

RESEARCH REPORT 2018



# Opportunities in the Value-Added Private Label Market

How mainstream retailers in Europe seek to drive shopper loyalty and category growth

### Disclaimer

Data was gathered by means of personal interviews by IPLC consultants, physical store checks and additional internet search. In total 25 retailers and 9 countries were included in the research. In some cases, only very few products were available in the category. This resulted in small sample sizes, making the outcome a guide only. Due to completely different products chosen from every retailer and country, no comparisons can be made between stores, let alone countries.

We selected the VAPL product that came closest to the SPL product to make the price comparison. We are well aware of the fact that this approach is subject to debate as in most cases product quality is not quite the same (i.e. premium vs. standard, organic vs. standard, free from vs. standard and eco-friendly vs. standard). Therefore, the outcome of the analysis only allows for generalised conclusions.

Although research and analysis was conducted with great care, the results should be considered indicative as only limited number of products by label were evaluated. However, we believe that the conclusions drawn for our research should be considered representative.

### Acknowledgements

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Kantar World Panel Portugal	Nielsen UK
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IRI France	Nielsen Italy
IRI Italy	Nielsen Global Survey,
Mintel Global New Products	December 2016
Database, April 2018	

We would also like to thank all our retail and manufacturing contacts who were gracious enough to give not only their time but also, honest opinions plus valuable insight during our interviews with them. In line with our policy of anonymity, we cannot name them but they know who we are thanking.

Last but not least we would like to thank Michelle Versluis, MSc Student Marketing Management at Tilburg University. She assisted in data analysis and reporting. Michelle's sense of urgency and attention to detail have proven to be of tremendous benefit to the final result of our report.

### About IPLC

International Private Label Consult is a boutique consulting firm specialised in strategic consultancy services and project management support to manufacturers and retailers. With a broad and unrivaled understanding of the Private Label industry we help our clients with a pragmatic and action-oriented approach. Founded in 2003, IPLC has been involved in many international assignments for manufacturers, retailers and the supply industry. IPLC has offices in the Netherlands, Germany, France, United Kingdom, Italy, Belgium, Portugal and Ireland.

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# Executive summary

Value-added private labels (VAPLs) have become important within the private label architecture of retailers across Europe. Apart from margin improvement, they are crucial to differentiate from the competition. It allows retailers to take unique initiatives to meet specific consumer needs, helping to build shopper loyalty.

In our definition VAPLs include Premium, Organic, Free From, Eco-Friendly and Regional private labels. At IPLC we wanted to better understand and define the position of VAPLs in the private label architecture and the strategy of retailers.

During the period of January to April 2018 we researched the market in Europe. We started with an analysis of a range of academic papers published over the past few years and relevant to the subject. We followed this with store checks at 27 retailers in nine countries. Then we conducted interviews with senior managers in the private label industry. Finally, we added our own local experience and knowledge as retailer brand specialists in an effort to create some transparency in the discussion. This enabled us to draw conclusions and to hopefully make meaningful recommendations.

## MARGIN IMPROVEMENT

Over the past decade, discount retailers have put enormous pressure on the prices of standard private label (SPL) across Europe. As a result, mainstream retailers have been forced to respond by lowering their prices in order to reduce the value gap. In most cases this has resulted in a serious deterioration of margin. To compensate for this, they have reviewed their strategies in order to mitigate the pain, and VAPLs have turned out to be a powerful instrument in their toolbox.

## SHOPPER LOYALTY

The private label purchase intention of a shopper is heavily influenced by his or her perception of price and quality of the product. However, the perception of store image also plays a vital role and is not one to be underestimated. A key factor in store image is the way in which a retailer takes its social responsibility and addresses sustainability issues. Consumers respond positively to initiatives in the fields of the environment, animal welfare, regional supply, or food

intolerance. If all three influencers in the perception (price, quality and store image) are addressed appropriately it will have a positive impact on shopper loyalty to the store.

Based upon these two key strategies, retailers undertook innovation efforts in private label to address consumer interests. Almost every major retailer across Europe launched separate ranges in segments such as: Premium, Organic, Eco-Friendly, Regional and Free From.

## CONCLUSION AND RECOMMENDATION

Our research revealed that retailers price their VAPLs at average price indices ranging from 193 to 244 compared to their SPL. VAPLs may be more profitable for retailers since they typically require marginal additional production and marketing costs compared to SPLs. Simultaneously, they allow for setting considerably higher selling prices, resulting in higher margins. A potential cannibalisation of established SPLs or national brands by more profitable VAPLs may be beneficial to category profitability of the retailer. Moreover, by offering a range of private labels that focus on consumer interests, retailers demonstrate their social responsibility, as well as taking sustainability issues seriously. This will help build shopper loyalty to the store.

For suppliers of private label, VAPL categories offer new opportunities. Retailers are looking for suppliers to bring innovation in these key areas. A proactive attitude as well as commitment to support retailers in driving category growth through VAPL may lead to deeper engagement with their retail clients.

Given the size of their assortment, mainstream retailers may be in a better position to launch a number of SKUs responding to consumer interests and lifestyles compared to limited assortment discounters.

We expect this report will provide unrivalled insight for all participants in this market sector. Not only where it stands today but also in identifying areas of growth and opportunity for the future.

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# Introduction

Most private label products sold in the European food retail market are standard private label products (SPL), being the equivalent quality of the product offered under the national brand (NB). However, market shares of premium private label (PPL) are showing the fastest growth within the private label architecture of mainstream retailers<sup>(1)</sup>, although they are not offered across all categories.

The premium segment in Europe outperforms total market sales growth. In 2017, more than half of all worldwide new premium private label product introductions came from Europe. This underlines how important the premium factor is in Europe compared to other regions in the world<sup>(19)</sup>.

In a world where conscious consumption is going mainstream, products with environmental and social benefits can justify a higher price. Notably millennials are drastically reshaping perceptions of premium with authenticity, simplicity, health, sustainability and social responsibility serving as the new indicators<sup>(20)</sup>.

In recent years, discount retailers have also joined the game and have accelerated PPL growth by entering the market with ranges offered around the festive season. Today, an abundance of innovation comes from PPL as shown in last year's Grocer's Own Label Food and Drink Awards. In the UK, out of the 111 winning products 60 items or 54% were PPLs.<sup>(21)</sup>

Besides their PPL assortment, retailers have also launched a range of consumer interest private labels (CIPL) such as Organic, Free From, Eco-Friendly and Regional provenance products. To date, only a limited amount of research has been conducted into these value-added private labels (VAPL) of mainstream retailers.

At IPLC we wanted to better understand and define the position of VAPLs in the private label architecture and strategy of retailers. Firstly, we consulted a range of recently published academic papers relevant to the subject. This was followed by a survey on VAPL of mainstream retailers through interviews with both retailers and suppliers of private label. Next, we added our own local experience and knowledge as retailer brand specialists to create some transparency in the discussion to enable meaningful predictions and recommendations.



## SCOPE AND FRAMEWORK

For this research, we have defined VAPLs as products that require the shopper to pay a premium price compared to that of an SPL product. These can either be PPLs or CIPLs such as Organic, Free From, Eco-Friendly or Regional provenance labels. PPLs are positioned at the top end of the market and their unique features in terms of taste, origin or ingredients combined with attractive packaging enable retailers to compete with the highest quality NBs<sup>(13)</sup>. CIPLs on the other hand are geared towards consumer concern over health, environmental or social issues. They appeal to those who want to follow a specific lifestyle or may have some food intolerance.

While the role of SPL 'copycats' was to increase competition between NB and SPL sold in competing stores, PPLs and CIPLs have been created to differentiate from competing stores<sup>(5)</sup>. PPLs are, where possible, unique products and exclusive to a particular retailer. These products do not intend to copy NBs but rather complement the store offering<sup>(4)</sup>

SPL and NB are compared by consumers on three dimensions: the perception of quality, value for money and trust. The idea that SPLs generally offer improved value for money compared to NBs is well established in consumers' minds<sup>(1)</sup>. Along the same line of thought consumers are highly likely to consider PPL to be of better value for money compared to premium NBs.

Unlike SPL, PPLs are not consistently lower in price than NBs and often sell at equal to or even higher prices. The field research carried out by IPLC in the past few months has revealed the price gap between PPL and SPL to be significantly higher than the 50% stated by academics<sup>(4)</sup>. This may lead consumers to consider PPLs as having a value closer to that of NBs<sup>(1)</sup>.

Both rational (tangible) and emotional (intangible) aspects influence the decision to buy a product<sup>(14)</sup>. It is widely accepted that there is a positive relationship between perceived quality and a price premium that consumers are willing to pay for a product<sup>(17)</sup>. Social image is shown to play an important role in this<sup>(15, 16)</sup>. If a company has social consciousness and thus cares for the environment, society and its employees then the willingness of consumers to pay a premium increases<sup>(15)</sup>.

There are three brand image dimensions that have a strong effect on the willingness of a consumer to pay a price premium for private labels: Uniqueness (ability to stand out from the competition), Social Image and Local Provenance or Region Origin. In fact they may all have a greater impact on the willingness to pay a price premium than quality<sup>(17)</sup>. PPLs clearly try to offer uniqueness and in some cases make Regional or Local Provenance claims. However, shopper loyalty to private label is shown to be driven primarily by perceived quality<sup>(15)</sup>.

It is important for retailers to be aware of the strong link between perceived uniqueness, social image and origin because differentiation, as a strategic objective, is often used as the reason to avoid price competition. Therefore, instead of focusing on communication or altering the quality of a private label, intangible aspects such as social image and unique products should be used. This applies to both NBs wanting to distance themselves from private labels and to private labels wanting to close the gap with NBs<sup>(17)</sup>.

PPLs differ from SPLs across various dimensions that can have an impact on consumers' perceptions of these brands<sup>(2)</sup>. This could simply be a name which implies premium such as Finest (Tesco), Excellent (Albert Heijn), Fine Food (COOP Switzerland), Selection (Carrefour, Edeka, ICA, Migros), SELEQTIA (Eroski), Seleção (Continente) or Premium (Spar Austria). Another dimension is storytelling by means of investment in extrinsic cues, such as marketing claims and attractive packaging with high-quality photography. Furthermore, another aspect is in-store merchandising and advertising support, signalling to consumers the quality of a product<sup>(3)</sup>. Finally price, a strong communicator of quality, which can be equal to or more expensive than NBs.



**Some retailers even endorse their PPLs with celebrity chefs such as Heston Blumenthal (Waitrose)**

Although PPLs generate better revenues, they also require higher production and marketing costs. For example, production costs can be significantly higher due to relatively small production runs. Packaging may be more expensive due to the quality of photography and higher quality material. PPLs may also require more marketing support. Some retailers even endorse their PPLs with celebrity chefs such as Heston Blumenthal (Waitrose) or Arabelle Meirlaen (Delhaize)<sup>(6)</sup>.

In most cases, SPLs are aimed at copying the NBs that already exist in the market. PPLs, however, seek to offer unique products that are new to the assortment of a retailer and the market. This supports the retailer in its effort to differentiate itself from the competition, thus enhancing shopper loyalty, a strategic objective of every retailer. The justification to add VAPLs to the private label architecture is therefore clear. Kumar and Steenkamp (2007) describe this as 'escaping commoditization' to overcome the equivalence of SPLs offered by every retailer.

In addition to competing with other retailers by targeting the private labels offered in their stores (inter-store competition), PPLs will also target retailers own SPLs and NBs (intra-store competition). The introduction of PPL creates a more complex portfolio. Thus retailers may run the risk of losing focus by diverting attention towards managing a portfolio of brands rather than building store traffic<sup>(1)</sup>. Finally, retailers in most cases use the store banner to endorse their private label assortment. In addition to helping the shopper in his decision-making process during the shopping journey, the PPL will reinforce brand awareness as long as the product is used in the domestic household. The packaging remains visible in the kitchen cupboard or on the table and will continue to promote the store<sup>(6)</sup>.

As PPLs usually have attractive packaging the product may be kept deliberately visible in the household as a sign of a certain lifestyle choice or may even be given as a present. In this way the store banner branded PPL may act as a 'silent salesman' who continues to promote the store during the span of the products' use in the home and thus potentially further increasing retailer sales<sup>(6)</sup>.

## MANAGERIAL RELEVANCE

PPLs have the highest growth rates of all three private label tiers (good-better-best)<sup>(11)</sup>. This category seems to be more promising compared to BPLs and SPLs for various reasons:

1. PPLs may be more profitable since they typically require only marginal additional production and marketing costs compared to SPLs. Simultaneously they allow for setting considerably higher selling prices which may result in higher margins<sup>(4, 9)</sup>. A potential cannibalisation of established SPLs or NBs by more profitable PPLs could therefore be beneficial to the category profitability of the retailer (trading-up the shopper)<sup>(9)</sup>.
2. High-quality PPLs have a positive impact on consumer loyalty to a retailer compared to low-quality BPLs<sup>(4, 9, 10)</sup>.
3. The general acceptance of private label is positively influenced by private label quality and the introduction of PPL<sup>(12)</sup>.
4. Consumers usually prefer NBs to private labels in product categories with high social or functional risk<sup>(10)</sup>. PPL can be seen as comparable with the quality and price level of NBs<sup>(2)</sup>. In categories where brand relevance is high, PPL could therefore be preferred to NBs due to their ability of reducing social or functional risk of the product.
5. Retailers faced with limited shelf space are focused on optimising the category performance within their stores. With a better understanding of consumer preferences within the multiple-tier architecture, management action can be taken to increase sales and profits<sup>(7)</sup>.

## SETUP OF THE RESEARCH

For the purpose of our research we decided to take a pragmatic approach and defined VAPL as private label product ranges positioned higher in price than SPL. This resulted in the following private label categories qualifying as VAPL: PPL, Organic, Free From, Eco-Friendly and Regional provenance. We acknowledge that there are more CIPLs which may qualify as VAPL than have been defined in our research such as: Animal Welfare, Health, Halal, Vegetarian or Fair Trade. However, as these are currently less mainstream we decided not to include these in our study.

In the period of January-March 2018, prices of VAPL products of 25 European mainstream retailers in nine countries were collated (we excluded discount retailers). The average index was calculated based upon a sample of products found in stores or online. In some cases, only very few products were available in categories like Free From or Eco-Friendly. This resulted in small sample sizes, making the index a guide only. This was not the case, however, for PPL and Organic where product ranges were much larger and allowed us to derive more robust indices.

In each country the index for the SPL was set at 100 and a comparison was made between the five VAPL categories and SPL (weight or content standardised) to calculate the index for the VAPL. Due to completely different products chosen from every retailer and country, no comparisons can be made between stores, let alone countries. NBs were not included in the research as these had already been investigated in the IPLC research of 2016<sup>(18)</sup>. In some cases a SKU was taken out of the index calculation if it would have had a distorting effect on the average (i.e. Leclerc L'origine du Goût Sel de Marres with an index of 2,598, or Jumbo Eco-friendly binliners with an index of 1,084)

We selected the VAPL product that came closest to the SPL product to make the price comparison. We are well aware of the fact that this approach is subject to debate as in most cases product quality is not quite the same (i.e. premium vs. standard, organic vs. standard, free from vs. standard and eco-friendly vs. standard). Therefore, the outcome of the analysis only allows for generalised conclusions.

In addition to price analysis from which the indices were derived in each country, we also interviewed senior managers in both retail and private label manufacturing. In combination with the knowledge and experience of our own consultants, a brief qualitative report was generated for each individual country where IPLC has an office.



### GENERAL FINDINGS

Our research revealed that in all nine countries, retailers price their VAPLs significantly higher than their SPLs. The average price index for PPL was 193, Organic 196, Free From 244, Eco-Friendly 181 and Regional 214

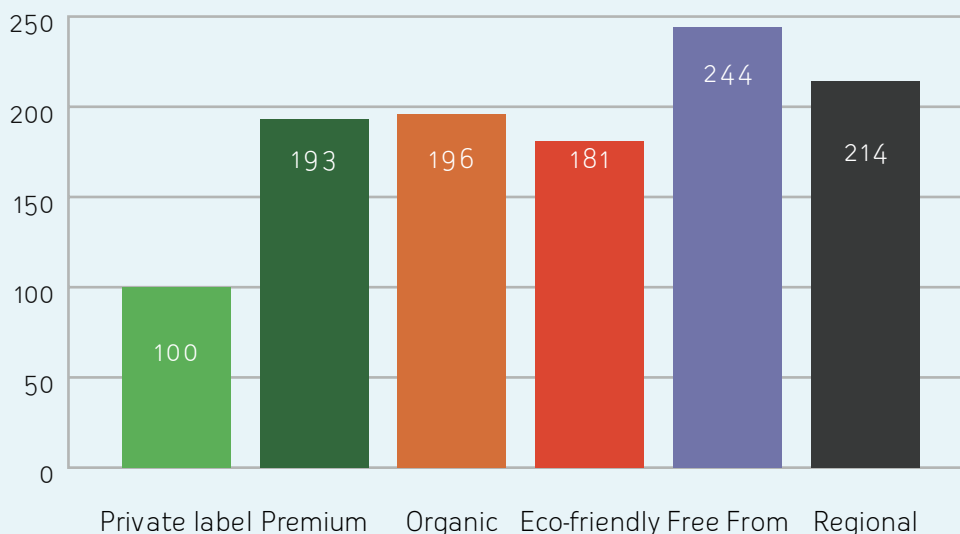
Mainstream retailers throughout Europe seem to be actively expanding their VAPL offer to address specific consumer interests thus trying to build shopper loyalty. On the other hand, they consider VAPLs as a tool to compensate for the reduced margins they make on SPLs. Pressure to reduce prices for the standard private label tier has increased to reduce the risk of losing shoppers to the discount channel. In response, by trading-up shoppers by means of VAPLs the risk of margin deterioration can be mitigated. As the graph on the next page shows many more themes are used to address consumer trends in addition to the VAPLs categories included in the research.

