



September 2024

Private Label Consumers Came for Price, Stayed for Quality



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Key Points:

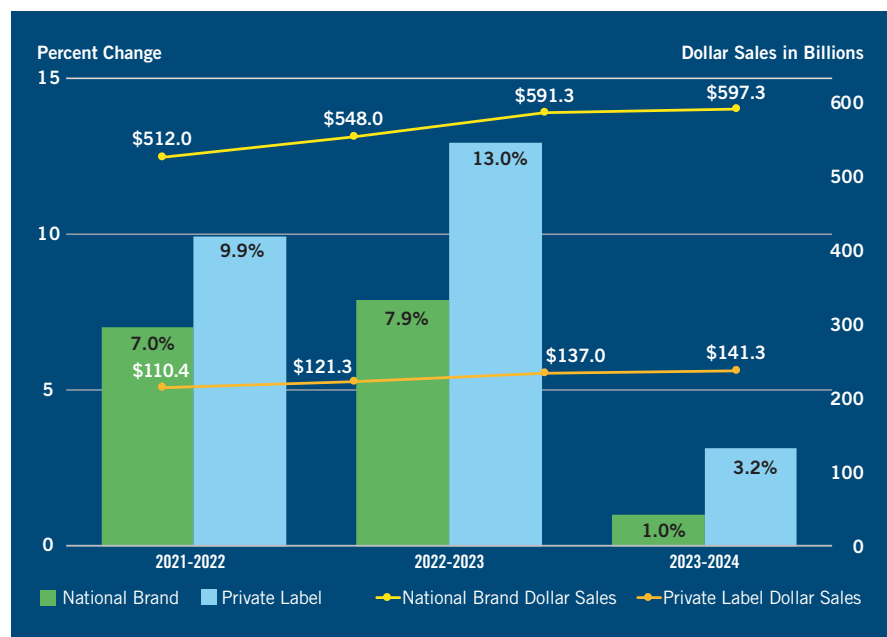
- Dollar sales of private label products have grown more than a third since 2019, likely surpassing \$250 billion in 2024 and representing roughly 20% of basket share, per Nielsen.
- COVID-era shortages and the more recent inflationary environment both prompted consumer trial of private label products.
- Consequently, quality perceptions of private label foods have improved considerably since the last surge in usage, around the time of the 2008 recession, likely equating to greater staying power for private label in grocery baskets in the long term.
- Aldi and Trader Joe’s lead large U.S. retailers in private label purchase share with 80% and 69%, respectively, but private label options account for more than a quarter of grocery sales at Costco, Sam’s Club, H-E-B and Walmart.
- Private label dollar and unit sales will likely remain above their pre-inflationary/pre-pandemic levels, as the quality perception of private label has increased and store brands have added options more in-line with demands of younger and more-affluent consumers.

Introduction

Private label brands are having their moment. Store brands snared all-time high market share in dollars and units during the first half of 2024, according to the Private Label Manufacturers Association. Over 95% of consumers are buying private label products, at least occasionally, according to the Food Industry Association’s “Power of Private Brands 2023” report.

What’s going on? COVID-era shortages and the more recent inflationary environment have both prompted consumer trial of private label products. Trial purchases appear to have led to greater market share, dollar sales and unit sales for private label products.

EXHIBIT 1: Percent change in dollar sales of packaged food products



Source: Circana; 52-week periods ending August 11, 2024; packaged food sales only, data does not include fresh/perimeter sales

Market share for private brands stood at 22.9% in units and 20.4% in dollars as of June 16, including both perimeter (fresh) and center-store categories. Private brand dollar sales, including food and nonfood, are up 2.3% year over year across retail channels for the six months ended June 16, compared with a 1.1% gain for national brands over the same time. Unit sales figures are similar, if not even more stark: Store brands climbed 2.5% in the first half of 2024 versus a year earlier, while national brands' decreased 0.8%. At the current dollar-sales growth rate, overall store-brand revenue for full-year 2024 will top \$250 billion, which would mark an annual sales record for private label (*Exhibit 1*).

While consumers have long cited lower prices and value as the drivers behind their purchase of private label items, recent research shows quality, taste and variety are growing determinants. In focusing on these attributes, private brands are attracting a growing customer base.

