Category on the “Not Okay” List—In some categories, consumers still not willing to try a retailer brand



Bottom line: Consumers are noticing

In order to be irreplaceable



One must always be different

Coco Chanel

Summary—Key Takeaways

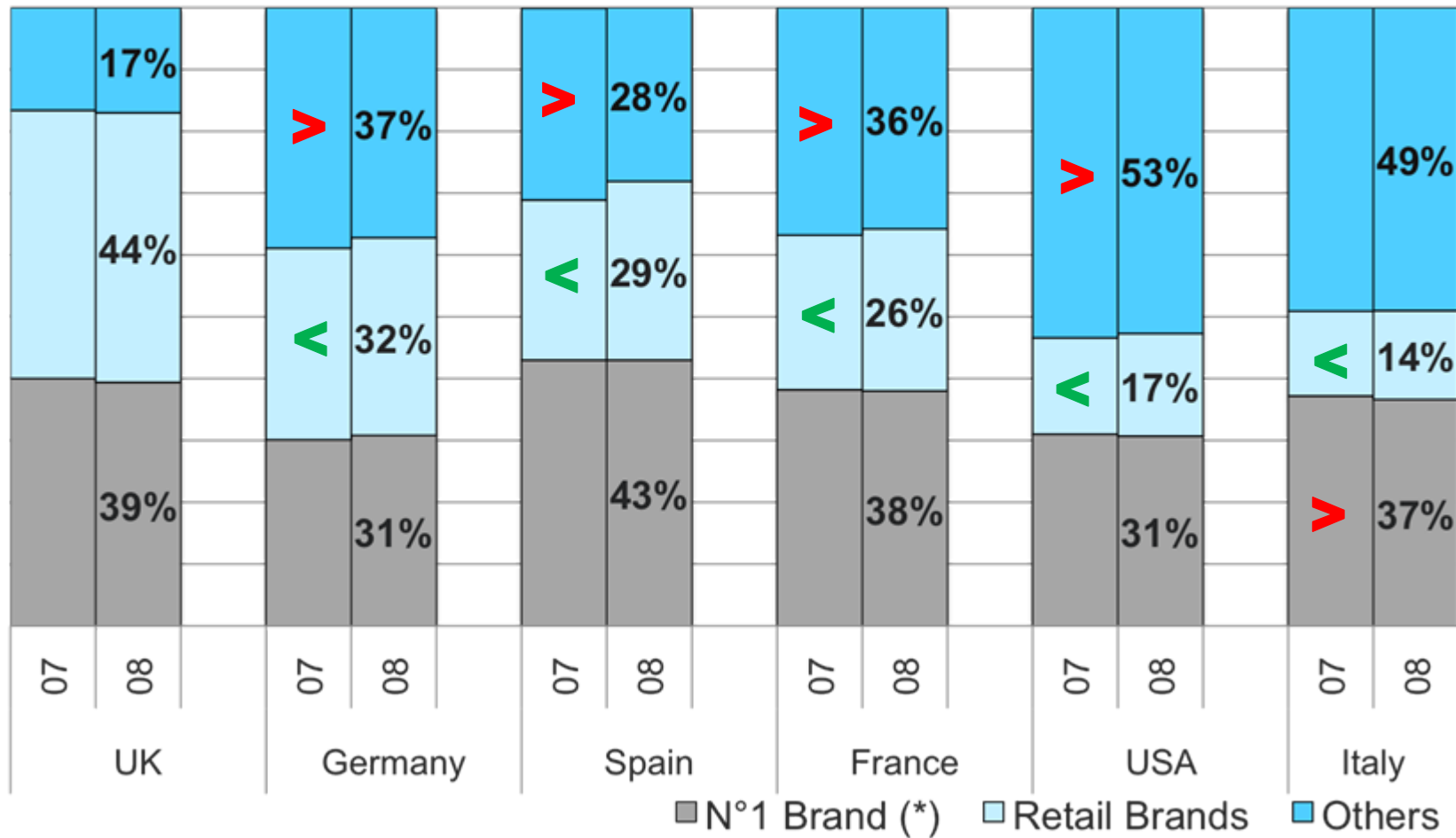
- Long-term demographic trends do not favor Retail Brands—Retailer will need to reach Hispanics and older HHs to maintain growth in 10–15 years
- Economy generated trial, but retailers need to check their repeat; even some of the top retailers have product performance issues within their brands in some categories
- Consumers have upped the ante for name brands in terms of value
 - *“Prove to me why your product is worth more money than the retailer brand.”*



Capitalizing on the Retailer Brand Era



Retail brands essentially gain at the expense of secondary and small brands in U.S. & Europe



(*): Based upon a sample of frequently purchased categories

New requirement for brand marketers: Greater Reward! What's your brand's greater reward?