Our industry sources universally agreed that VAPL includes PPL, Organic and Free From private label. With PPL, the premium is captured in the additional features delivered such as taste, breed, variety, ingredient quality, provenance, production techniques and last but not least packaging features. With Organic and Free From, the defining feature is offered but the product may not taste any better. Therefore the 'premium' is more about the ability to command a 'premium price' from these consumers. Although input costs for VAPL may be higher, we expect retailers to continue to expand their VAPL ranges to mitigate value and profit losses, plus to build consumer loyalty.

### STANDARD PRIVATE LABEL

The average number of SPL SKUs in all 25 retailers included in the research is 3,035. In the UK and the Netherlands we counted a significantly higher number. The UK has the highest average of 6,173, which is over double the average.

**AVERAGE PRICE INDEX OF VALUE-ADDED PRIVATE LABEL IN EUROPE  
(25 RETAILERS IN 9 COUNTRIES)**



## OVERVIEW OF THE FULL PRIVATE LABEL ARCHITECTURE BY RETAILER

	Country	Basic	Standard	Premium	Regionale provance	Country provance	Organic	Organic personal care	Free From	Eco-friendly	Fairtrade	Health	Seasonal	Kids	Baby	Home	Personal care	On-to-go
Carrefour	FR	•	•	•	•		•		•	•			•	•	•	•	•	•
Leclerc	FR	•	•	•	•	•	•	•	•	•			•			•		
Casino	FR	•	•	•	•	•	•	•	•	•		•		•	•		•	
Tesco	UK	•	•	•		•	•		•	•	•	•	•	•	•	•	•	•
Sainsbury	UK	•	•	•		•	•		•	•	•		•	•	•	•		•
Asda	UK	•	•	•		•	•		•		•	•	•	•	•	•		•
Jumbo	NL		•	•			•			•			•	•	•			
Albert Heijn	NL	•	•	•			•		•	•			•					•
Rewe	DE	•	•	•	•		•		•	•			•		•			
Edeka	DE	•	•	•		•	•		•				•			•	•	
Kaufland	DE		•	•			•		•			•	•		•		•	•
Delhaize	BE	•	•	•			•		•	•			•	•	•	•		
Colruyt	BE	•	•	•			•		•	•								
Carrefour	BE	•	•	•			•		•	•				•	•		•	•
Continente	PT	•	•	•	•		•		•	•		•				•	•	•
Pingo Doce	PT		•		•		•		•			•				•	•	
Intermarche	PT	•	•	•											•	•	•	
Carrefour	ES	•	•	•	•		•		•	•				•	•	•	•	•
Dia	ES		•	•								•		•	•		•	
Eroski	ES	•	•	•					•	•		•					•	•
Esselunga	IT	•	•	•			•		•									
Carrefour	IT	•	•	•	•		•		•					•	•	•		
Conad	IT		•		•		•		•	•	•	•		•				
Coop	IT		•	•			•		•		•			•	•			
Tesco	IE	•	•	•			•		•			•	•		•	•	•	
Dunnes	IE	•	•	•			•		•			•			•			

## AVERAGE PRICE INDEX OF VALUE-ADDED PRIVATE LABEL BY COUNTRY

ALL	Standard	Premium	Organic	Eco-Friendly	Freefrom	Regional
Netherlands	100	175	203	171	295	0
England	100	225	194	172	246	0
Belgium	100	184	163	160	297	0
Germany	100	218	187	271	171	193
Portugal	100	159	216	138	248	165
Spain	100	218	206	220	189	240
France	100	201	177	134	356	219
Italy	100	166	220	0	202	252
Ireland	100	188	196	0	186	0
AVERAGE	100	193	196	181	244	214

### PREMIUM PRIVATE LABEL

For the PPL segment UK retailers are again clearly leading the pack with almost 4 times more SKUs than the average of 228 across all retailers surveyed. Apart from Pingo Doce and Conad all retailers have a PPL line. Although in Conad and COOP (both Italian) it is the Regional private label that should be considered the PPL. The same holds true for Carrefour (France), next to a small range of PPLs, this retailer has an impressive range of Regional private label SKUs.

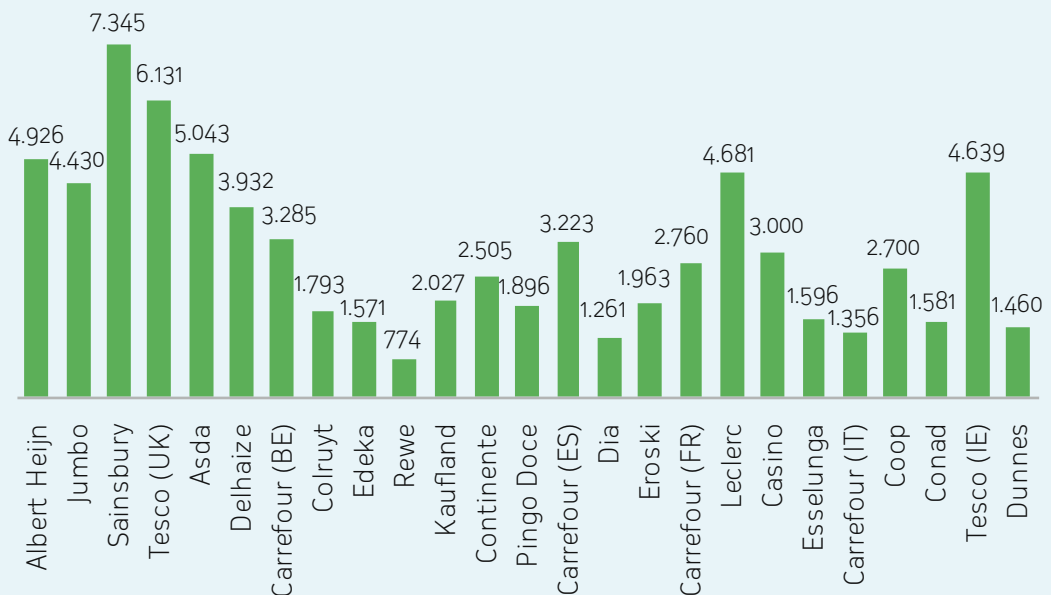
Supermarkets have sought to mitigate margin losses by driving sales of higher value and margin PPLs. It is now quite common to see the PPL offer expanded at seasonal trading times such as Christmas and Easter. Our analysis of the market data in the UK indicates that the discounters may have had an impact on average pricing of PPLs with prices declining by £0.102 per unit over the last three years.

Successful VAPLs even have the potential to be sold by non-competing retailers in export markets. As an example we can mention SOK in Finland, a retailer that sells Tesco Finest and Tesco Free From products.

### ORGANIC PRIVATE LABEL

Apart from southern Europe, Organic private label seems to be moving into the mainstream. In Spain, Portugal and Ireland very limited SKUs are listed, lagging behind the average of 243 SKUs measured among 23 retailers. Consumer perception in Ireland is that food is clean, sustainable and not intensively reared or processed. Therefore consumers do not immediately see the benefits of organic products, which explains why very few products are offered under an Organic label. The Carrefour Bio brand was launched some 20 years ago and has made the retailer a leader in the organic segment. With a wide range of 900 SKUs in organic private label and no less than 8,000 under national brands, Carrefour generates 4% of its French turnover in organic (2017). Its ambition is to grow this to a 6% share by 2022 (5bn€).

**AVERAGE NUMBER OF STANDARD PRIVATE LABEL SKUS BY RETAILER (AVERAGE: 3,035)**



### FREE FROM PRIVATE LABEL

Consumer concerns over food allergies and general health awareness have led to Free From aisles becoming a prominent fixture in major supermarkets. The category has moved beyond providing food for coeliac sufferers (people with a gluten intolerance) alone and now also attracts consumers that see gluten-free products as a healthier alternative and a positive lifestyle choice. Products from this category are being purchased by a wide range of consumers who believe that eliminating gluten and dairy is good for general health and not only for consumers with food intolerance. Public awareness of food allergies, intolerances and sensitivities has also increased. We therefore expect Free From products to become more mainstream in the future.

Tesco was the first retailer in Europe to launch a Free From private label range back in 2003. Other retailers in the UK followed soon afterwards and now have by far the widest range of SKUs in this segment. Italian retailers also have a relatively wide offer of Free From products under their Private Label.

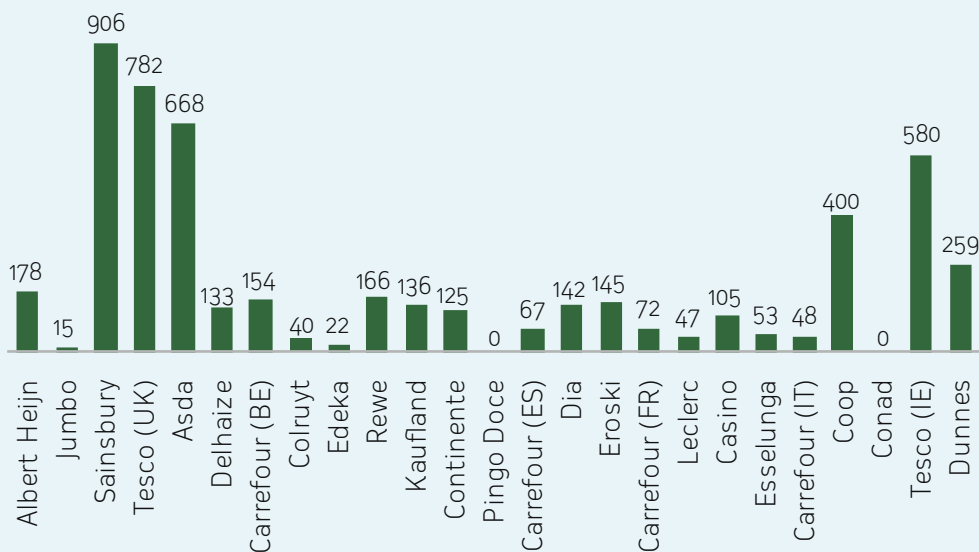
### ECO-FRIENDLY

Eco-Friendly as a theme for private label is and will remain small as only non-food products qualify for this segment. Predominantly products in household cleaning make up the category.

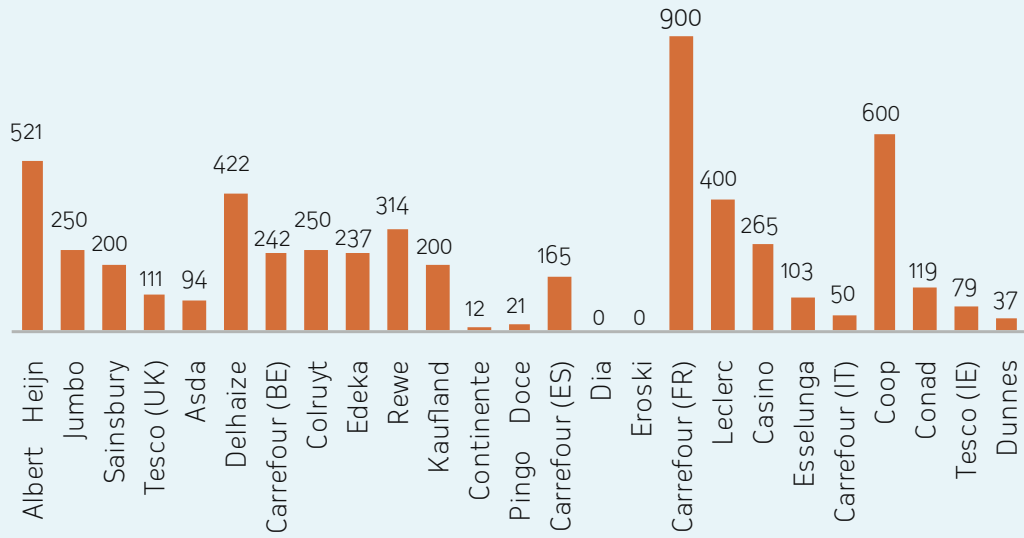
However, by making Eco-Friendly visible under their store banner brand, this helps retailers demonstrate their environmental credentials. As store image perception plays an important role in building shopper loyalty we expect more retailers to take initiatives in the Eco-Friendly private label segment.

In Nordic countries such as Denmark, Sweden, Norway and Finland, we already see Eco-Friendly as a mature and mainstream category within private label. The majority of eco-labelled products carry the Nordic Swan label\*, a government-sponsored environmental endorsement. Furthermore, we see a range of specific retailer-owned labels being used in many Nordic supermarkets, examples are: Änglamark in COOP stores\*\*, SKONA in ICA, Såklart in Axfood, Grön Balance in Dagrofa or

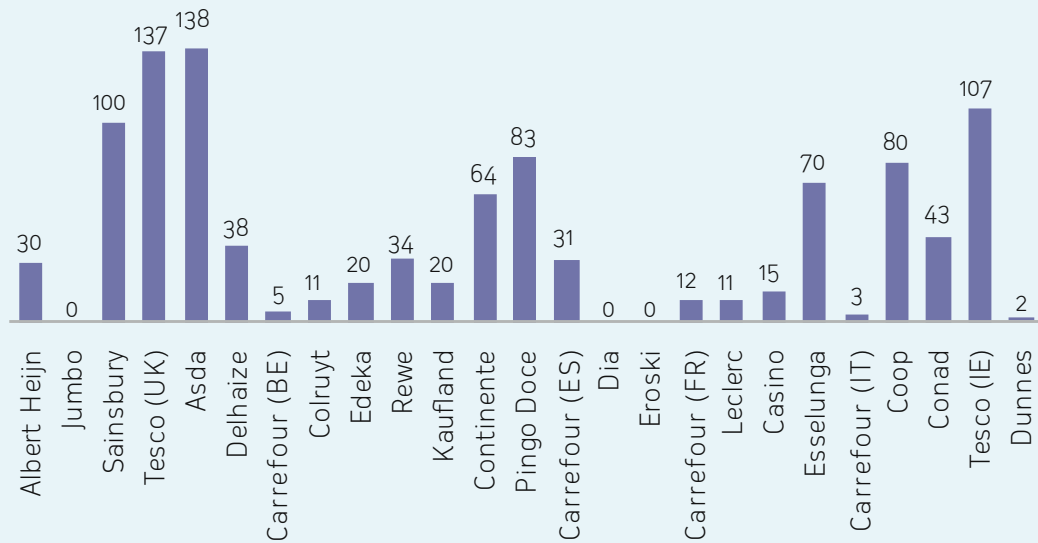
**TOTAL NUMBER OF PREMIUM PRIVATE LABEL SKUs BY RETAILER (AVERAGE: 228)**



**TOTAL NUMBER OF ORGANIC LABEL SKUs BY RETAILER (AVERAGE: 243)**



**TOTAL NUMBER OF FREE FROM LABEL SKUs BY RETAILER (AVERAGE: 48)**

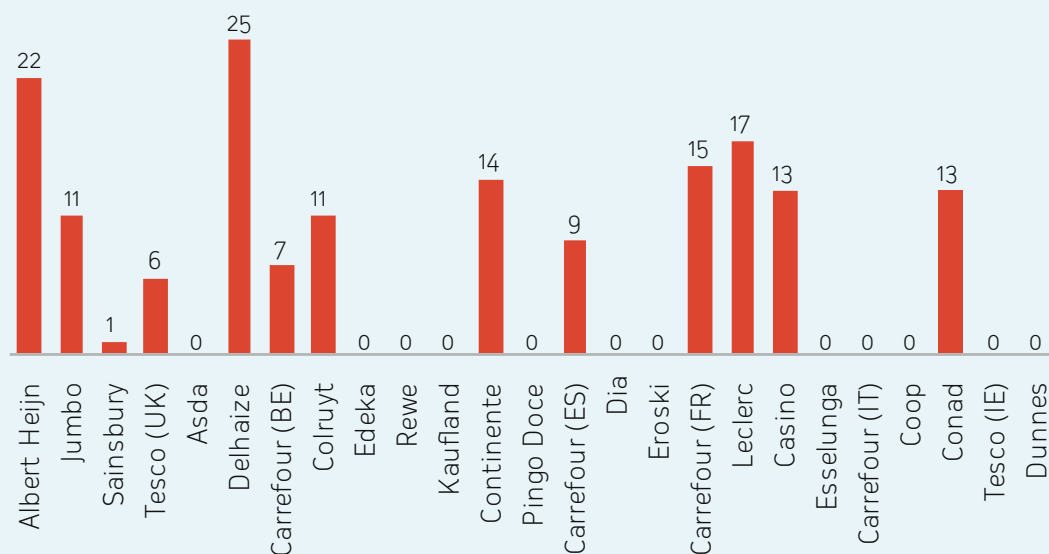


Levevis in Dansk Supermarket. It seems that retailers in the Nordic countries are well ahead of the rest of Europe in this VAPL category, which may inspire retailers in other EU markets. In The Netherlands, Belgium and France we found a relatively large range of Eco-Friendly products at food retailers. Whilst in Germany the Eco-Friendly products are predominantly sold by drugstores.

Sustainable food such as organic, fair trade and MSC fish are already offered under private label. Expanding the concept to sustainable household and personal care products seems a natural next step that responds to consumer interest.

- \* The Nordic Swan Ecolabel was established in 1989 by the Nordic Council of Ministers as a voluntary eco-labelling scheme for the Nordic countries of Denmark, Finland, Iceland, Norway and Sweden
- \*\* Änglamark is a brand for sustainable products and stands for environmentally friendly, allergy friendly and organic. Products under the Änglamark brand are sourced and designed by Coop Trading

### TOTAL NUMBER OF ECO-FRIENDLY LABEL SKUs BY RETAILER (AVERAGE: 13)



### REGIONAL PRIVATE LABEL

Products under Regional private label contribute to the preservation of the cultural and culinary heritage, often supporting artisanal methods of production. Of the retailers surveyed we only found private label ranges in France, Italy and Spain (only in Carrefour). Retailers help protect smaller manufacturers that simply lack the resources to build and maintain a brand of their own. In our interviews it was highlighted that some small artisan suppliers may find it impossible to meet the technical audit processes required by the major retail groups. Perhaps one avenue for real unique innovation is for retailers to find a route to help support the artisanal producer by having a more flexible approach.

