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Why CPGs Face Deeper Private Label Threat in 2021 (And Must Respond Accordingly)

By Holly LaFonMay 5, 2021

Private-label products have grown in cachet and number over the pandemic, posing more competition for CPG companies in an already shifting landscape, and brands will have to respond, experts say.

In addition to shaking up brand loyalty – 36% of consumers tried a new product brand since the start of the pandemic – stay-at-home trends induced consumers to branch out into retailers' own offerings. According to a **McKinsey** survey from June, 25% of consumers had recently bought a new private-label brand.

Retailers from **Target** to **Amazon** have been generating the private-label brands with full force. As of May, Target listed 48 owned brands, including **Market Pantry** and its latest, **Perfect Day**. Amazon has also introduced a slew of proprietary lines, most recently announcing food and snack brand **Aplenty**.

And traditional brick-and-mortar grocers are riding the wave, with **Kroger** telling investors in March that it planned to release 660 new private-label items in 2021, mostly in its premium **Simple Truth** and **Private Selection** brands.

Retailers have delved into new product launches because they can increase customer loyalty by only being offered at a single company, and help against the ascendance of low-priced retailers, **Stifel Nicolaus** managing director **Chris Growe** told *CPG Specialist*.

"There's been such an aggressive level of price competition in grocery," Growe said. "It's one of the only ways some of these stores can compete with a **Walmart** or **Aldi** or those kind of price-based retail concepts."

Sky-high margins add to the allure. Whereas grocery stores typically operate with razor-thin margins of 1% to 2% with CPG brand sales, private label products can offer up to 30%, **Amanda Lai**, senior manager and food practice lead at retail consultant

firm **McMillan Doolittle**, told *CPG Specialist*. They also add a point of differentiation for retailers in a crowded field, such as at **Trader Joe's**, where people will go out of their way to pick up its unique products.

Adapting to market changes by embracing private label will in fact be crucial for the retailers' survival, **Louis Biscotti**, national practice leader of the food and beverage sector for accounting and advisory firm **Marcum LLP**, told *CPG Specialist*.

"I think any retailer that doesn't have their own private-label brand risks losing customers today," he said.

The Threat of Private Label to Traditional CPG

With so many benefits to retailers and such rapid buy-in, should CPG brands be concerned?

"The short answer is yes, CPG companies should definitely be on the alert about the acceleration of private-label brand development," Lai said. "Consumer perception of private label has grown more positive, and more consumers view private label brands to be of good quality or high quality."

Prior to the pandemic, retailers' brands had an incredible run of significant marketshare gains for several years. That suddenly changed when COVID-19 hit, Growe said, and CPG brands received a boost.

When people were forced to stay home and make meals, they frequently opted for branded products they knew and loved when they were younger, that they trusted, and that helped them enjoy their newfound home dining confinement. Private label brands started losing marketshare to brands across every channel at the start of the pandemic, according to Growe.

"The pandemic brought this kind of love of brands back to the consumer," he said.

But that phenomenon may be temporary. Though the uniqueness of the pandemic makes forecasting consumer behavior difficult, the return of private-label encroachment on marketshare is likely inevitable, experts say.

"The foundation of what was supporting private-label is not flawed and it's not going away," Growe said. "So in that regard I believe that private label will get back to gaining share in the future."

And as the pandemic progressed and as people emerge from it, there will be growing need for value for certain consumers, particularly those affected by job losses.

"As we observed in the previous recession people will typically trade down, and this is where there's a huge advantage fpr retailers that have private label brands," Lai said.

Trends such as growth of private label brands will also proceed albeit at a less feverish pace, Biscotti said.

"They're in a supercharged state now," he said. "I think they'll go back to a very fast pace hereafter, but it's not going to slow down. This will continue."

How CPGs Can Strategize

Experts say CPG companies can strategize to muscle back share gains as the next phase of the marketplace unfolds.

To start, they will want to avoid creating products that copycat private-label offerings they may be competing against.

"That will only further dilute your brand from your core offering," Lai said.

Instead, they should double down on what makes their products special, emphasizing their brand personality and heritage, and build an emotion connection that consumers don't necessarily have with private labels.

She used the cola category as an example.

"I could push my private-label **Coca-Cola** as much as I want, but consumers don't have the same emotional reaction or connection to a private-label soda versus a Coca-Cola or a **Pepsi**," she said.

Moreover, national brands have an advantage in being highly specialized in the types of products they make, and they should leverage their strong and experienced research and development teams to develop innovative products, Lai added.

"**Oreo** for example has come out with non-stop flavors of Oreos, but they have the core consumer that's willing to try them out," she said.

An area where they have acted correctly and should continue with is in keeping up with trends, which private labels have advanced aggressively, Biscotti said. Delay in recognizing changing consumer tastes and demands – such as organic ingredients and healthy and nutritious profiles – harmed CPGs in the past, he said. But they have returned to the right track by buying innovative startups and broadening their product lines, and at a pace that accelerated during the pandemic.

"I think the CPGs are coming out really good through this whole thing," Biscotti said.

Growe echoed the recommendation that big brands in particular adapt their products to where the consumer is going — both in product type as well as in natural and healthy product varieties.

"I think that sort of evolution of the brand is necessary," he said.

Large CPGs will also need to strengthen their marketing, which many have already done, Growe added. Investment in marketing has increased by double digits across the majority of large food companies.

"They're going to have to spend more money on marketing just to try to maintain some of these marketshare gains that they've gained during the pandemic," he said.