◀ **RISK**

From...

vs.

REWARD ▶

To...

◀ **REWARD**

vs.

**BIGGER, BETTER
REWARD** ▶



Innovation has been a “brand” advantage – new H&W areas not a focus for many Retailer Brands

Health and Wellness Claims Share of total Food & Beverage Sales

	Retailer Brand	Branded
Natural	8.1%	9.0%
Low Fat	6.7%	5.9%
Absence Of Specific Fat (Trans Fat or Saturated Fat)	0.6%	6.6%
Reduced Calories	1.3%	5.4%
Cholesterol Free	1.0%	5.1%
Fat Free	4.7%	3.9%
Reduced Fat	6.7%	2.6%
No Calories	0.7%	2.7%
Caffeine Free	0.7%	2.6%
Organic	1.9%	1.9%
Multigrain	0.4%	0.9%
Antioxidants	0.2%	0.9%
Good Source Of Fiber	0.1%	0.8%

Example: Cholesterol Free products generate only 1% of Retailer Brand food & beverage sales, but represent 5.1% of branded sales.





Who is making the right moves?

Retailer Brand Era denoted by significant marketing efforts by retailers



Source: Kroger.com



Retailers leveraging consumer research to develop new Retail Brand lines and improve products

NEW & IMPROVED DIAPERS

Diapers & Wipes

Clean little messes for little money with Baby Basics® Wipes and new and improved Diapers.

\$4 Off Baby Basics Diapers

SHAMPOO & BODY WASH

FORMULA

WELLNESS

LOTIONS & POWDER

Happy Baby. Happy Budget. Happy Mom.

[Find us at a store near you](#)

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New & Improved Diapers

Introducing the **new and improved** Baby Basics® Diapers. Our diapers now have improved soft, stretchable sides for a better fit and an improved super-absorbent core for better leak protection. The diaper's hypoallergenic inner liner is treated with Vitamin E & Aloe to protect baby's skin. We've re-engineered our diapers from the bottom up to move with your baby while keeping them feeling clean and dry.

New Stretchable Sides

New Super-Absorbent Core

SUPER-ABSORBENT

Source: SUPERVALU



Retailers are innovating products— no longer just copying



Source: Wegmans

Retailers are creating innovative packaging

- Retailers not only will need to keep up, but potentially surpass manufacturer product and packaging innovation

Benefit:

- Reduced costs
- Increased customer base



Retailers are promoting their brands

The screenshot displays the H-E-B website's homepage. At the top, the H-E-B logo is prominent, followed by the tagline "Here Everything's Better." and navigation links for Home, Store Locator, Weekly Ad & Coupons, Gift Cards, and Careers. A secondary navigation bar includes links for Mealtime, Pharmacy, Floral, Photo, H-E-B & You, About H-E-B, and Services. A date indicator shows "09/10/2009" and a location "H-E-B /". A search bar is located on the right side of the header.