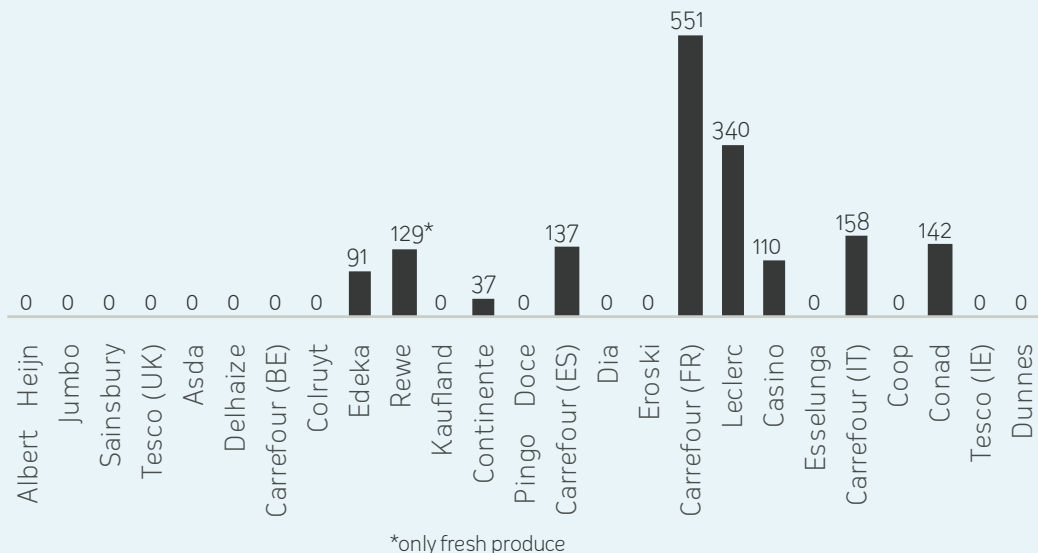
The launch of the Regional private labels by Carrefour in Italy (Terre d'Italia) and Spain (De Nuestra Terra) may have been a rather tactical move. By sourcing locally and branding the products as 'Italian' or 'Spanish' it may be considered to be in a better position to persuade shoppers in spite of the foreign store brand name.

Although we found a Regional private label in Edeka, this range does not entirely fit our definition as this range refers rather to a country (France, Spain and Italy) than to a region within the country.



**Refets de France, the first regional private label launched by Carrefour in the french market**

### TOTAL NUMBER OF REGIONAL LABEL SKUs BY RETAILER (AVERAGE: 210)





# Summary by country United Kingdom

As the largest and most advanced private label market in Europe, the UK does not disappoint consumers looking for value-added private label (VAPL). Kantar data shows that the premium private label (PPL) tier now accounts for 6.6% of the value of private label and 4.3% of volume having grown by nearly 48% in value terms since 2013.

All UK retailers from Marks & Spencer through to Iceland have a PPL tier. Even Aldi and Lidl now feature premium ranges throughout the year, although at seasonal trading times they expand their offer considerably. Aldi has stated that their Specially Selected brand will be worth £1bn in 2018, or 10% of sales, so over trading compared to the market average of 6.6%. Our analysis of the market data indicates that the discounters may have had an impact on average pricing in PPL with prices declining by £0.102 per unit over the last three years.

VAPL is not solely about the PPL brands like Finest (Tesco) or Taste the Difference (Sainsbury's) and we see other consumer interest categories growing such as Organic and Free From. There is some debate about whether consumers see these categories as added value. Some retailers and manufacturers we talked to saw these more as lifestyle choices and in an ideal world would not carry premium

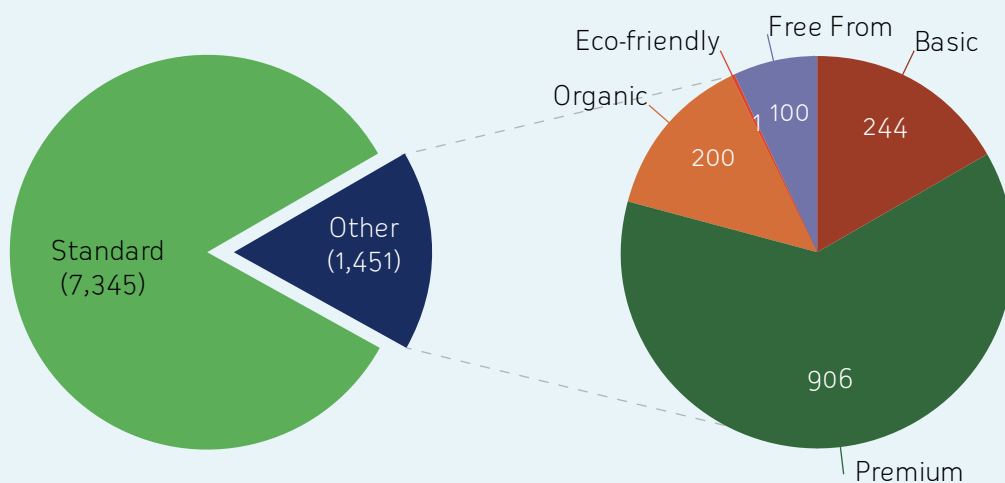
pricing unless the quality of the product supported this.

In our research, the category that carried the highest premium compared to core private label was Free From, with an index of 246 vs 225 for PPL brands. The Free From category has seen massive growth in the market and is forecast to be worth £1bn in 2018, up from £929m, according to Nielsen ScanTrack September 2017. Anecdotal evidence suggests that up to 75% of consumers of the category have no food intolerance and choose Free From products as a lifestyle choice. Private label is still less than 20% of the Free From market, so there is considerable room for growth. When interviewed, retailers felt this should not be a premium priced category but manufacturers highlighted the additional costs around both production and verification of Free From that drove higher costs.

Organic in the UK is focused on fresh products such as meat, fruit and vegetables. This category has an index of 194 vs SPL, significantly below that of Free From. At less than 10% of SKUs across the top three retailers (Tesco, Sainsbury's and Asda), it is the smallest of the three VAPL categories that we see in the UK. Waitrose as a premium retailer has more than 13% of its VAPLs in Organic. One of the

## SAINSBURY'S

TOTAL NUMBER OF PRIVATE LABEL SKUs: 8,796





key issues regarding Organic is how to verify the credentials of the products. Just look at the unfolding story in Belgium of standard meat being passed off as organic. Within VAPL the premium brands of the various retail groups still account for the largest share of products. Within the top three retailers their PPLs account for nearly 60% of all SKUs that we have included in our VAPL definition. Kantar value the total market of PPLs at £3.6bn, having grown by over 13% in value last year alone. However, volume growth outstripped the value growth, with volume up by 15.5%. So perhaps we will continue to see a further decline in average pricing and with both Lidl and Aldi so active in premium private label this could impact the profitability of this tier for suppliers and retailers alike. Will we see a slow erosion of quality as all parties attempt to rebuild profitability?

**“If you removed the store banner and asked a consumer where they were they could not tell you which store they are in as we are all the same” (Retail Director)**

Whilst the PPL market has grown by nearly 50% over the last five years, when interviewed, retailers expressed concern about the lack of real innovation and that too many product ranges were similar. As one senior retailer said

“if you removed the store banner and asked a consumer where they were they could not tell you which store they are in as we are all the same.”

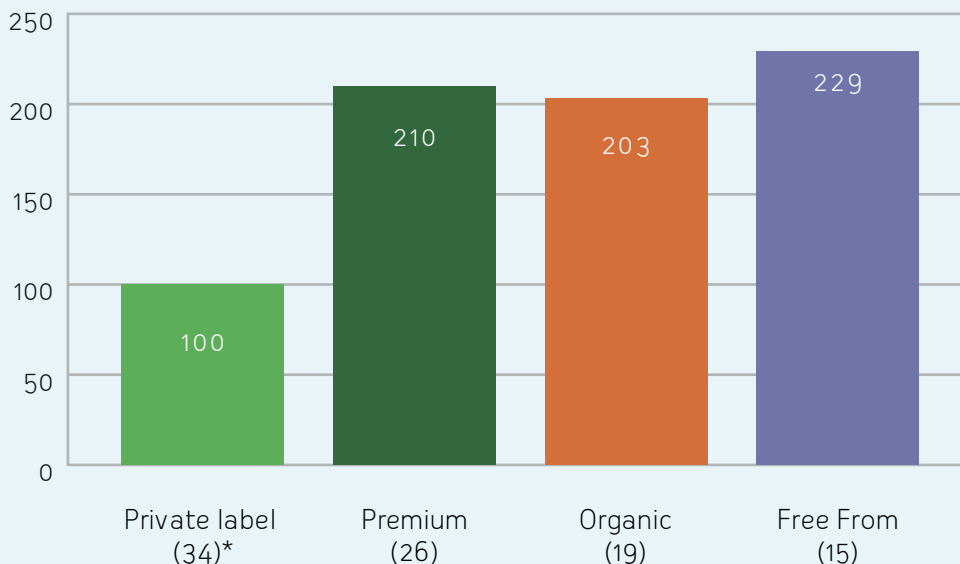
**“Today’s premium product is probably tomorrow’s core product”**

As retailers and suppliers seek to expand the category there are signs that launch costs and risks are outweighing the returns, especially as the category is seen as one where product churn is demanded by an ever-discerning and demanding consumer. A view expressed by both retailers and manufacturers was that “today’s premium product is probably tomorrow’s core product”.

The general view of both suppliers and retailers is that the SKU count is unlikely to increase but that there will be a lot of product churn as all parties seek higher quality and points of difference. At times though we see retailers seeming to try to expand premium without the right fundamentals in place.

One feature of VAPL that is different in the UK to many other EU countries is that protected designation of origin (PDO) is not used as a stand-alone range, with it being used as part of the quality cues of the PPL. There are a few

### SAINSBURY'S PRICE INDICES OF VALUE ADDED PRIVATE LABELS



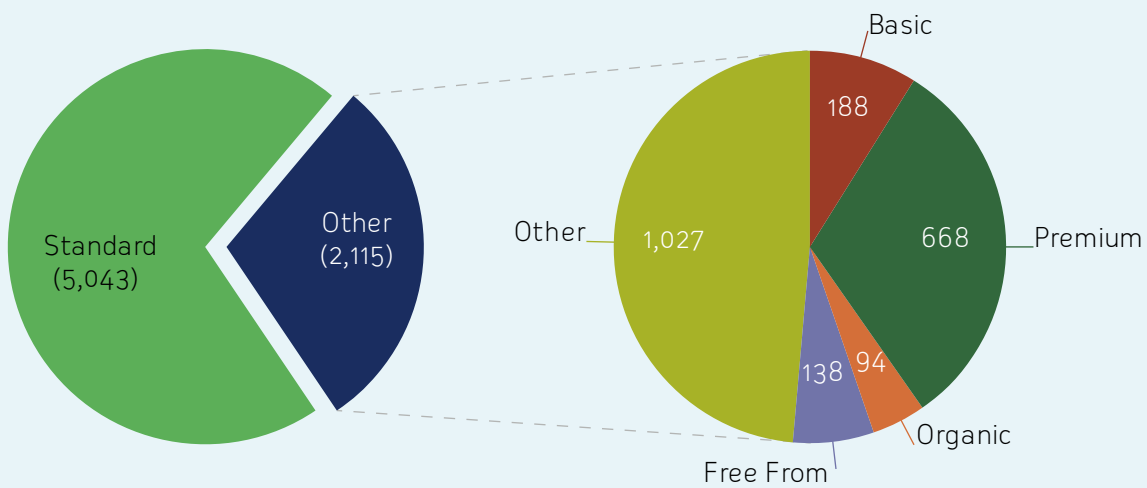
\* Number SKUs used to calculate index

exceptions on PDO such as olive oil, but the examples are few and far between. Perhaps this could be a route to differentiation for one of the UK retailers by perhaps using something like the Conad Saponi & Dintorni range in Italy, a real premium position with PDO credentials.

A potential limiting factor in the UK is on the supply side, as interviews with UK retailers have highlighted is the issue that some small artisan suppliers may find it impossible to meet the technical audit processes required by the major retail groups. Perhaps one avenue for

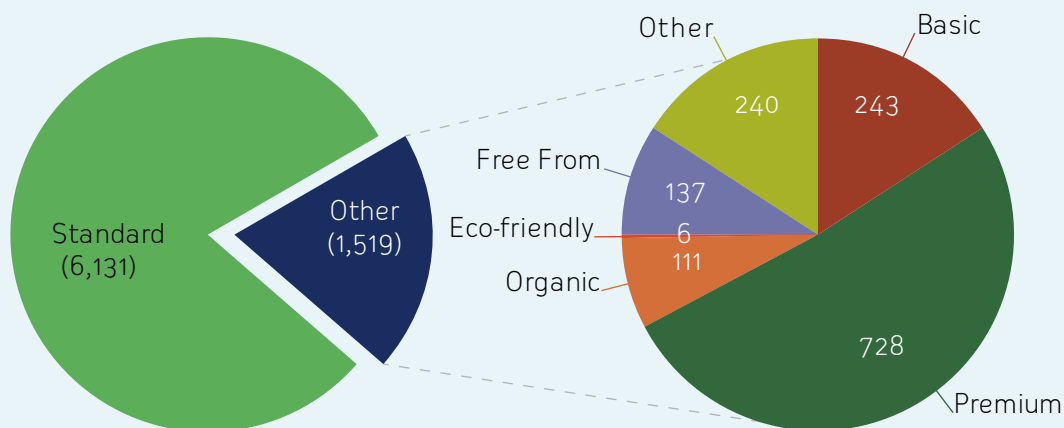
## ASDA

TOTAL NUMBER OF PRIVATE LABEL SKUs: 7,158



## TESCO

TOTAL NUMBER OF PRIVATE LABEL SKUs: 7,650

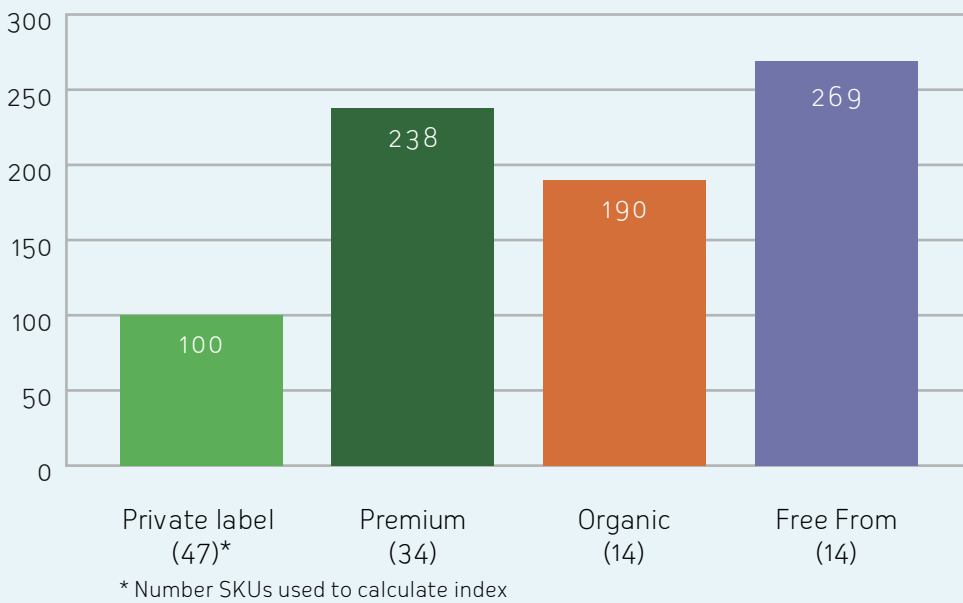


real unique innovation is for retailers to find a route to help support the artisanal producer by having a more flexible approach.

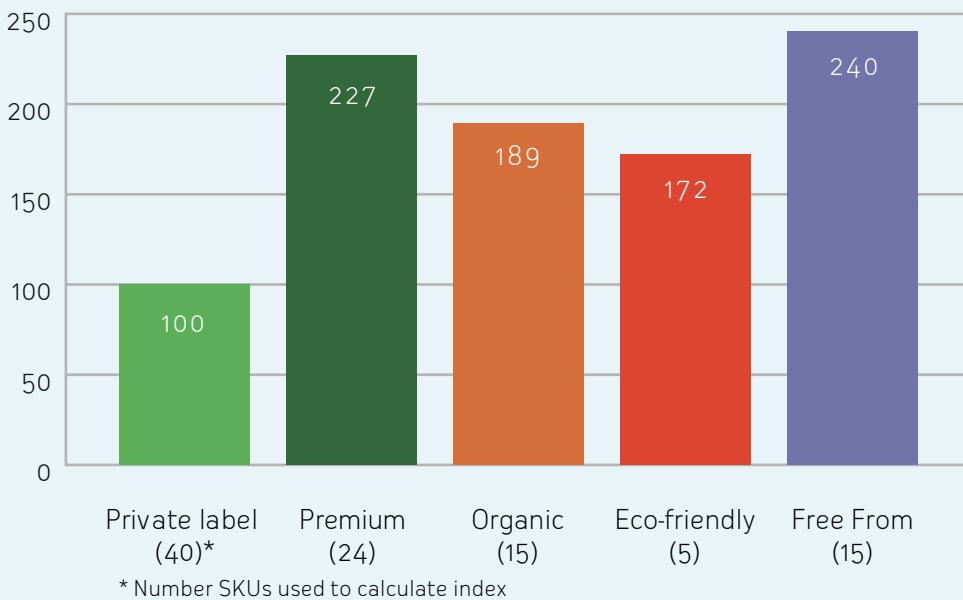
The one VAPL category that seems underdeveloped in the UK is the Eco-Friendly

category. In our research we found very few products. Only Tesco had an Eco-Friendly range of only six lines and had only been launched in the last few weeks. Perhaps this is an area ready for development especially as millennials become core consumers.