Price increases fueled consumer shift in spending

Amid elevated demand for food at home and consumer wallets flush with stimulus cash in 2020-2021, CPG companies were able to raise prices with little resistance. However, amid roughly two years of above-target inflation, acceptance of higher prices has waned, as increasingly price-sensitive consumers were met with grocery prices about 26% higher than in 2019. In a recent survey of U.S. consumers by Jefferies, some 51% of respondents said they are buying more private-label products to save money on grocery bills. Similarly, more than 50% of shoppers report noticing higher grocery prices in the past several months. The era of higher

prices brought with it an even greater consumer focus on price and value, areas where private label options resonate with consumers across age demographics.

Savvier retailers have also learned that a robust private label program can drive foot traffic, particularly among younger generations, as evidenced by the PDG Insights data (*Exhibit 2*), as well as by a 2023 Kearney report that found 53% of consumers cited private brands as "very or extremely important" to their store choice. This was a dramatic increase from the impact of private labels on store choice pre-pandemic: 46% shared those sentiments in 2019 and 35% in 2016. Indeed, consumer interest in (and trial of) private labels/store brands grew considerably during the pandemic but even more so lately. This suggests positive experiences have led consumers to expand their usage of private label products and that store brands still have runway – particularly in areas where they are under-represented and where they can improve consumer perceptions of quality.



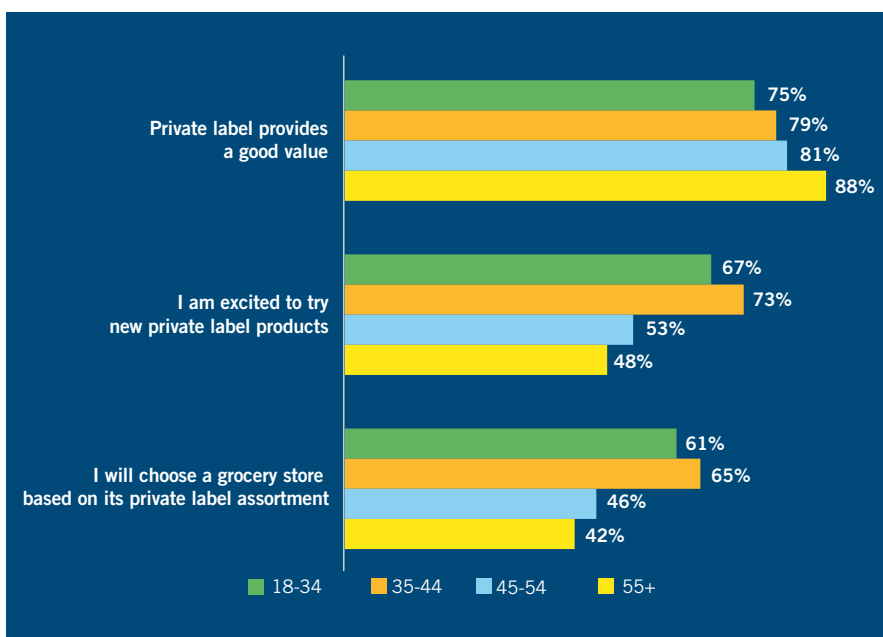
Retailers aim to take private label beyond the perimeter

Private label’s largest penetration among consumers has traditionally been in categories/segments where branding or innovation has been less of a priority for consumers, particularly in perimeter areas of the grocery store such as produce, animal proteins, eggs and dairy. However, beverage is one area with substantial room for store brands to grow (Exhibit 3). As one private label manufacturer noted, “Aseptic beverages are on a tear, as are nutritional beverages and others catering to the better-for-you consumer need. Retailers are looking for their own private label offerings in these faster-growth spaces.”

The runway for store brands in the beverage aisles appears to run long, as private label beverages hold less than 10% of the total beverage market and roughly half the market share that private label does in packaged foods. Per PLMA, beverage growth has been in pockets: Private label bottled water accounted for \$1.2 billion in sales in the past year, an 18% increase. Bottled water as a category is seldom defined by flavor or processing and, in fact, is quite similar to the commodity-like categories where private label has been traditionally strong.