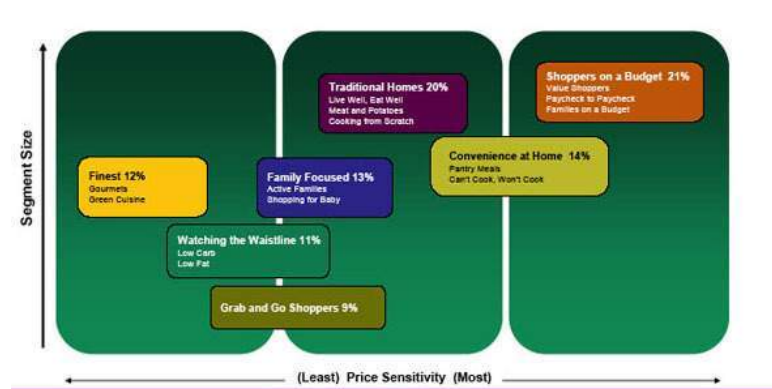
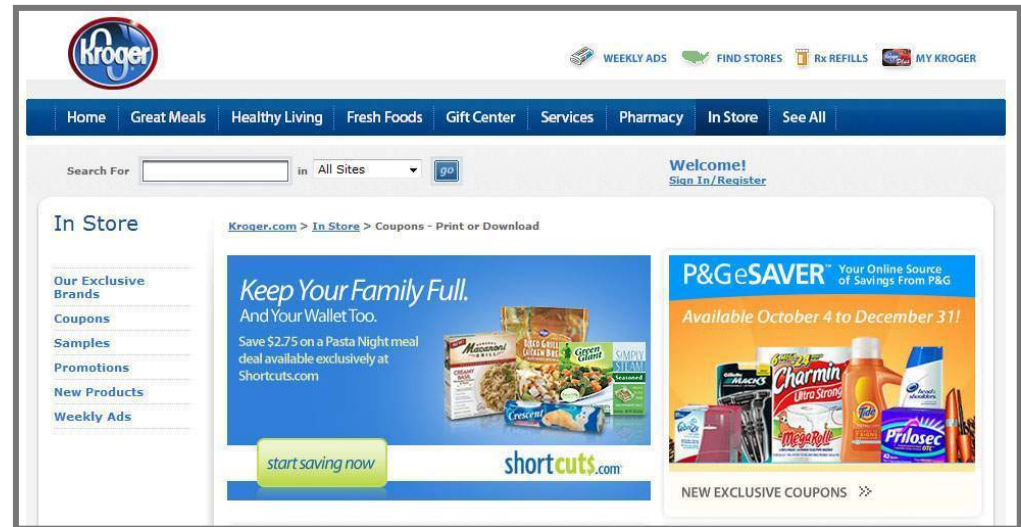
The main promotional banner features the text "Win a year of professional cleaning" and a large, stylized graphic that reads "Ready. Set. Clean! Sweepstakes!". Below this, an image shows various cleaning tools including a broom, a mop, and a sponge. The text states: "Four H-E-B shoppers will win free cleaning service for a year! All because we're celebrating the launch of our new H-E-B Household Cleaning Tools. Get everything you need to sweep up crumbs, mop around the kitchen, scrub between tiles, and make regular cleanup a snap. Visit your H-E-B to check out our extensive line of brooms, mops, sponges, and more. No purchase necessary to enter or win. See Official Rules for the prizes and other important details. All entries must be received by September 30, 2009." A red button labeled "Enter Now" is positioned at the bottom of the promotion.

On the right side of the page, there are three promotional boxes: "H-E-B Digital Photo" with a deadline of 9 p.m. the next day, "Deli Party Trays" with the slogan "You be the host, we do the work!", and "H-E-B Gift Card" with the message "Give the gift that's perfect for any occasion!". At the bottom of these boxes is a link to "SIGN UP FOR ONLINE SERVICES".

Source: <http://www.heb.com>

Retailers are creating integrated marketing plans and leveraging shopper segments

- 3 Screens + print + in-store
 - TV, Web, Mobile
- Classical brand marketing plans
 - Understand each brand's equity and build through marketing plans
- Starting to take plans down to segment
- Develop products and tailored marketing to consumer segments



Following the success of Aldi and Save-A-Lot, new no-frills formats are popping up from other retailers

Valu King
FOOD MARKET

Save up to 40%
on your total food bill

Hot Deals

See Store Locations

Shop Valu King Today
Where Value Rules!

- Hot Deals — Save up to 40% on your total food bill
- Our best buys on national-brand products priced incredibly low
- Meat cut and ground fresh in-store
- Fresh produce every day
- Dollar zone — hundreds of items priced at \$1



Joe's SMART SHOP

THOSE WHO KNOW...
SAVE BIG WITH JOE.™

We keep our prices
OUTRAGEOUSLY LOW!

GRAND OPENING
WEDNESDAY, MAY 5TH • 7A.M.

12035 Antoine Dr.
Houston, TX 77066
832-722-3299
Store
832-722-3229
Hiring Office
Contact us by email

RICARDO
JOIN OUR TEAM

Prices SO LOW it's
CRAZY!