**ASDA**  
**PRICE INDICES OF VALUE ADDED PRIVATE LABELS**



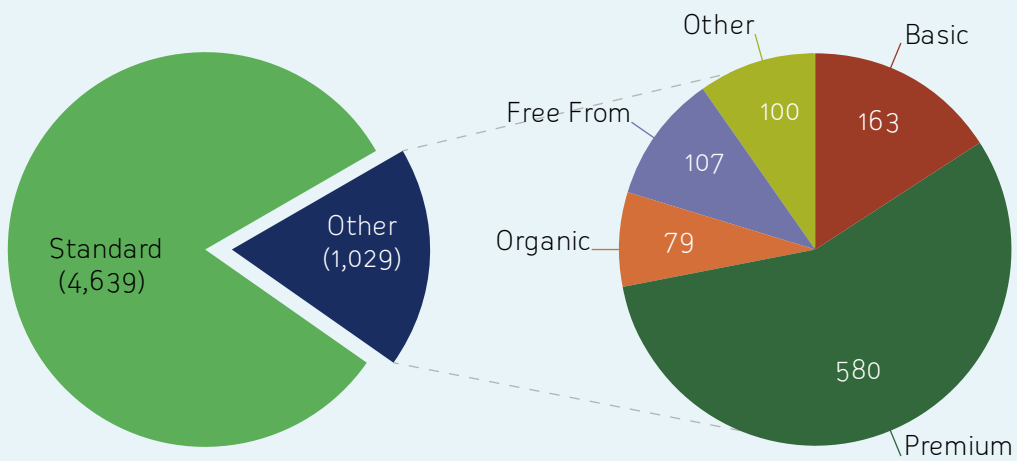
**TESCO**  
**PRICE INDICES OF VALUE ADDED PRIVATE LABELS**





### TESCO

TOTAL NUMBER OF PRIVATE LABEL SKUs: 5,668



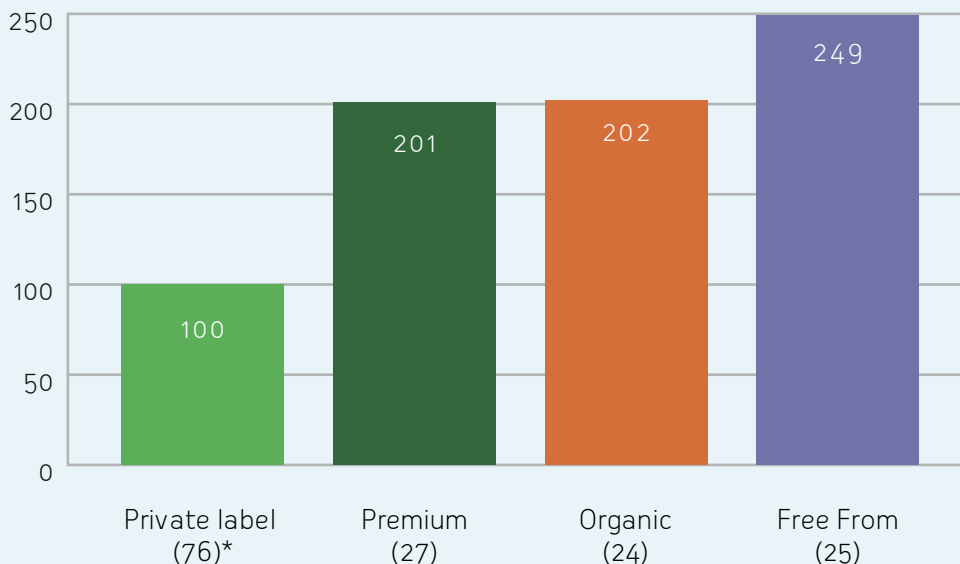
Dunnes Stores, Tesco, SuperValu, Lidl and Aldi command almost 90% of this market where some interesting dynamics are having an impact on how VAPL is presented to consumers. Hypermarket penetration is very low so most Irish supermarkets lack space to stock extensive ranges of VAPL.

Indigenous stores do a phenomenal job locally but lack the sourcing capability of global retailers. Their private label ranges are tiered for quality but do not include extensive VAPL ranges in Free From, Organic or Eco-friendly. Since late 2014 consumers have enjoyed voucher discounting and price deflation on SPL SKUs and supermarkets have sought to mitigate margin losses by driving sales of higher value and higher margin PPLs. The improved economy has given consumers the spending power to trade up. Dunnes Stores especially has leveraged their local knowledge to procure a stunning range of PPL SKUs, being recognised as Irish Quality Food Retailer of the Year in 2017 and 2018.

All five main retailers have a PPL range with Tesco Finest launching in 1998 and Aldi stocking Specially Selected since pre-2006. Initially, PPL was about shifting consumer perceptions about quality, building trust and getting consumers to buy a wider repertoire of private label products. For example, Specially Selected Fresh Angus Beef in Aldi acted as an entry point for many shoppers who did not trust discounters for fresh foods. These award-winning products sped up the journey for low-loyal customers moving to high-loyals.

Our research shows that Irish retailers command a significant premium for their PPL ranges. Tesco is at an index of 201 and Dunnes 174. PPL represents over half of non-standard private label SKUs, making it a significant competitive territory. We also see a significant increase in PPL ranges at Christmas.

## TESCO PRICE INDICES OF VALUE ADDED PRIVATE LABELS



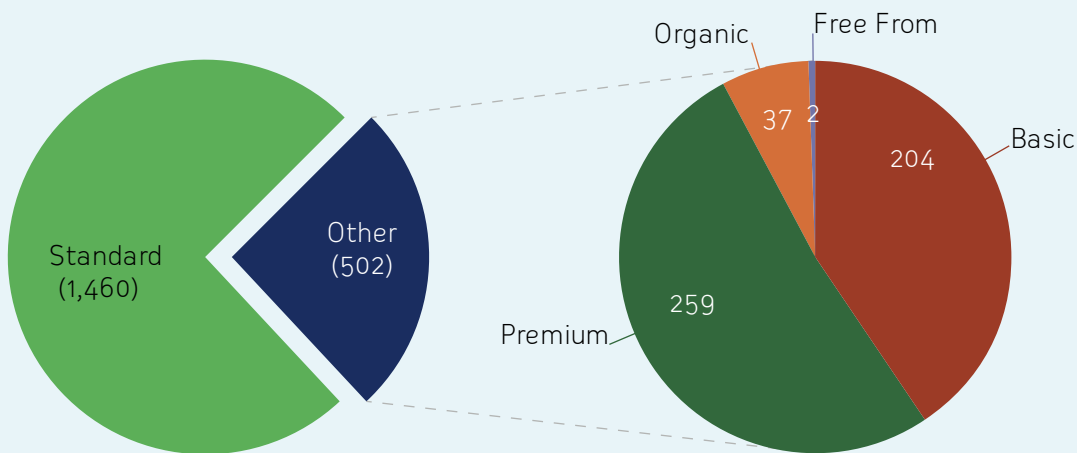
\* Number SKUs used to calculate index

Bord Bia, the Irish Food Board supporting the Irish food and drink suppliers have done an excellent job of marketing Ireland’s sustainable food production under the Origin Green banner. Consumer perception is that Ireland’s food is clean, sustainable and not intensively reared or processed. As such, the demand for organic foods has been inconsistent by category and sceptical consumers do not immediately see the benefits of organic. Eighty-four per cent of Irish consumers agree that price is a factor in whether they buy organic or not and 58% reckon that Irish Origin is more important. Despite this, the organic market in Ireland is still growing at +10.5% a year and is worth over a €200m, having enjoyed three years of sustained double-digit growth (+55% since 2014). The key categories are fruit, vegetables, dairy, eggs, meat and poultry, i.e. products where there is an awareness of chemical residues or intensive agricultural rearing. Interestingly, many organic meat customers are willing to substitute with PPL if the organic product is not available.

Tesco have led the market using their local team coupled with access to group sourcing. They have developed an excellent range of Free From private label SKUs, even extending to seasonal SKUs such as Free From Christmas puddings. Other retailers are beginning to source branded options to fill the gaps. Research suggests that coeliac disease is more common in Ireland due to genetic heritage but there is no doubt that a trend has developed where consumers, with no diagnosed allergies, see Free From as healthy and are paying a premium with Free From private label indexing at 186. Ireland is a small country, with a total population equivalent to the Barcelona or Berlin urban areas. Irish provenance is a hygiene factor for many fresh foods within the standard and premium tiers so it is seen as ‘reason to believe’ rather than an identifiable sub-range.

## DUNNES

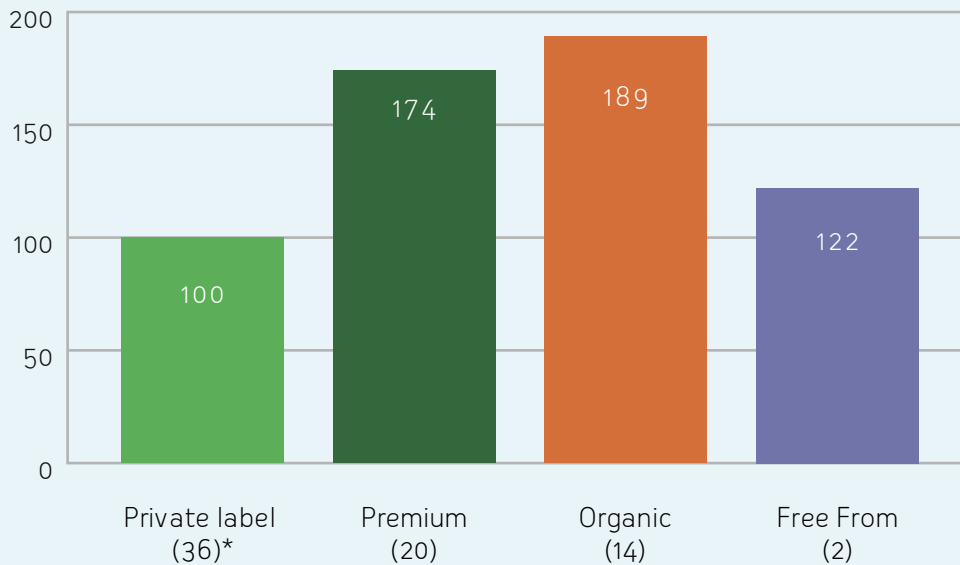
TOTAL NUMBER OF PRIVATE LABEL SKUs: 1,962



Retailers will continue expanding their VAPL ranges to mitigate value and profit losses. There will be opportunities to launch new PPL products as SPLs are value engineered to reduce costs. This creates an opportunity gap for a more PPLs.

There is no doubt that Health, Organic, Eco-Friendly and Free From have considerable scope for further growth in private label but a new segment is emerging in social impact. During Christmas 2017, Tesco Ireland launched several SKUs where a portion of the retail price was given to its charity partner. Look out for more of this as retailers try to connect with millennials, consumers with a conscience and a sense of responsibility as global citizens.

### DUNNES PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

# Summary by country Germany

In German food retail, six players (Edeka, Rewe, Aldi, Lidl, Kaufland, Real) dominate the market, having around 85% of the total. Not only mainstream retailers Edeka, Rewe (and their discount-formats: Netto and Penny) and Kaufland, but also classic discounters such as Aldi and Lidl have VAPLs in their assortment.

Like in most other European countries, German retailers such as Rewe and Kaufland have been successful in launching PPLs. This has partly been in response to Lidl that notably around Easter and Christmas has a wide range of PPLs. Shoppers are offered something very special for their family without spending a fortune on a comparable brand. We found relatively few PPLs in Edeka as this retailer, with its structure of independent store owners, is much more brand oriented.

The Free From category is growing for brands and private label alike. All three retailers included in the research had a Free From offer under their own label. Lactose-free makes up 57% of the total number of Free From SKUs (41 being lactose-free and 31 gluten-free). Rewe, with 24, offers by far the most gluten-free SKUs.

## “Consumption of Free From lactose products has to a large extent become a life style” (CEO of a dairy manufacturer)

In our interviews it was mentioned that Free From products are increasingly used by consumers with no dietary intolerance. Notably Free From lactose was to a large extent considered to have become a lifestyle choice. Viewing the diversity in the assortment of various retailers we envisage interesting room for further growth.

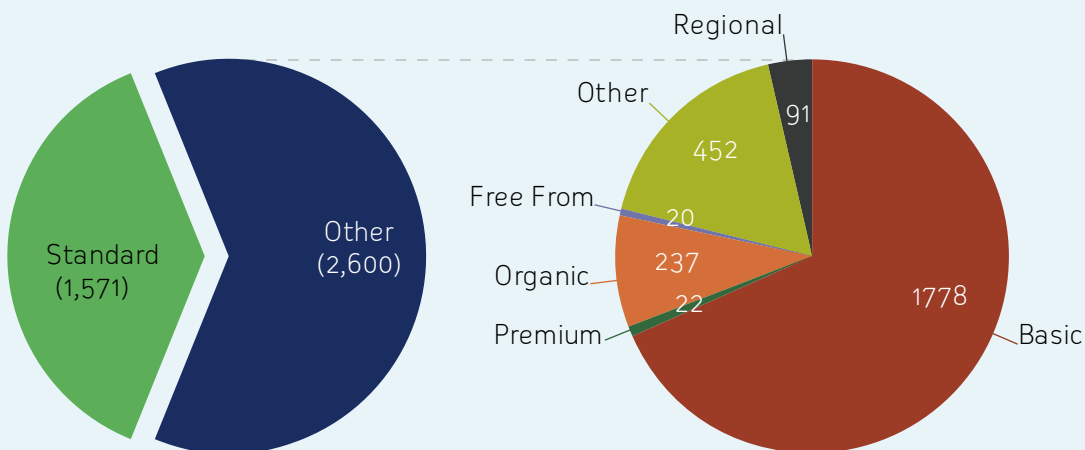
In general, the Free From segment not only generates better margins for retailers but also for suppliers. A senior manager in the dairy industry mentioned that although additional costs for separating production of lactose-free from regular dairy products can be significant, margins remain more attractive.

“Although additional costs for separating production of lactose-free from regular dairy products can be significant, margins remain more attractive” (Senior manager in the dairy industry)

**“Although many Eco-Friendly private labels can be found in German drugstores, only a few have found their way to food retailers. To date, Rewe is the only mainstream retailer that has listed a number of Eco-Friendly private label SKUs.”**

## EDEKA

TOTAL NUMBER OF PRIVATE LABEL SKUs: 4,171





Country-focused promotions at retailers such as Edeka and Lidl have become more frequent. A few weeks a year, these retailers offer products, sometimes of protected designated of origin (PDO) quality, from countries like Italy, Spain or Greece (i.e. the ERIDANOUS brand for Greek products in Lidl).

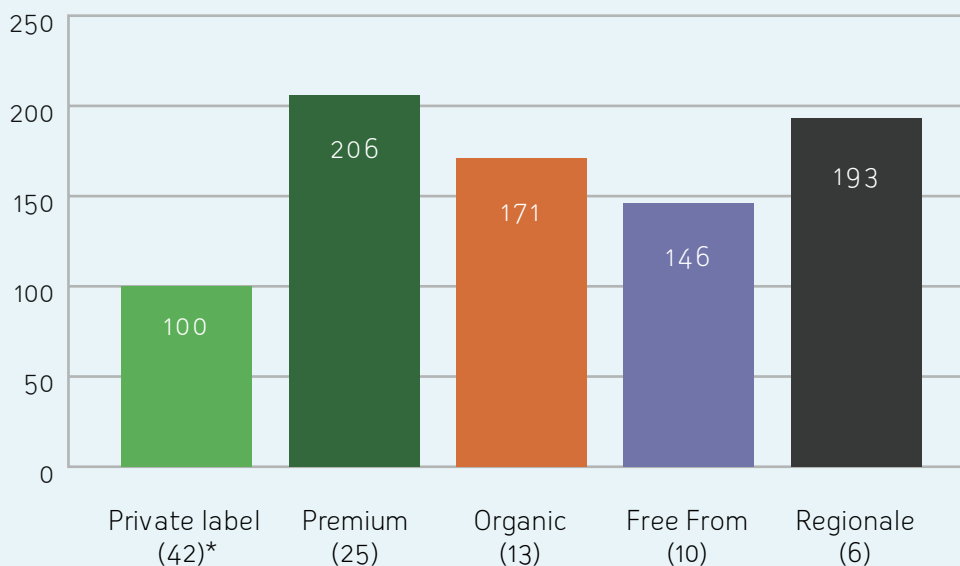
The number of Organic private label SKUs has increased considerably over the years although the category is focused around fresh: notably milk, eggs, meat, vegetables and fruit. Raw material costs are significantly higher but in spite of a downward trend in prices for organic products, both suppliers and retailers still generate better margins compared to SPL. For both mainstream and discount retailers, Organic private label allows them to win back shoppers lost to small Tante Emma bio stores.

A relatively new trend in German food retail is the ‘back to origin’ phenomenon. In a time where most products are available all year round, shoppers seem to have an increased desire to buy seasonal and regional produce. Regional provenance seems to appeal to shoppers and the mark-up that they are willing to pay for these products is more or less related to the higher raw material price the retailer has to pay to the supplier.

During the period of our survey, Rewe had 129 SKUs in fresh produce (i.e. dairy, fruit, vegetables, eggs) from regions such as Dithmarschen, Glückstadt and Altes Land. However, we did not calculate an index for this segment as this solely concerns fresh produce.

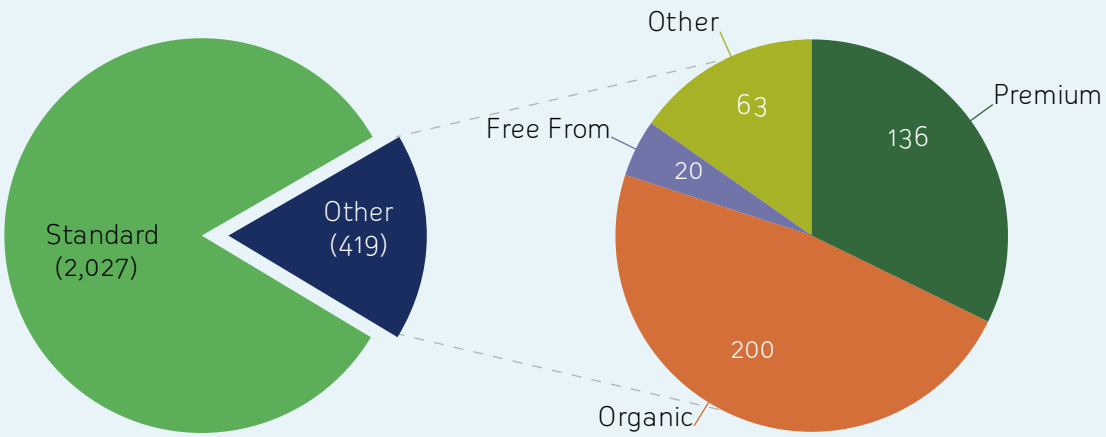
Summarising, mainstream retailers, including discount retailers, offer a wide variety of VAPLs that address all consumer interest segments and we expect VAPL to remain a growing segment for all categories within German food retail. In view of better margins for both retailers and suppliers, the VAPL market offers interesting opportunities for growth going forward.