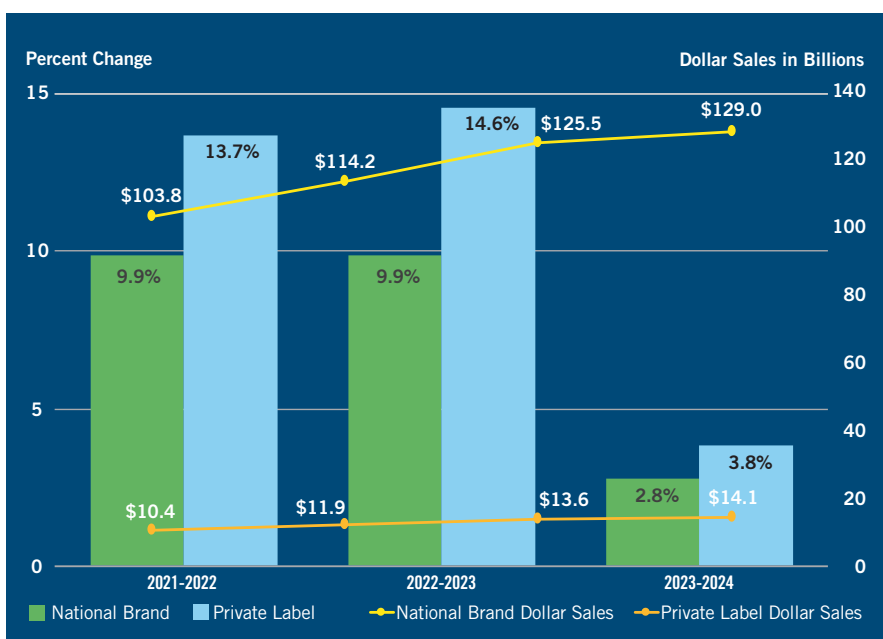
A host of food categories have at least 10% private brand share in dollars, including dairy, deli, meat, frozen and produce. These are categories where brands’ roles are somewhat limited. However, retailers have expanded their own-brand reach beyond those categories. Even more importantly, retailers are increasingly thinking of

EXHIBIT 2: Consumer opinions of private label products by age group

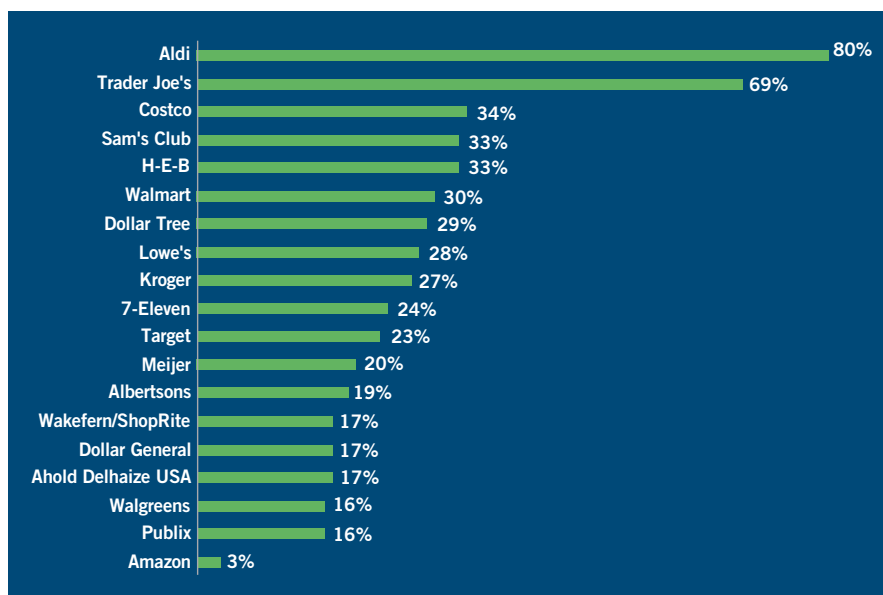


Source: PDG Insights, May 2024; <https://www.pdginsights.com/post/beyond-value-how-private-label-is-winning-over-consumers>

EXHIBIT 3: Percent change in dollar sales of beverages



Source: Circana; 52-week periods ending August 11, 2024; data does not include fresh/perimeter sales

EXHIBIT 4: Private label share of U.S. retailer overall sales volume (grocery et al.)