COMING IN MAY
OUR WEEKLY AD

FIND US ON
FACEBOOK®

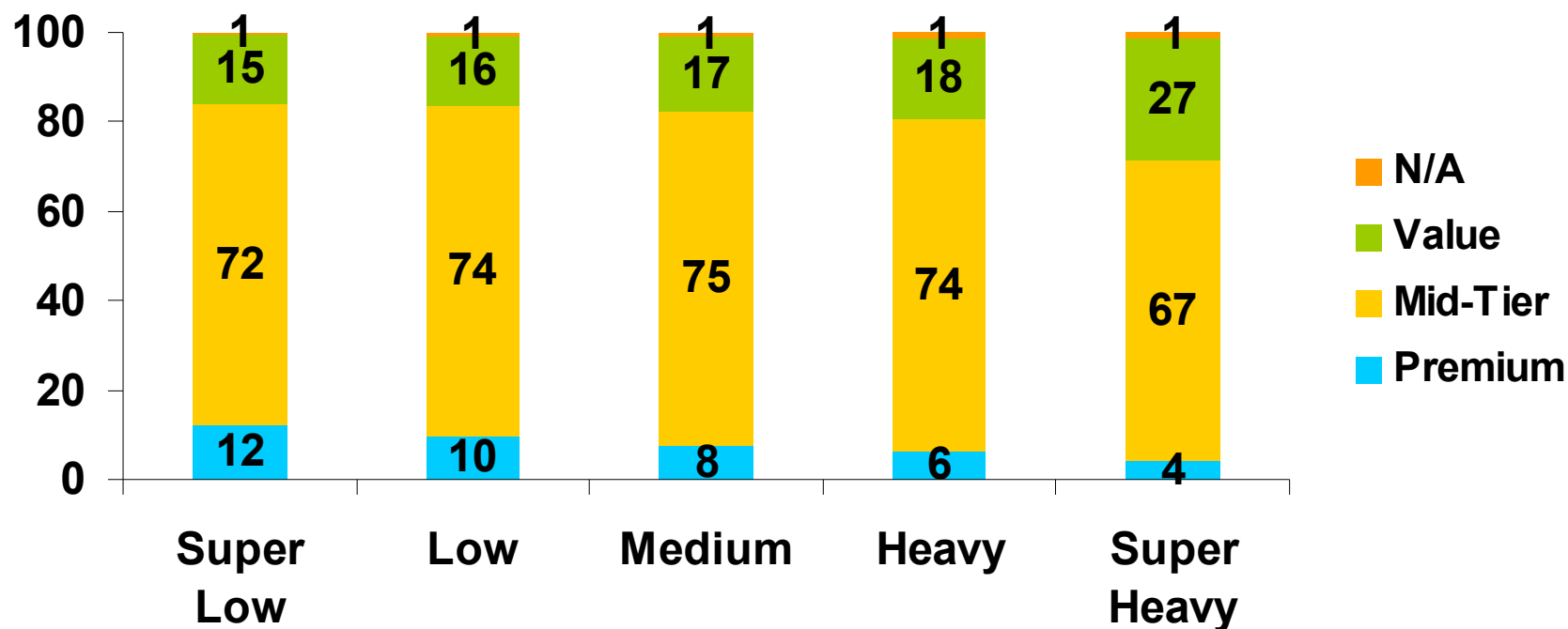
ABOUT US
From fresh produce and top quality meat to everything in between, we have what you need at **outrageously low prices**. What's our secret? We keep things simple and pass the **incredible savings** on to you. Come get to know us. After one trip you'll agree.
"THOSE WHO KNOW...SAVE BIG WITH JOE.™"