## EDEKA PRICE INDICES OF VALUE ADDED PRIVATE LABELS



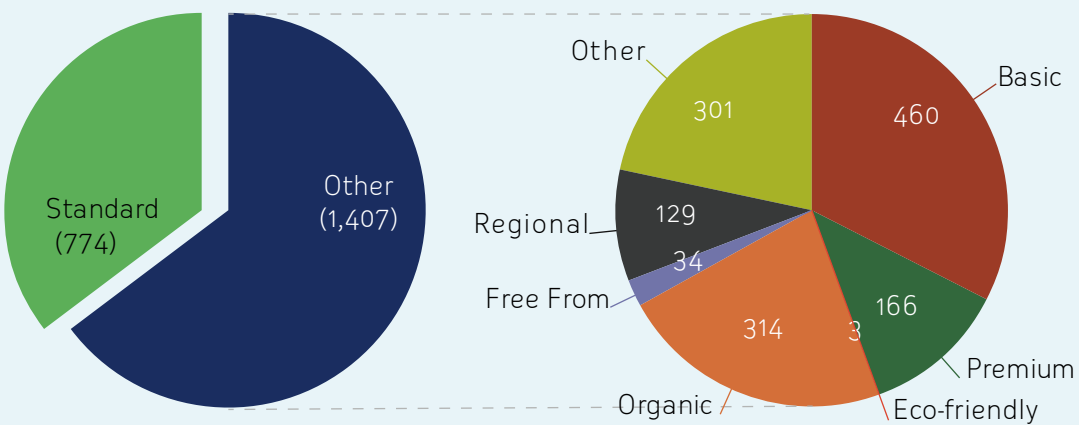
## KAUFLAND

TOTAL NUMBER OF PRIVATE LABEL SKUs: 2,446



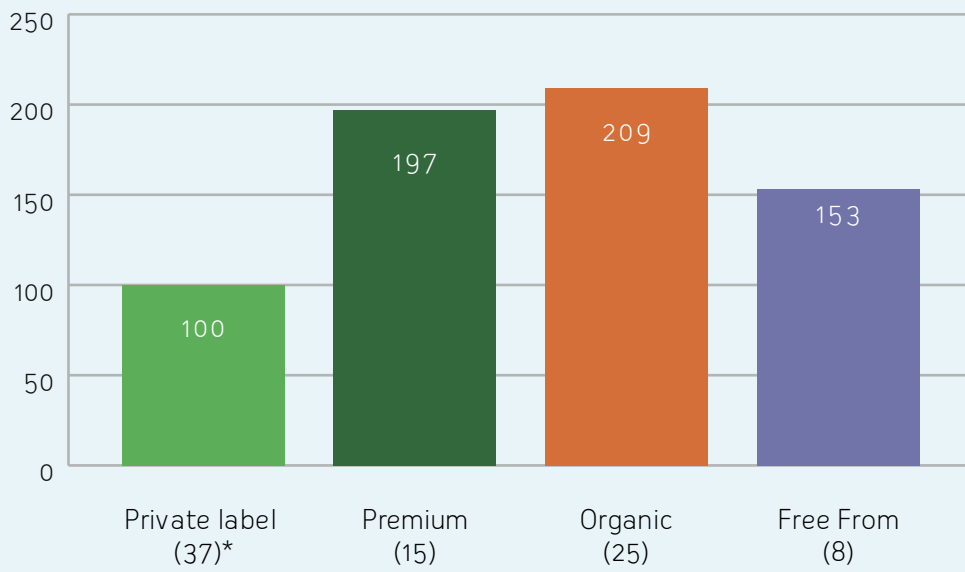
## REWE

TOTAL NUMBER OF PRIVATE LABEL SKUs: 2,181



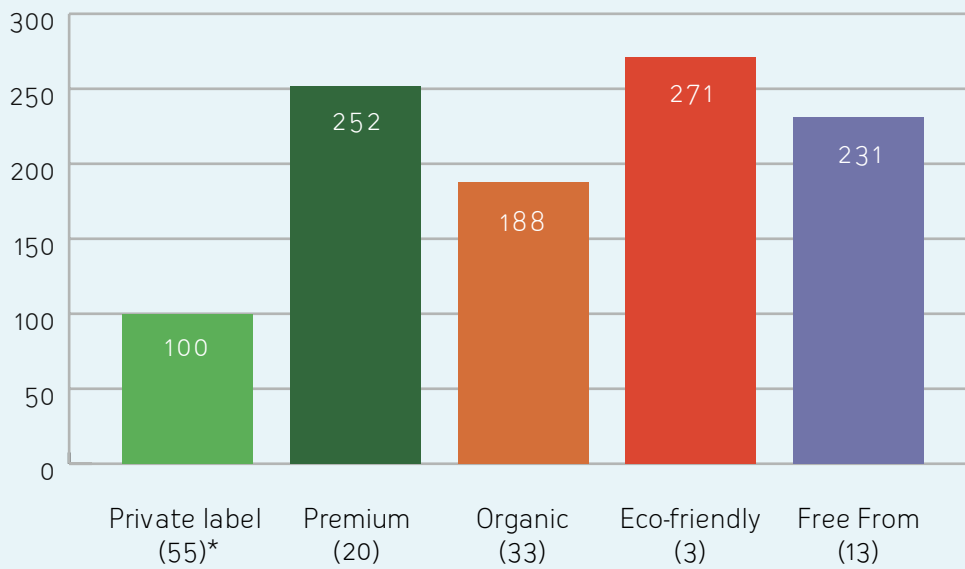
## KAUFLAND

### PRICE INDICES OF VALUE ADDED PRIVATE LABELS



## REWE

### PRICE INDICES OF VALUE ADDED PRIVATE LABELS

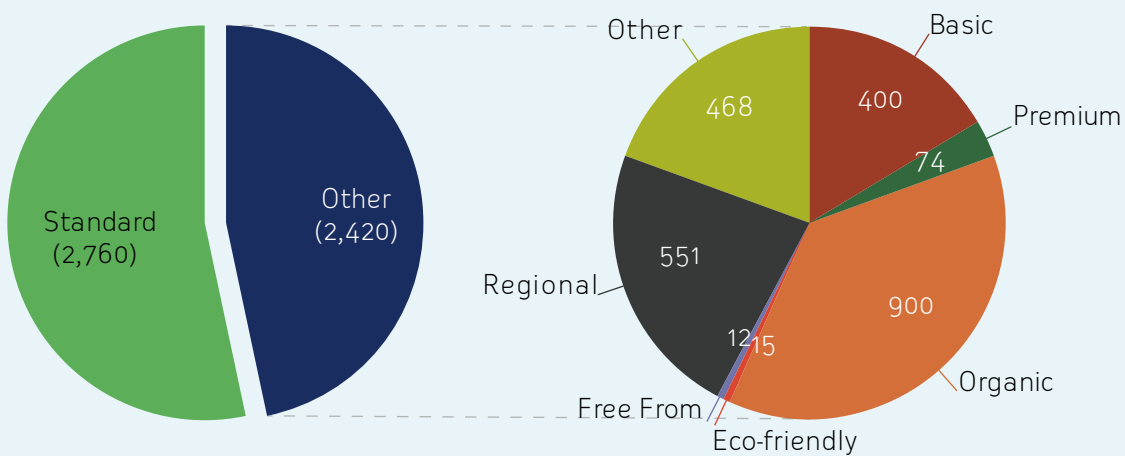


\* Number SKUs used to calculate index



**CARREFOUR**

TOTAL NUMBER OF PRIVATE LABEL SKUs: 5,180



France, as a country of gastronomy, has a long history of value-added private label (VAPL). In the late 1990s, Carrefour launched a range of regional products under its private label brand Reflets de France. The objective was to closely collaborate with small-sized regional suppliers. With €390M sales (2016), it generates 6% of the Carrefour sales in France. Soon after, all other retailers followed with their own regional offer under private label with a focus on the quality of the recipe and ingredients, as well as an authentic story around the product.

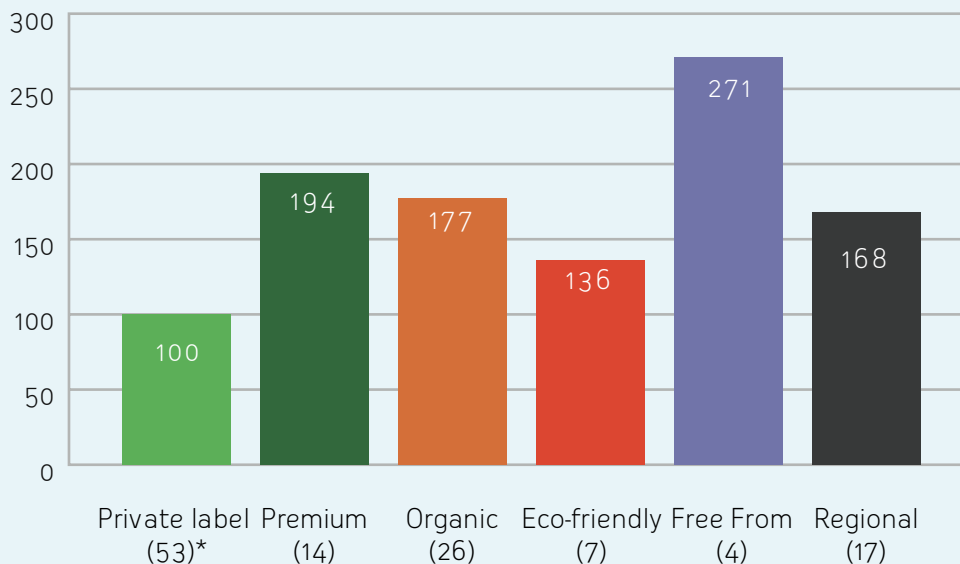
Premium private label (PPL) was slightly ignored by retailers as they predominantly focused their attempts on countering discount retailers with the budget private label (BPL). Finally, in early 2000, after a decade of hardly any innovation in PPL, retailers began launching their PPL ranges inspired by Delicatessen (Epicerie Fine) products such as offered by Fauchon or Hediard and by chefs' creations. In 2009, private label in France reached its maximum share of 34% and has been declining ever since.

Over the past three years, private label share has decreased from 29.6% in 2015 to 27.8% in 2017 due to heavily promoted national brands and many small innovative brands of agile suppliers. Although overall private label market share decreased, VAPL categories managed to grow by 27.3% in value for organic private labels (total value estimated at around €1.6 billion in FMCG) and 10.9% for PPL (total value estimated at around €1.5B in FMCG).

Each French retailer has a PPL nowadays, including discount retailers like Lidl. Some mainstream retailers even have two private label lines at the higher end of the market: Gourmet orientation and Regional.

With a strong attachment to regional recipes, retailers created specific Regional private label SKUs allowing them to build a unique relationship with small local suppliers. The search for authenticity, combined with storytelling, were drivers to move away from just copying what already existed. The 'made in France' trend made it fit perfectly without using the French flag on the packaging. A few local specialities that had been on the market for years became mainstream products, such as buckwheat pancakes (galettes), and were launched either as an SPL or a Regional private label.

## CARREFOUR PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

The country of Michelin Star chefs has seen the rise and decline of chefs' signatures on their PPL gourmet ranges. Alain Sanderens for Carrefour, Antoine Westermann for Système-U or Michel Troisgros for Casino have endorsed PPLs for many years. However, due to the high fees charged by these chefs (estimated between €100K and €200K per annum) many retailers have reduced their cooperation. We expect that further PPL growth will require suppliers with recognised craftsmanship or chef-support only for specific occasions like Easter and Christmas.

In terms of price index, it is not surprising that PPL is more expensive. The index for

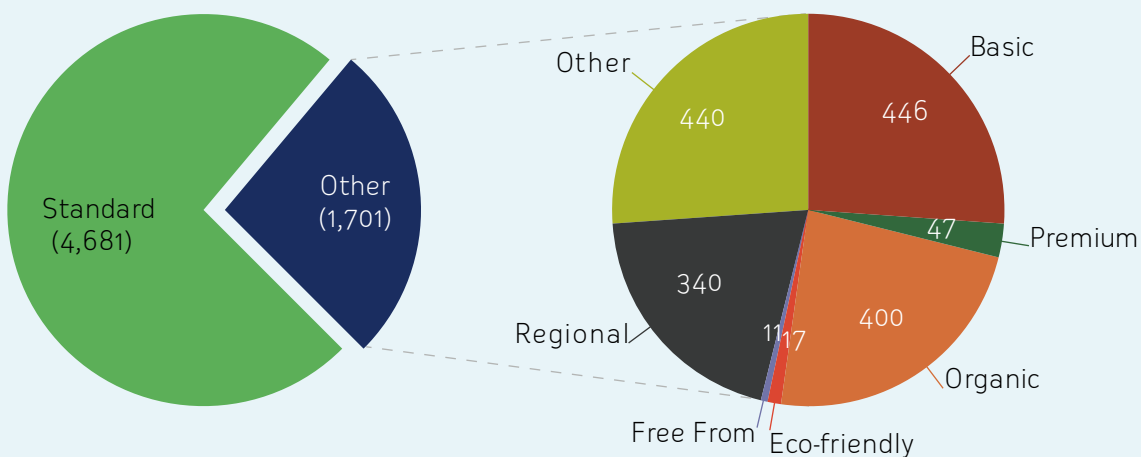
Carrefour is 194 and for Leclerc it is 166. The Leclerc example is a bit unique as this retailer deliberately chose a product positioning that is difficult to compare with existing SPL Marque Repère. For example we could only find two SKUs comparable to an SPL equivalent. By choosing this exclusive assortment, Leclerc envisages to completely step out of any comparison with both its own SPLs and those of the competition. Leclerc positions its Regional private label Nos Régions ont du Talent on a higher level with an index of 207 whereas Carrefour with Reflets de France is at an index of 168. Casino has its Regional private label at an index of 283 and its PPL Casino Delices on 244.

	Regional	Gourmet
Carrefour	Reflets de France	Carrefour Selection
Leclerc	Nos Régions ont du Talent	L'Origine du Goût
Intermarché	Itineraire Des Saveurs	Les Cré ations
Lidl	Saveurs de Nos Régions	Deluxe
Système-U	U-Saveurs	
Auchan	Mmm!	
Monoprix	Monoprix Gourmet	

**In some retailers regional private label and gourmet are the same**

## LECLERC

**TOTAL NUMBER OF PRIVATE LABEL SKUs: 6,382**

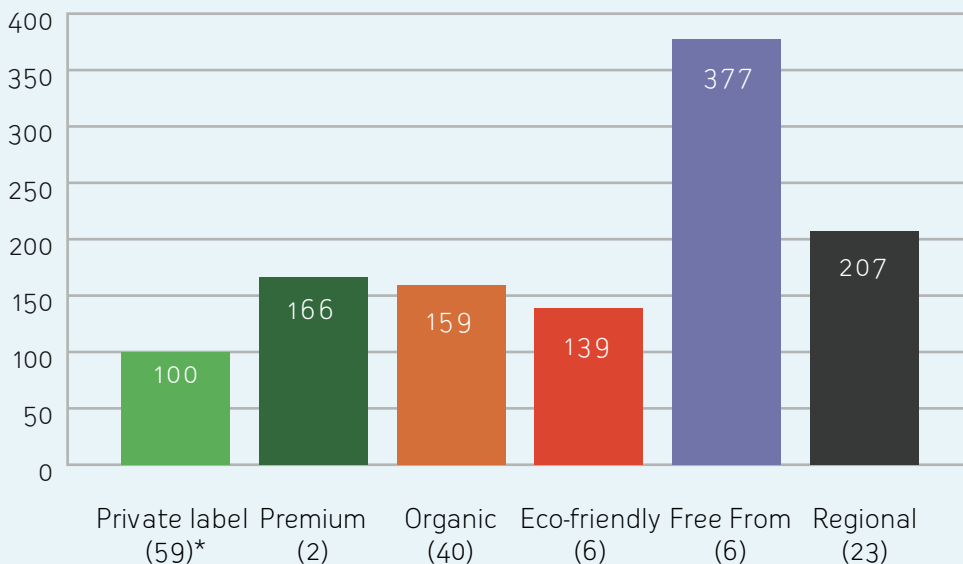


The total market growth for Organic products was +20.9% in 2017 (est. €3.6b). Although the share remains low at 3.4% of the total FMCG market, private label plays an important role in the development of the category taking 44% of the total value. Although the share remains low at 3.4% of the total FMCG market, private label plays an important role in the development of the category taking 44% of the total value. Most likely this trend will continue, as for 2018, some major retailers have announced to expand their offer.

Although retailers make an effort to make organic products more affordable than speciality stores (such as Biocoop and Naturalia) the index is still at 177. Leclerc seems to be the one having the cheapest alternative available for the shopper with an average index of 159, whereas Casino is at 194. An increased offer of Organic private label may have two effects on this index. Either a higher index in case Organic products are launched in niche categories where price perception versus standard product is less of an issue, or a decrease in case mainstream categories reach a volume allowing retailers to negotiate better prices from their suppliers.