Source: Numerator (12 months through June 30, 2024)

private label as part of an overall strategy, recognizing that offerings promising greater quality and innovation tend to result in higher margins, but also that a more-varied array of private label products can cater to a number of different consumers, regardless of age or income.

In April, Walmart launched a premium food brand called Bettergoods, including what it describes as adventurous flavors such as cardamom rose raspberry jam, plant-based products such as oat milk ice cream and single-origin coffee. It offers options tailored to allergen-free consumers and more plant-based offerings.

Ahold Delhaize's own-brand line, similarly, targets such a position with its organic Nature's Promise and premium Taste of Inspirations, as the grocery chain (which includes Food Lion and Stop & Shop, among others) aims to increase its company-wide share of private-label sales to 45% by 2028 (from approximately 38% in 2023).

Kroger, similarly, has focused on extending its private label portfolio with several launches in the past year, including one in a segment where private label has long held sway. Kroger's Field & Vine produce is sourced from farmers in California, Florida, Georgia, Michigan and other states, and its launch comes on the heels of Kroger revamping its pet line Abound and new options in its Private Selection and Home Chef brands.

Purchase drivers extend beyond price and value

Consumers have long cited lower prices and value as the drivers behind their purchase of private label items, but recent research shows quality, taste and variety are growing determinants. In focusing on these attributes, private brands are attracting a growing customer base. More than half of all shoppers (54%) expect to buy somewhat more or much more private label food and beverage in the next year, per the "Power of Private Brands" report. Of that group, 9 in 10 say they will keep buying private labels even if national brand prices decline, and they expect

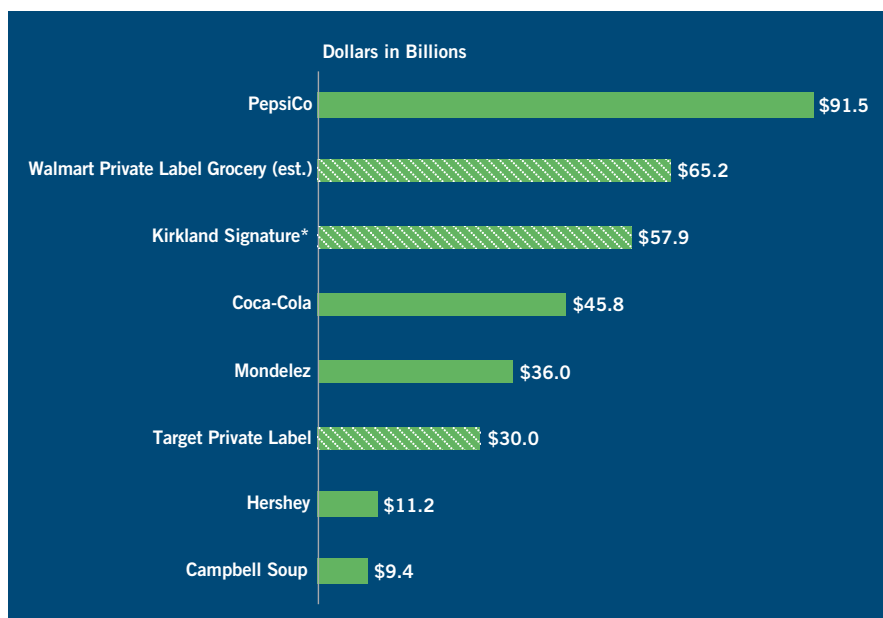
to increase their private label purchase in categories such as salty snacks, packaged breads, milk/non-dairy substitutes, packaged and canned foods, frozen foods and condiments.

Where consumers once perceived private label options meant sacrificing quality, now nearly a third (30%) of consumers rate private label food and beverage as superior to that of national brands, per PLMA, with more than half of shoppers (55%) saying the quality of private label was similar to that of name brands. These opinions (similarity or superiority of private label foods and beverages) were consistent across both income and generational demographics; 68% of high-income consumers (\$100,000+), 67% of middle-income (\$50,000-\$99,999) and 66% of low-income (less than \$50,000), as well as 70% of GenZ, 68% of GenX and 65% of Baby Boomers.

