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Private Label Brands Roar at Retail



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Everything's big at Costco, from the bags of produce to the boxes of cereal to sales and earnings. So maybe it shouldn't have been such a big surprise when UBS valued Costco's Kirkland Signature private label at \$75 billion. Costco has more than 245,000 employees, 94 million members, nearly 770 stores – oh, and one big private label. It's the only thing at Costco there's only one of.

Costco racked up \$138 billion in sales in 2018, up 9.7 percent from the prior year. And the big driver: private label. Costco reported a \$3.134 billion profit, fueled by Kirkland Signature sales that topped \$39 billion, up from \$35 billion in 2017.

As usual, the company is thinking big. CEO Craig Jelinek says Costco "broadened" its "selection in apparel, organic and fresh foods, household basics, sporting goods, and health and beauty products." He says the company's focusing more on sourcing products within each country, "driving costs down, enhancing member value, and reducing the environmental impacts of transportation."

The Big Picture

Big brands these days increasingly are finding big competitors, and sometimes sources of income, from the retailers themselves. Kroger's Simple Truth private label brand has long since topped \$1 billion in sales. And that's just a start. If you want to scroll through Wal-Mart's Great Value products online, prepare to spend hours. Whole Foods' 365 Everyday Value, Meijer's Meijer Gold and Target's 36 private or "owned" labels such as Archer Farms and Simply Balanced are just a few of today's big brands. Trader Joe's, Publix, Wegman's, Walgreens, CVS, Rite Aid, Family Dollar, DG, Giant Eagle and Raley's all sell under their names.

One out of every four products sold in the United States is private label or store brands, according to the Private Label Manufacturers Association. The group says private label in 2018 grew 4.4 percent, adding \$5.5 billion in sales to reach \$129 billion and as high as \$170 billion. A 2019 PLMA survey found two thirds of respondents agreed that “in general, store brand products I have bought are just as good if not better than the national brand version of the same product.” More than 40 percent said they buy store brands frequently or always and 25 percent are buying more store brands than five years ago.

The Amazon Approach

Private label strategy isn't just an afterthought. It's the main ring for many retailers, but strategies vary. While Costco focuses on Kirkland Signature, Amazon reportedly rolled out nearly 150 private labels. AmazonBasics batteries may be giving Duracell and Energizer a run for their money online, but most Amazon labels don't bear the retailer's name. The company has been debuting products under its Solimo and Happy Belly private labels. Amazon can use Big Data to determine big demand. Rather than adding another manufacturer's brand, they just roll out another private label.

Trader Joe's has taken a different tack. The company launched its first private label grocery product, granola, in 1972, under the Trader Joe's name. By 1997 it was introducing about 10 new items a week.

Three-pronged Attack

While private label has been growing, the strategy often is about multiples. There's a lot of thought around having three private label brands within each retailer-- a low-cost brand; a premium, high quality, higher priced brand; and a middle-ground, organic or specialty private label, possibly ethnic, organic, non GMO, or along those lines. But you need three private label brands to appeal to your various customers.

I would say the biggest growth potential is in organic and ethnic brands, although there's room for growth across the board. There are predictions that non-GMO will be the big winner over the next couple of years. Other specialized areas also are on a roll. Trader Joe's offers nearly 100 gluten-free products, according to the Private Label Manufacturers Association. Private label products are being rolled out for diets such as ketogenic and Whole 30, as well as for vegans, diabetics and those who are lactose-intolerant.

It's interesting to see how companies based abroad handle private label when they arrive or expand here. German supermarket Lidl last year announced plans to buy 27 Best Market supermarkets in New York and New Jersey. Lidl has been pumping up private labels in its U.S. stores. These include the premium Preferred, Essentials and Organic brands. Still, the products often come across more as generics than as brands. Product labeling indicates they're distributed by Lidl and have the “Lidl Love it! Guarantee” on the back. Lidl also offers specialty Italian products under its Italiamo brand.

The Future of Private Label

Big manufacturers are behind some store labels, keeping new products flowing. Still, you might say, “Why would a manufacturer bastardize its own product with private label?” Because they need to operate at capacity to get more efficiencies. Big companies use excess capacity to create private label. These manufacturers get market share and volume, while building customer loyalty to the private label itself.

Private label is part of a bigger trend as supermarkets become more proactive. You’ll see growing assortments of processed and prepared foods, created and cooked by a different company under a grocery store label. In-store bakeries have become bigger. That’s not private label, but it’s a concept similar to the private label movement. The store is making the food, not just presenting something made elsewhere, creating customer loyalty and traffic. So many entities are selling food that retailers have to move to a model where they have a private label to compete.

Overall, private labeling is a positive trend, although, as with everything, there will be winners and losers. It helps manufacturers who need capacity, creates loyalty for retailers who can get bigger margins, and is good for the consumer, especially if it includes low-cost, high-end, and middle options along with a specialty. We’ll see how far this trend goes and whether there is a backlash if consumers feel overwhelmed and remain loyal to big brands. Still, one thing’s clear. The days when the store was just the place you went to buy big brands aren’t over, but the store’s brand(s) is often very much part of the mix today.