The Free From market in France has grown by more than 8% for two years in a row since 2014. This has allowed it to reach a total value of €215 million in 2016. Although gluten-free products take a 30% market share (€65 million), lactose-free products have the biggest share at 48% (€103 million). In the gluten-free category, private label had a 22% value share (IRI 2014) and all French retailers now have their store banner brands in place. Auchan took the lead back in 2009 with the launch of Mieux Vivre Sans Gluten and the last one to join was Leclerc in 2013 with Chaque Jour Sans Gluten. However, it is Système-U that now has the widest assortment under its U Sans Gluten brand (30 SKUs). The price indices for gluten-free in all retailers remain high: between 271 at Carrefour and 420 at Casino. The relatively small range makes it difficult to promote the products in store. Moreover, retailers struggle as to where in the store products should be offered: specific displays, integration in the different categories or dedicated shelves for healthy-products. In France, the Free From segment is still considered to be underdeveloped. Private label is also expected to continue to grow outside the gluten-free segment. The lactose-free segment is expected to continue to grow

## LECLERC PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

but will most likely be replaced by dairy free alternatives (vegan). Examples can be found in the recent launch of a range of lactose-free and vegan desserts under the Hey Coco brand integrated in the vegetarian line of Casino and a lactose-free yogurt range under the Paturages brand of Intermarché.

To secure growth and margins, the VAPL segment remains vital for French retailers. Ten years of private label market share decline combined with fierce competition between mainstream retailers due to government scrutiny (the Nutella case) has forced retailers to expand their ranges with unique products. VAPLs allow retailers to differentiate and in order to do so they need competent and innovative suppliers. We expect the following trends to gain momentum to generate VAPL growth in French retail going forward:

- Integration of the private label production. Intermarché and its 60 companies is ahead of competition and may potentially propose unique and exclusive products, whereas Système-U in 2017 made a co-investment with Schreiber to create a dedicated dairy products factory.

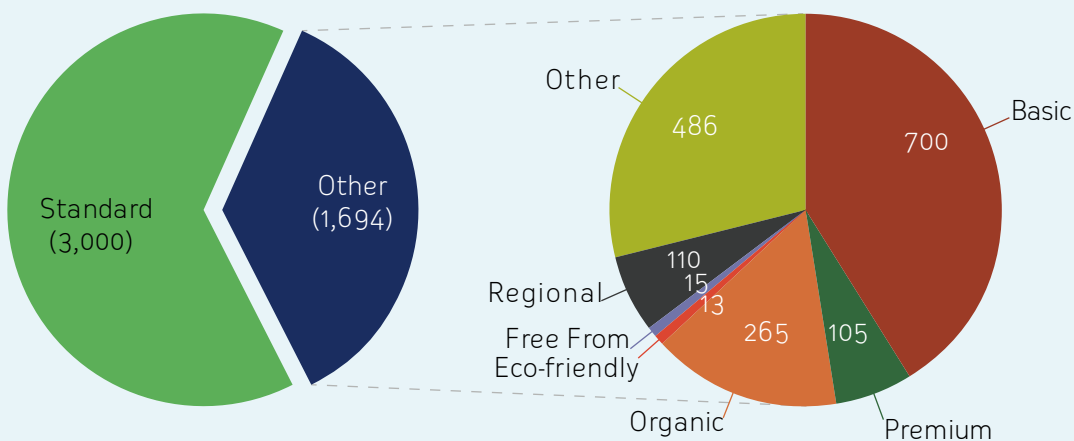
- True long-term partnerships - Retailers will proactively search for suppliers (still hardly known) in the private label market to support them by means of long-term contracts required for the investment in machinery and equipment.
- Investment in Food-tech start-ups - Auchan and Carrefour are already using innovation events targeted at start-ups to finance some of the most promising initiatives.



**Lactose free and vegan desserts under the “Hey Coco” brand integrated in the vegetarian line of Casino**

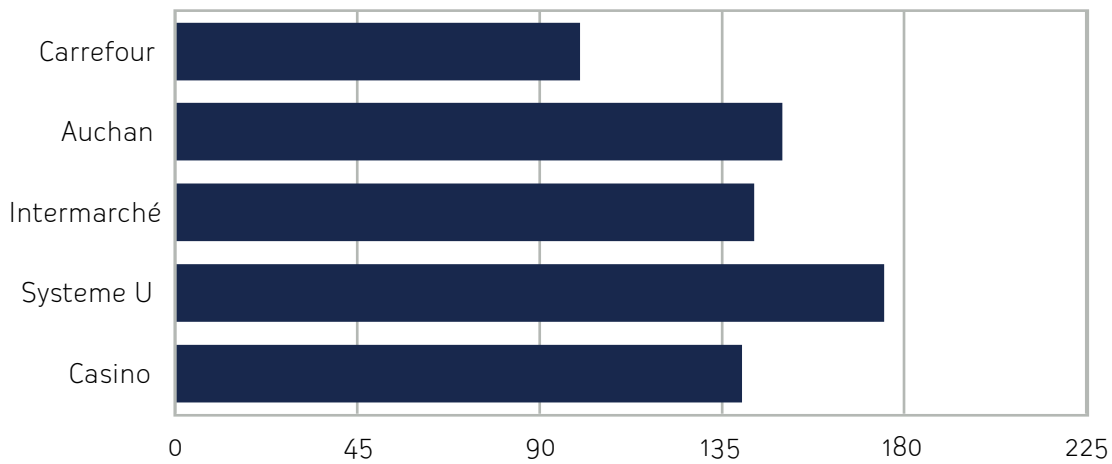
## CASINO

**TOTAL NUMBER OF PRIVATE LABEL SKUs: 4,694**



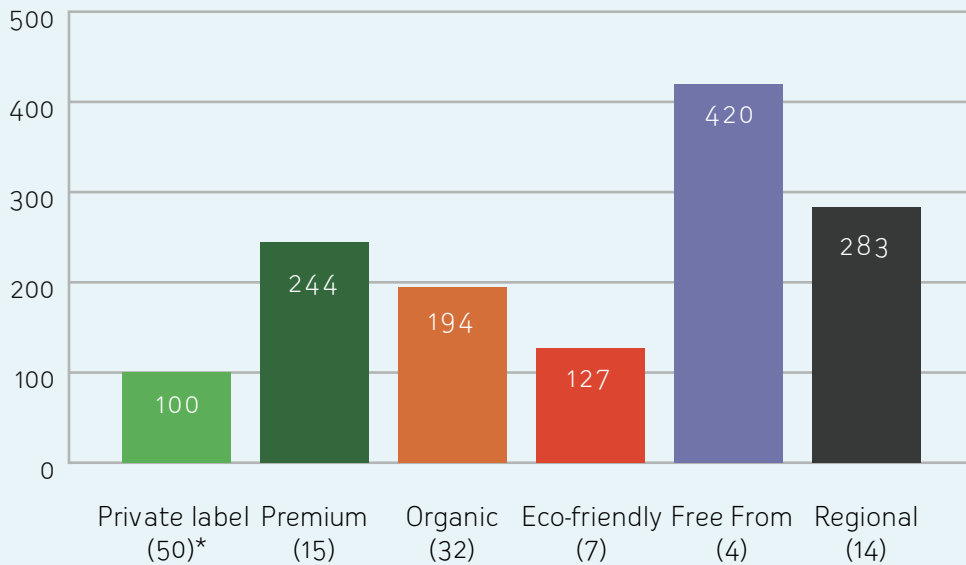


In the race of differentiation, retailers who are able to create food business incubators will secure exclusive concepts that could also be directly absorbed by their private label range. In the meantime, exclusive products will be launched in partnership with specific retailers such as The Good Spoon range of sauce only distributed by Carrefour Ile de France. Could this be a test for next generation of PPLs?



Number Organic private label SKUs to be launched in 2018 (Source: LSA 02/2018)

### CASINO PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

# Summary by country Italy

Market share for private label in Italy is lower than in most other European countries due to a fragmented retail landscape. Notably in the south of Italy traditional and small shops make up a large part of the market. Although these stores do not offer private label, the market has interesting potential for growth as the retail structure is expected to further consolidate. The percentage of private label in total sales in COOP, CONAD and UNES is between 30% and 40%.

According to Nielsen, BPL market share has declined sharply (-11.5%) whereas PPL share has increased by 16.6%. Overall the market share of private label has increased by 4.6%. Notably VAPL categories have experienced significant growth over the past 12 months. This is based on unique brand concepts with a clear positioning of their own products and launched without necessarily having a national brand equivalent as a benchmark.

The first VAPL brands arrived in the Italian market in the early 2000s, as Regional private labels were launched at the premium end of the market such as Saponi e Dintorni at CONAD, Il Viaggiator Goloso at UNES and Terre d'Italia at Carrefour. Later these initiatives were

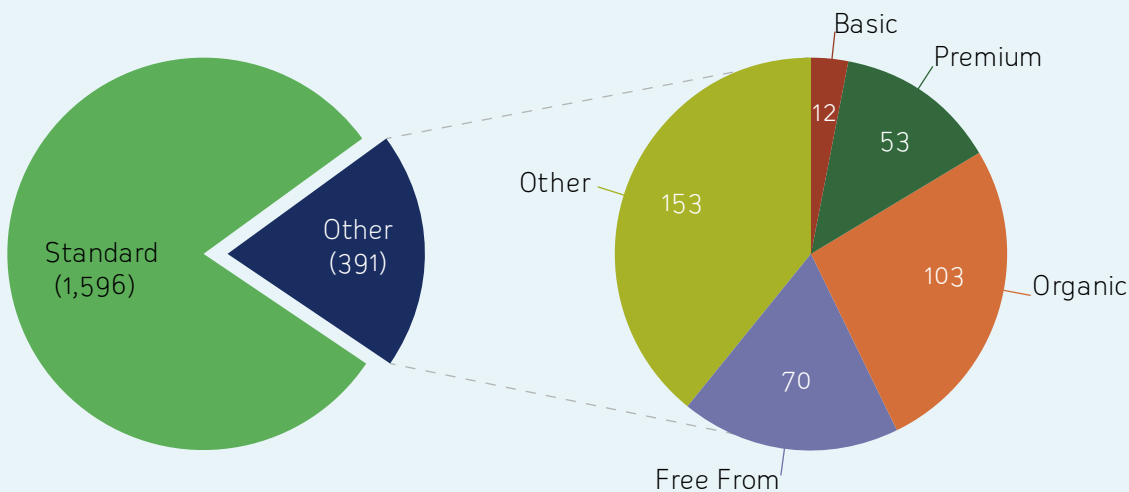
followed by Fior Fiore at COOP and Top at Esselunga. These are still the leading private label brands at the premium end of the market. We see that the Regional and Premium private label partly overlap in Italy as the regional origin is considered an added-value attribute to a product.

At CONAD the Regional private label perfectly matches the cooperative structure of the company with stores spread throughout the country as well as store owners being well-connected with local suppliers in the regions. This makes them well positioned and credible to be involved in the sourcing process. The launch of Terre d'Italia by Carrefour may have been a rather tactical move. By sourcing locally and branding the products as 'Italian' it considered to be in a better position to persuade shoppers in spite of the foreign store brand name and ownership.

**“The purpose of VAPL in the architecture is to create private label with less elasticity to the price in the category, generate margin and give distinctiveness to the store banner brand” (Sales and Marketing Director Retail)**

## ESSELUNGA

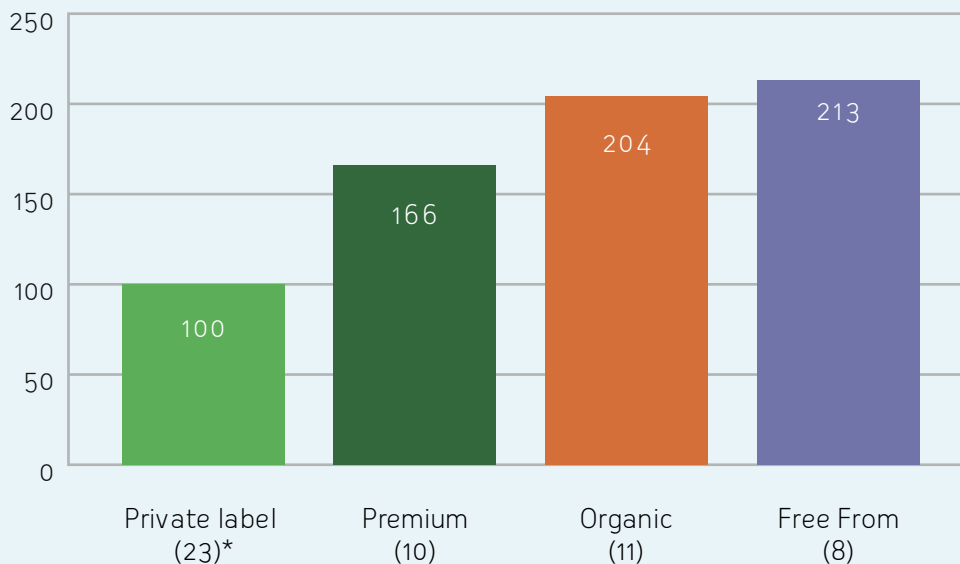
TOTAL NUMBER OF PRIVATE LABEL SKUs: 1,975



In the past, retailers simply copied existing products available under a brand. Premium private label, however, took a different approach. Retailer-owned labels at the quality end of the Italian market, such as Premium and Regional private labels were built as brands in their own right. Based on market and in-house data analysis, new product development projects were initiated to create genuinely new products and packaging to support their unique positioning. Il Viaggiator Goloso, the Regional private label at UNES (that does not use the store banner on the pack), is heavily supported by means of above-the-line

communication. As an example: supported by a billboard campaign that you would expect from a national brand, the Panettone Il Viaggiator Goloso was advertised with the claim ‘The new Panettone of the Milanese people’. This was quite remarkable for a product that was sold only temporarily in the UNES and Il Viaggiator Goloso stores (including the flagship store in Milan) during Christmas. On the other hand Saponi & Dintorni (that does refer to the store banner) has dozens of supermarkets and ice-cream parlors in areas of high footfall such as the main railway stations or tourist areas in some Italian cities.

## ESSELUNGA PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

**“Our objective is to become a guide for the design of new products, even to invent them. For this reason, our premium private label does not have an explicit and direct reference to our store brand” (CEO Retail)**

According to IRI the total number of private label SKUs in the Italian market increased in all sales formats (hypermarkets: 5.5%, convenience stores: 7.8%, discounters: 9.5%, supermarkets: 10%). Growth could notably be seen in frozen and fresh products, the domain of Regional and PPL (25% of total private label SKUs is in fresh).

In our research we examined a large number of private label SKUs in different categories. We found that in some cases the Regional and Premium private label positioning are both combined under the same brand, such as Fior Fiore in COOP, Scelto in Sigma and Top in Esselunga.

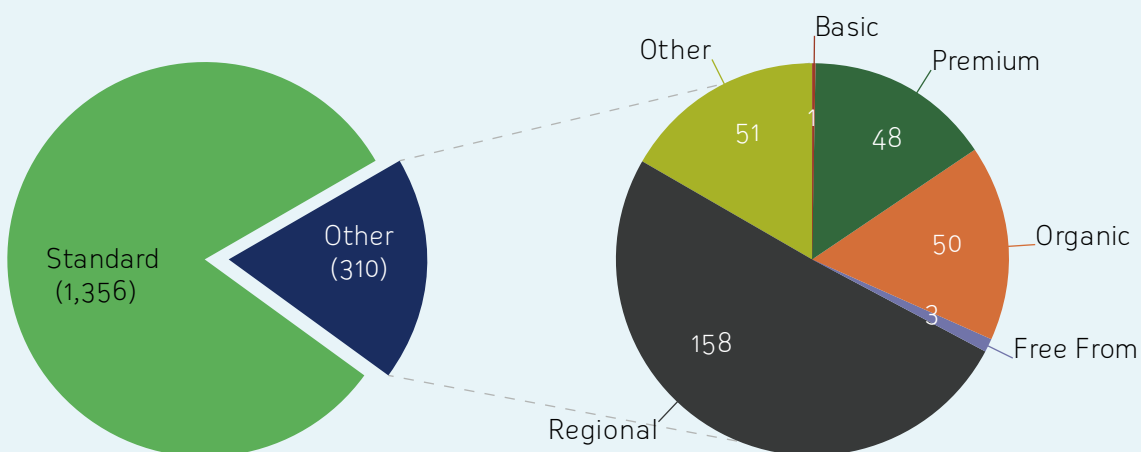
Regional private label often refers to PDO or PGI products and has, in most cases, the highest index (between 282 and 235). This should not be surprising as Italy has the highest number of PDO and PGI products in Europe: 295 (22% of Europe’s total) and even 523 DOCG, DOC and IGT for wines being part of the culture of each village in Italy. Premium private label when not combined with the Regional, has a lower index of 165.

	Regional	Gourmet
Coop	Fior Fiore	
Conad	Sapori e Dintori	
Esselunga	Esselunga Top	
Carrefour	Terre d'Italia	Carrefour Selection

**In some retailers regional private label and gourmet are the same**

## CARREFOUR

**TOTAL NUMBER OF PRIVATE LABEL SKUs: 1,666**



The index for Free From private label varies from 186 to 220 and for organic from 192 to 234. These are the two VAPLs currently positioned at second highest price level after Regional private label.