Even more telling, only 2% of consumers regard private label as inferior to name brands in quality for food and beverage; 13% said private label options were slightly inferior.

Private label can generate significant margin for U.S. retailers, while possibly posing potential risk for CPG companies as the mix shifts away from national brands (*Exhibit 4*). Kearney's forecast projects private brands will

EXHIBIT 5: Revenue performance of private label vs. major CPG grocery companies



Source: Company earnings reports, FY23

Notes: PepsiCo revenue includes Pepsi and brands including Frito-Lay, Gatorade, Quaker and others. Coca-Cola brands include Coca-Cola, Schweppes, Minute Maid, Powerade and others. Mondelez includes Triscuit, Wheat Thins, Toblerone, Ritz, Clif, etc. Campbell Soup includes Campbell's, Pepperidge Farms, Swanson, Rao's Homemade, etc. Walmart reported 26.4% of its total grocery sales came from private label offerings in FY23; overall FY23 grocery revenues stood at \$247 billion. Target does not separate out grocery revenues; private label sales listed here are for all 45 of its various private label brands, which are largely but not entirely concentrated in grocery.

**The Kirkland Signature brand includes hundreds of products, largely groceries but also in a diversity of other departments, including clothing and home goods. With FY23, Costco stopped reporting Kirkland Signature revenues independently. The FY23 estimate is derived by presuming the private-label brand's share of Costco's FY22 (28%) continued in FY23 and is likely a conservative estimate, considering overall private label share increased in 2023, to 25.5% from 2022's 24.7%*

take 7% of U.S. dollar market share from national brands by the end of the decade. As such, companies behind these national brands will likely turn their attention to battling these growing private label offerings, especially considering their acceptance among GenZ and higher-income consumers. Innovation traditionally has been a key to regaining lost share for name brands, and ConAgra, Hershey and others have announced initiatives to increase their innovative launches, principally to regain lost consumer share and undoubtedly to fend off incursion by private label offerings.

However, private label introductions are far from the generic black-and-white labels of decades ago. Per Mintel's Global New Products Database, nearly a third of product introductions are private label, approximately double the number of 20 years ago. What's more, many private label launches in the marketplace are perceived as premium or distinctive. Trader Joe's, for example, sells an assortment of unique items, including a dill pickle seasoning. A private label or store brand may be less expensive, but the aura of "trading down" to private label is subsiding. Aldi, for example, has a host of options that may not be unique but cost less and in many cases, promise a natural or sustainable trait. At the same time, both retailers derive a sizable part of sales from their own brands.

Conclusion

For their part, retailers are enjoying the best of both worlds. During its second quarter earnings call, Target referred to its "unique combination" of national-brand partnerships and

own brands that will continue "building out (its) food business." Food and beverage accounted for nearly a quarter (23%) of the company's \$105.8 billion FY23 sales, as the company realized notable gains in foot traffic associated with grocery purchase, particularly as it reduced prices on thousands of products.

Target is far from alone in that sentiment. An Acosta Group survey finds nearly 6 in 10 retailer executives (59%) plan to continue to prioritize private label; 21% will accelerate their private label efforts. Such accelerated efforts will

not be limited to the traditional store-brand-heavy fresh channels of produce and animal proteins but in areas such as bakery and dairy, where private label share is in the 30%-40% range. Expect more attention (and opportunities) from retailers in areas such as pet food, seafood and beverages, particularly alcohol/adult-oriented options, where private label share tends to be in the lower single digits.

Considering private label performance by retailers, store brands could easily be viewed as distinct rivals to major CPG companies (*Exhibit 5*); Walmart private label grocery alone outperforms a host of packaged food/ beverage giants. Nevertheless, despite the growth in popularity of private label in recent years, the center of the store remains largely the domain of national brands. (Acosta finds grocery brand dollar share averages around 15%, versus total store's 19.5%.) The center of store is likely to be an area where own-brand offerings can provide not only cost savings to consumers but a reason to shop a particular retailer. ■

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