Jobs at Joe's | Contact Us | Mobile Alerts



Retailers need to ensure their tier focus is in line with consumer demand

Total Outlets - Retailer Brand Tier Unit Shares

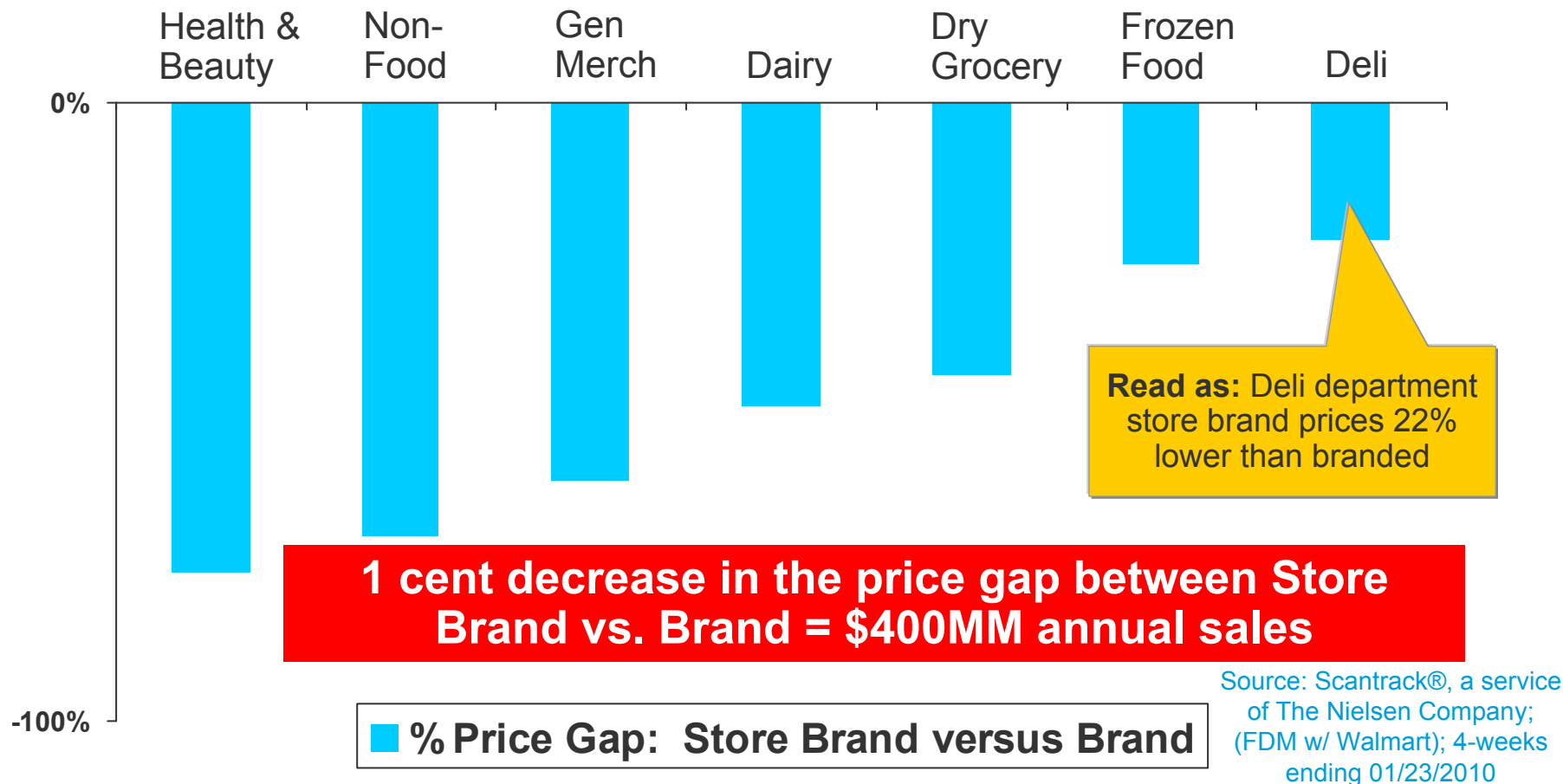


Source: Homescan®, a service of The Nielsen Company; UPC-coded purchases; 52 weeks ending 12/26/09



Do you have the right price gap to brands?

In departments and categories with extreme price gaps, the potential to enhance sales is significant





The Future: What should Manufacturers and Retailers Do?

What might we see in the future?

- Further retail consolidation, with many smaller, single market banners disappearing.
- Retailers trying new formats featuring more dominant store brand assortment.
- Some Major US retailers with store brand unit shares in the mid to upper 40s within the next five years.
- Large retailers producing store brands for other retailers.
- More non-leading-brand manufacturers adding store brand production to fill up manufacturing capacity.
- Stores becoming a more important marketing tool for retail brands and name brands.



Closing thoughts

For manufacturers

- Understand where your products/categories fall in terms of store brands
 - Are they differentiated from store brands in the minds of consumers?
 - Research how you can differentiate
 - Innovate to remain relevant
- Leverage marketing/advertising to ensure consumers are aware of the differentiation
- Launch new items with evidence of item incrementality to the category, not just your brand.
- Plan for continued store brand growth.



Closing thoughts

For retailers

Engage in Store Brand Era best practices:

- Research store brand equity, products and packaging
- Market your brands vigorously using multiple media including in-store and Online
- Require manufacturers to provide category incrementality facts for all new items



Focused on addressing Manufacturer and Retailer strategic and tactical questions around retailer brands





Thank You

- If you have follow-up questions or want more information, please contact your Nielsen Professional Services Representative.
- If you are not a current Nielsen client, please contact us by phone or email:

Phone: 800-553-3727 email: CPGSolutions@nielsen.com

- OR if you have any questions regarding the content of this Webinar, you can also contact:

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