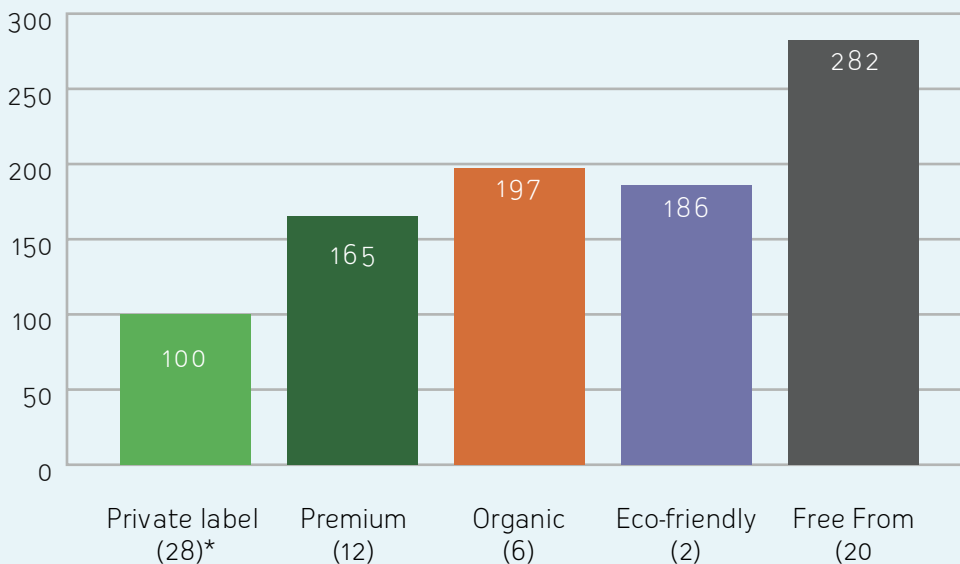
**“We as producers must be willing to invest because we expect there to be a great innovation based on environmental and ethical values in the private label”**  
**(Commercial Director Private Label Manufacturer)**

Eco-friendly private label is not present in Italy. However, we expect this to change as in recent months there has been an increasing call for food retailers to take responsibility for sustainable packaging and the reduction or elimination of materials that have a major impact on the environment. Our experience, which is also confirmed by research, shows that shoppers attribute increased value to these aspects. This is a trend we expect to see develop further for private label in Italy.



**Conad Italy regional provenance**

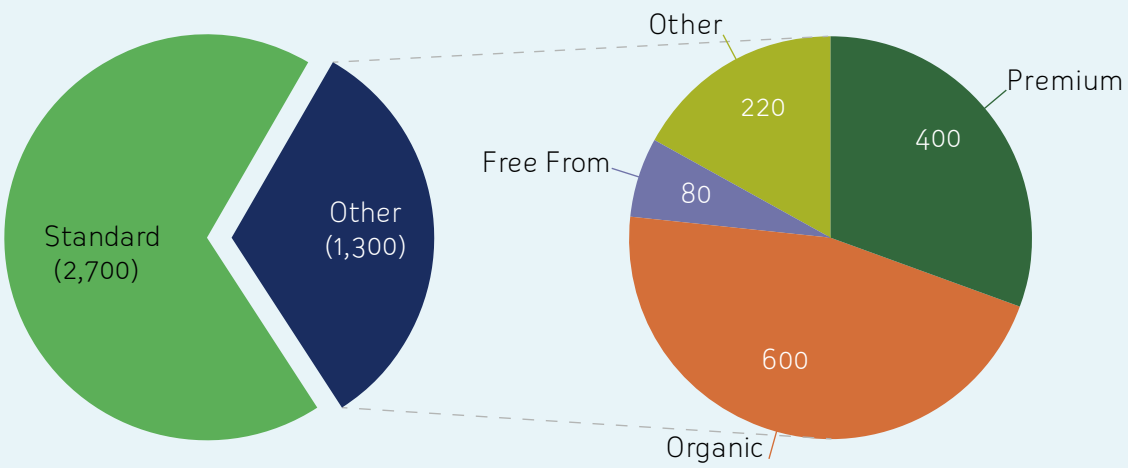
**CARREFOUR  
 PRICE INDICES OF VALUE ADDED PRIVATE LABELS**



\* Number SKUs used to calculate index

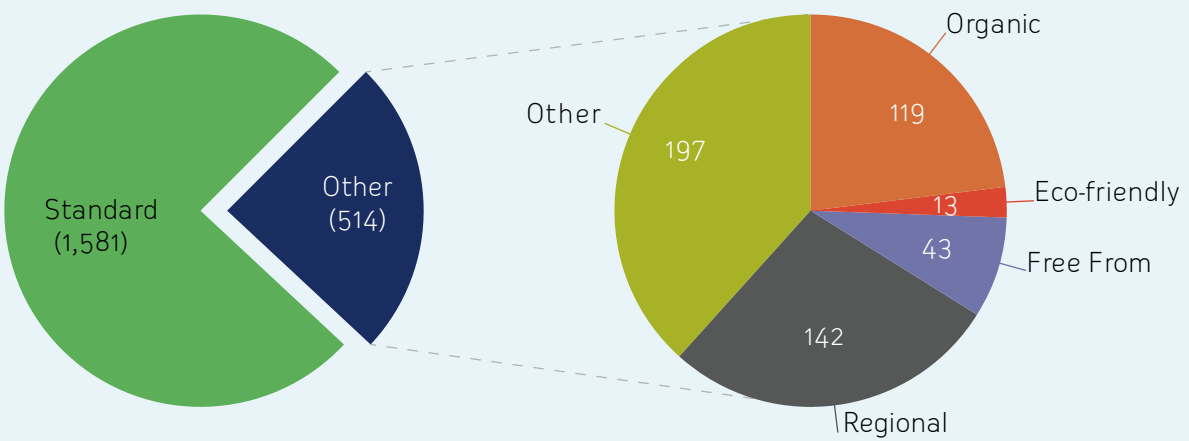
### COOP

TOTAL NUMBER OF PRIVATE LABEL SKUs: 4,000

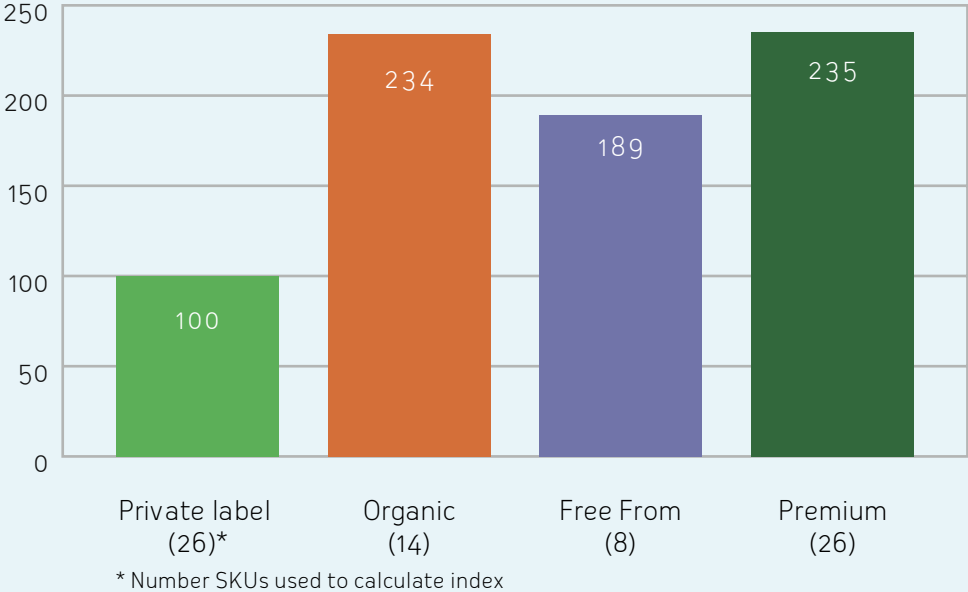


### CONAD

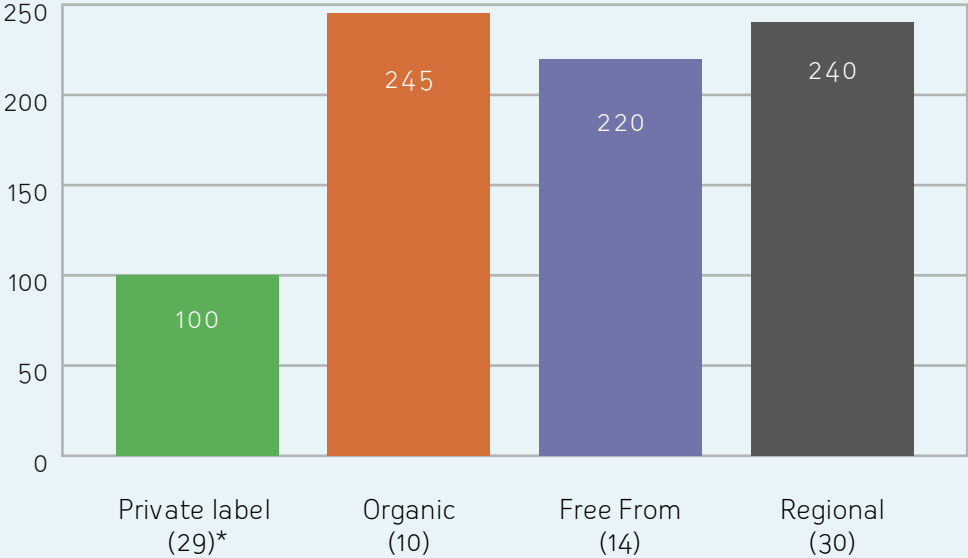
TOTAL NUMBER OF PRIVATE LABEL SKUs: 2,095



### COOP PRICE INDICES OF VALUE ADDED PRIVATE LABELS



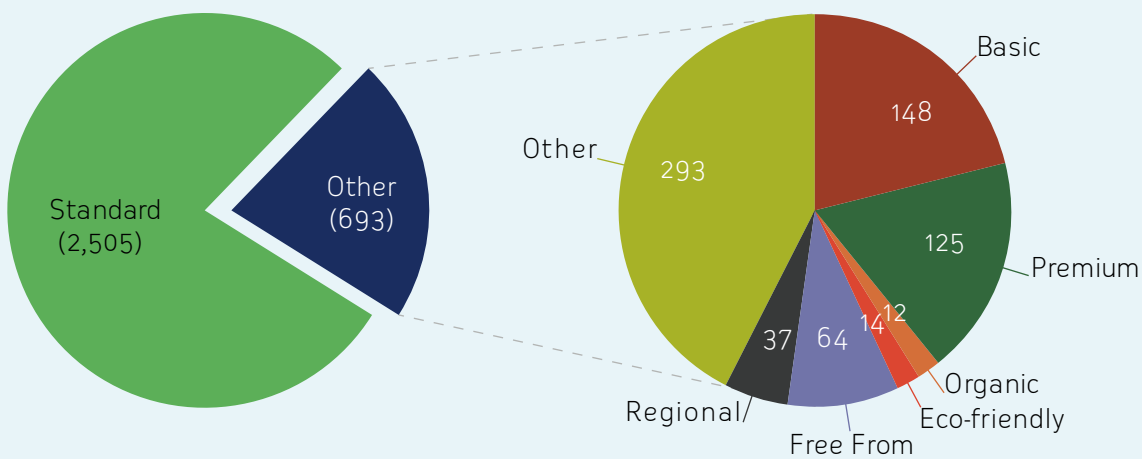
### CONAD PRICE INDICES OF VALUE ADDED PRIVATE LABELS





## CONTINENTE

TOTAL NUMBER OF PRIVATE LABEL SKUs: 3,198





The IPLC research shows that PPL, although growing, is still very small in Portugal. According to Kantar Worldpanel Gourmet private label has a share of less than 0.3% of the private label market, well below the European average. Furthermore, the price index is the lowest compared to that of any other country: 159 vs SPL. Both of these facts may have been driven by the recent financial crisis.

The category that carries the highest premium in price compared to private label is the Free From category, with an index of 248 vs SPL. Several manufacturers have referred to the difficulty of producing Free From. Because of the necessity of absolute separation from normal production, costs quickly rise to non-economic levels. We also come across many products with reduced salt, fat and sugar that are priced above SPL. The inclusion of some of these (although not entirely within our definition of free from gluten or lactose) has lowered the index of Free From in Portugal.

Organic shows the second highest index at 216, with SKUs in Sonae and Pingo Doce, focusing on the fruit and vegetable categories. Discounter retailers Aldi and Lidl offer Organic

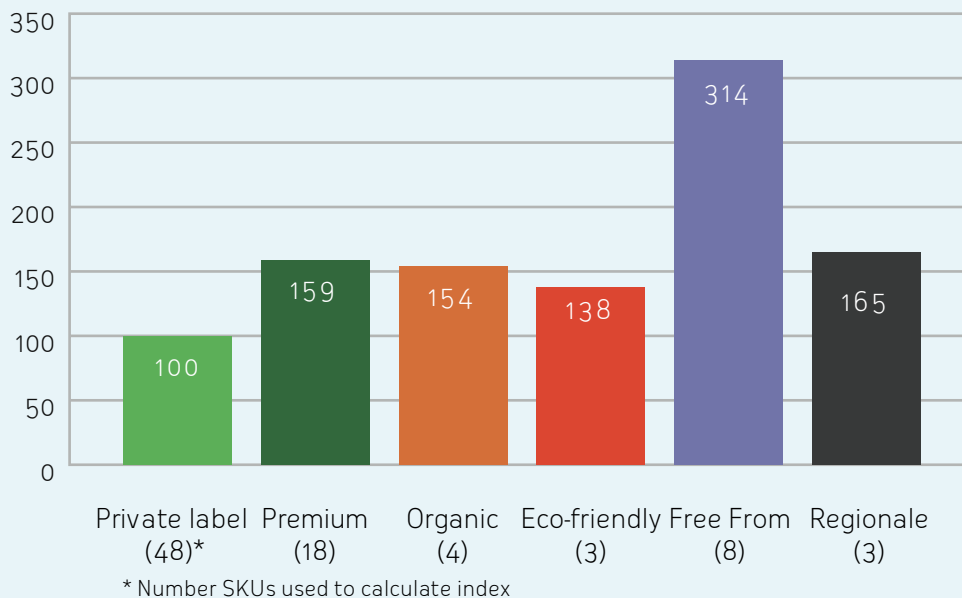
SKUs in a wider range of categories.

Regional private label products are viewed positively in the Portuguese market especially in cheese, cold meat and wine categories. However, there is no consistency in the use of PDO in private label ranges.

Eco-friendly is not yet of great importance in Portugal. However, almost every retailer and manufacturer that we interviewed, considered Eco-Friendly as a VAPL. Although items such as recycled toilet paper and napkins are retailed below the private label equivalent. This is the reason why the price index of 138 is the lowest of the VAPL categories in Portugal.

**“Today’s value-added private label will either fail or will become mainstream products”  
(CEO at a manufacturer)**

## CONTINENTE PRICE INDICES OF VALUE ADDED PRIVATE LABELS



Retailers revealed in our interviews that in future, items like sustainability, social responsibility and organic will become increasingly important, especially for product ranges directed at millennials. One retailer even considered organic and sustainable products not to be VAPL, because these will become the new standard. Most interviewees also expressed the view that today's VAPL will either fail or will become mainstream products.

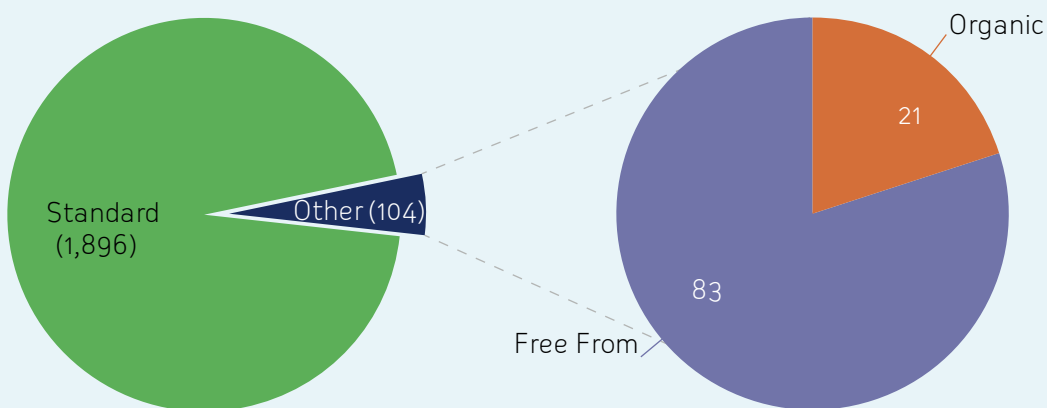
Some manufactures expressed a view that there is a difference between the Southern European market, where competitive pricing is key, and the Northern European market where they felt elements such as sustainability, social responsibility and animal welfare are also important factors for consumers.

**“Value-added private labels are not an option but a ‘must-have’ to maintain my margins” (CEO at a manufacturer)**

In conclusion we can say that Portuguese retailers see the importance of VAPL. The strong competition makes it important to have exclusive products and create value. Manufacturers also see the importance of VAPL, or as one manufacturer said: “VAPLs are not an option but a ‘must-have’ to maintain my margins.”

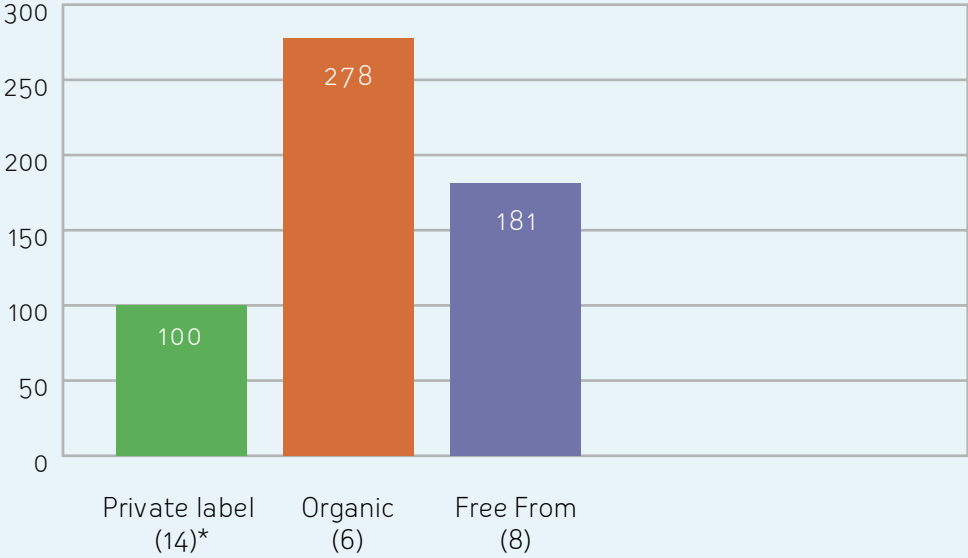
Sustainability, social responsibility and organic will be important themes in the future. Comparing the position of VAPL in Portugal to other countries, it will certainly offer opportunities for manufacturers and retailers in the Portuguese market.

**PINGO DOCE**  
**TOTAL NUMBER OF PRIVATE LABEL SKUs: 2,000**





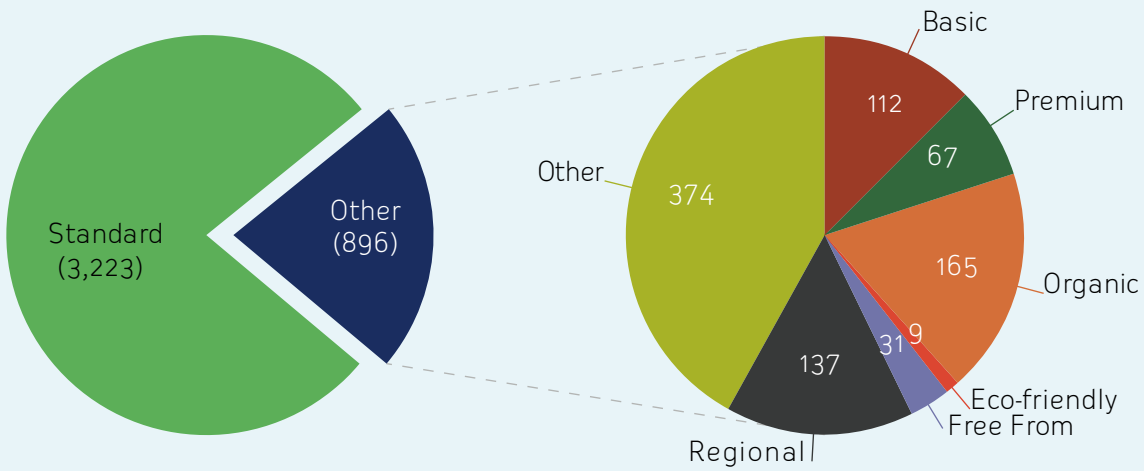
**PINGO DOCE**  
**PRICE INDICES OF VALUE ADDED PRIVATE LABELS**



\* Number SKUs used to calculate index

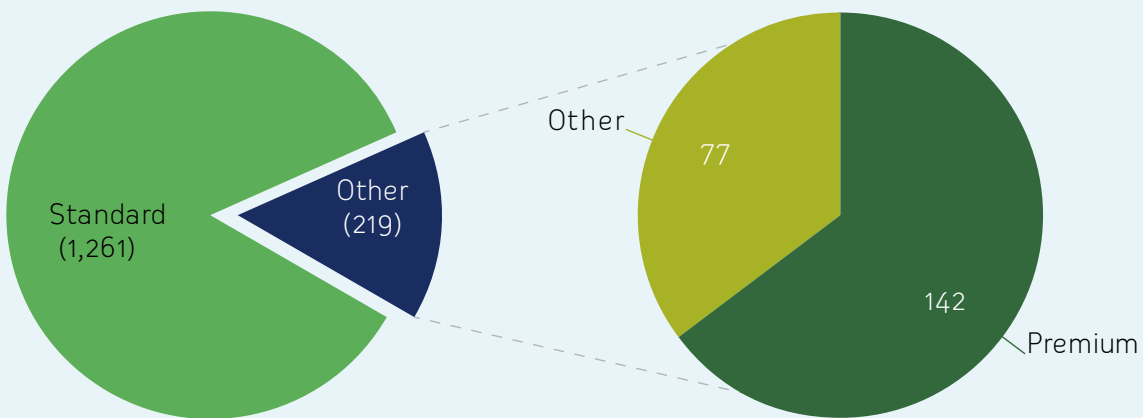
## CARREFOUR

TOTAL NUMBER OF PRIVATE LABEL SKUs: 4,119



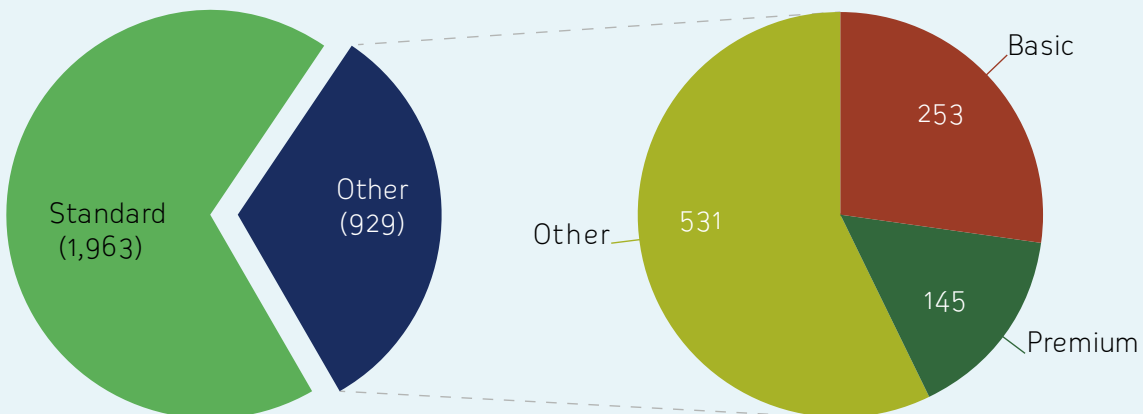
## DIA

TOTAL NUMBER OF PRIVATE LABEL SKUs: 1,480



## EROSKI

TOTAL NUMBER OF PRIVATE LABEL SKUs: 1,480



## Summary by country Spain

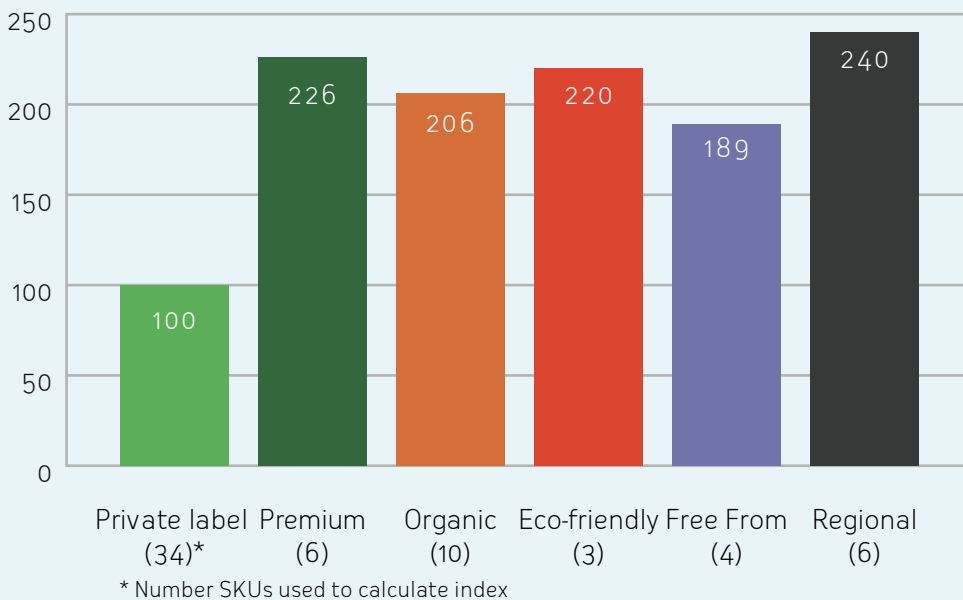
Although we do not have an office in the Spanish market, we felt it was important to at least include details around product ranges from three retail groups in Spain. Whilst we are unable to provide insight from within IPLC into the market we have drawn the following observations on the data we have collated.

We could see products in all five of our VAPL categories in Carrefour although we found limited VAPL categories in Dia and Eroski. We excluded Mercadona from the research, the largest retailer in Spain as we noticed that they did not stock any products in our VAPL categories.

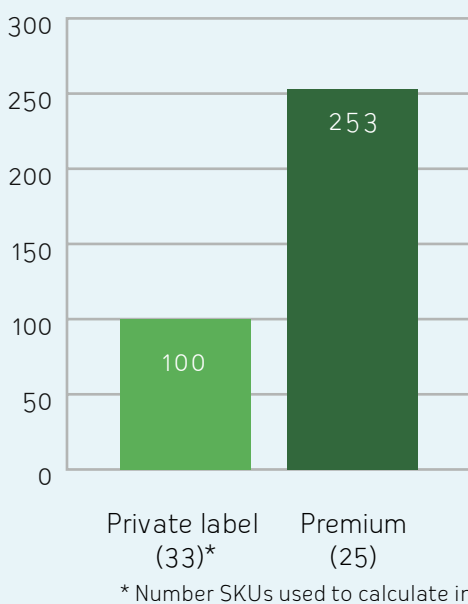
In the PPL category Spain has the second highest index versus SPL at 218, equal to the index for the category in Germany, but behind the UK which has the highest index at 225. Spanish retailers also have quite a high index for Regional which is the second highest at 240, behind Italy at 252.

Free From would appear to be a very underdeveloped category with only Carrefour stocking a limited number of 31 SKUs. The same applies to Eco-friendly where again Carrefour is the only one with 9 SKUs.

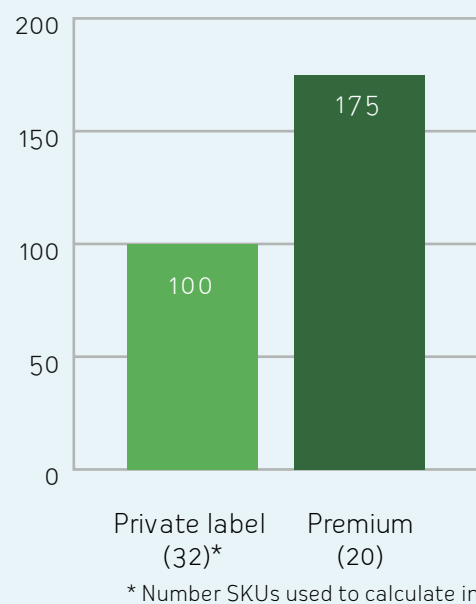
### CARREFOUR PRICE INDICES OF VALUE ADDED PRIVATE LABELS



### DIA PRICE INDICES OF VALUE ADDED PRIVATE LABELS



### EROSKI PRICE INDICES OF VALUE ADDED PRIVATE LABELS



# Summary by country Belgium

In Belgium, in the effort to respond to shopper expectations, retailers and manufacturers alike strive to improve their private label offer. The main objective is to differentiate on price and quality.

With SPL increasing its value market share by +2.8% in 2017, retailers are also investing in VAPL through increased ranges supported by marketing. Social responsibility, health and the environment play an increasingly important role in the lives of consumers, which are addressed by new private labels meeting these consumer trends.

**“Value added private labels will become more important and will increase their market share”**

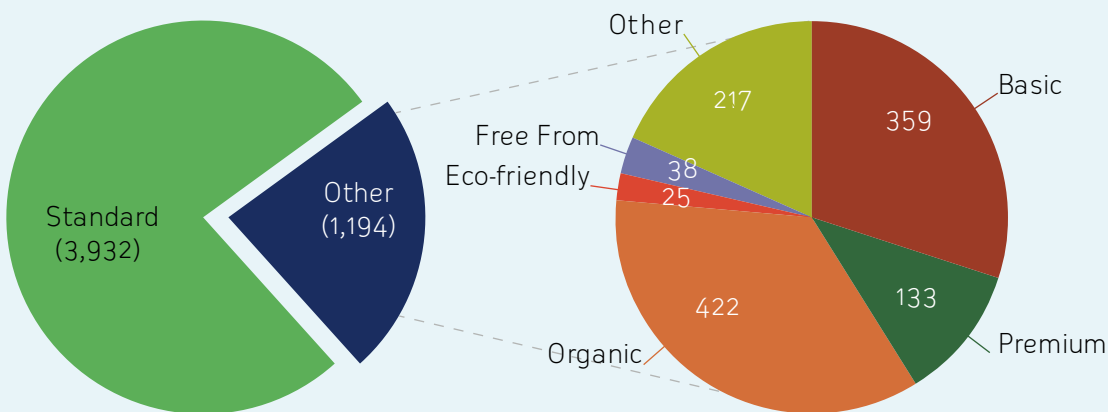
Within VAPLs, Organic is clearly the leading category with Delhaize offering 422 SKUs, and Carrefour and Colruyt offering 242 and 250 SKUs, respectively. The number of Organic SKUs account for 7.8% of the total SKUs offered by these retailers, with the fresh

categories being the main driver. Organic private label has an index of 163 across the entire Belgian market, which is well below the average for all countries surveyed of 193. Consumers are increasingly aware of what they are eating, which is reflected in the organic market growth of 6% in 2017.

In the PPL segment, Carrefour offers its Sélection brand, Delhaize offers Taste of Inspirations, and Albert Heijn has its Excellent label. Discount retailers Lidl and Aldi have also joined in the game with their Delicieux, Deluxe and Excellence brands, although these predominantly focus on festive seasons such as Christmas and Easter.

## DELHAIZE

**TOTAL NUMBER OF PRIVATE LABEL SKUs: 5,126**



Retailer Colruyt only has Organic and a recently launched PPL as separate VAPLs in its assortment. The latter are truly unique products such as a Swiss Charcuterie Dish and Proscuito Crudo for which we were unable to find an equivalent under SPL. Therefore, no index was calculated for PPL in Colruyt. Although some Free From (11 SKUs) and Eco-Friendly (11 SKUs) products are offered, these are integrated in the SPL Boni brand, albeit with specific labelling on the packaging. What is noteworthy is that SPAR, as a member of the Colruyt Group, has a separate PPL under the brand name of Excellent which is being expanded. Perhaps this is an opportunity for suppliers.

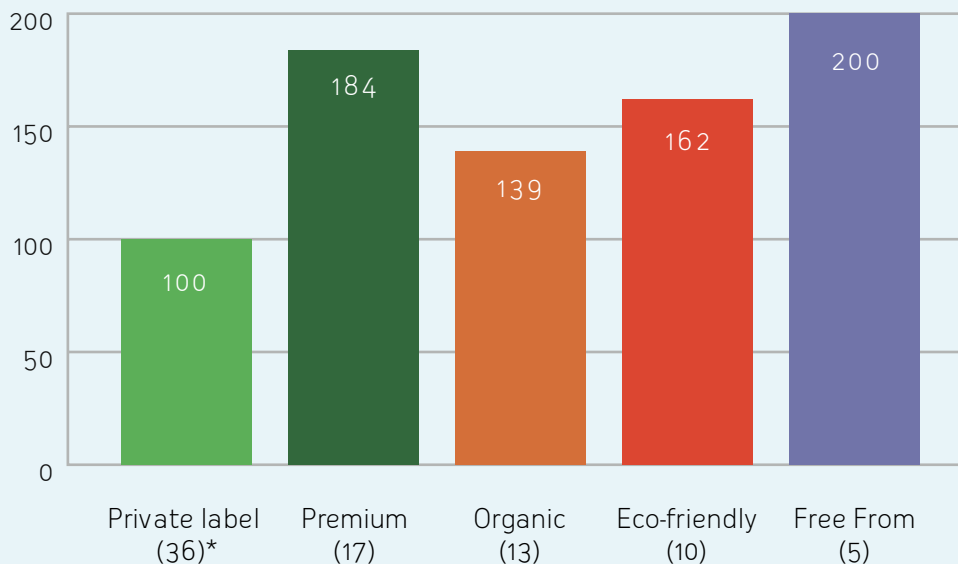
The total number of Free From and Eco-Friendly private label SKUs offered in the Belgian market is very modest: with only 97 products (less than 1% of the total number of private label SKUs). These products are, however, available at the three surveyed retailers.

Retailers increasingly acknowledge the market opportunities for Free From and the need to address consumer concerns around health and lifestyle. Delhaize already has 38 SKUs under private label.

For ready meals offered as VAPL, celebrity chefs such as Peter Goosens and Sergio Hermans are involved in creating exclusive products for Delhaize.

We expect retailers to be more focused on the opportunities for VAPL in value-added segments. Drivers for this will be: quality, health, taste, local provenance and attractive packaging. Where retailers find products that are both different and profitable they will want exclusivity for longer periods. This will make price comparisons more difficult and allows for margin improvement. Within VAPL, the Organic segment currently offers the most attractive opportunities for growth.

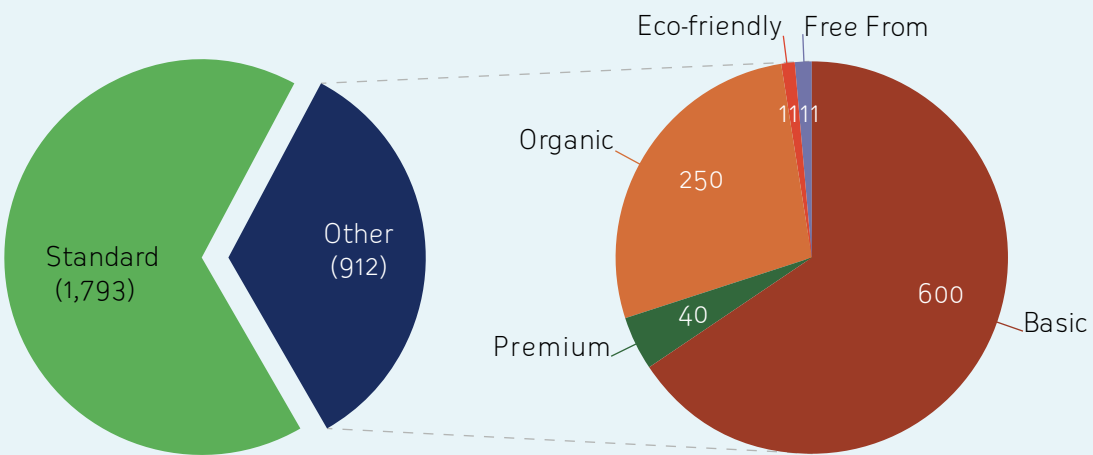
### DELHAIZE PRICE INDICES OF VALUE ADDED PRIVATE LABELS



\* Number SKUs used to calculate index

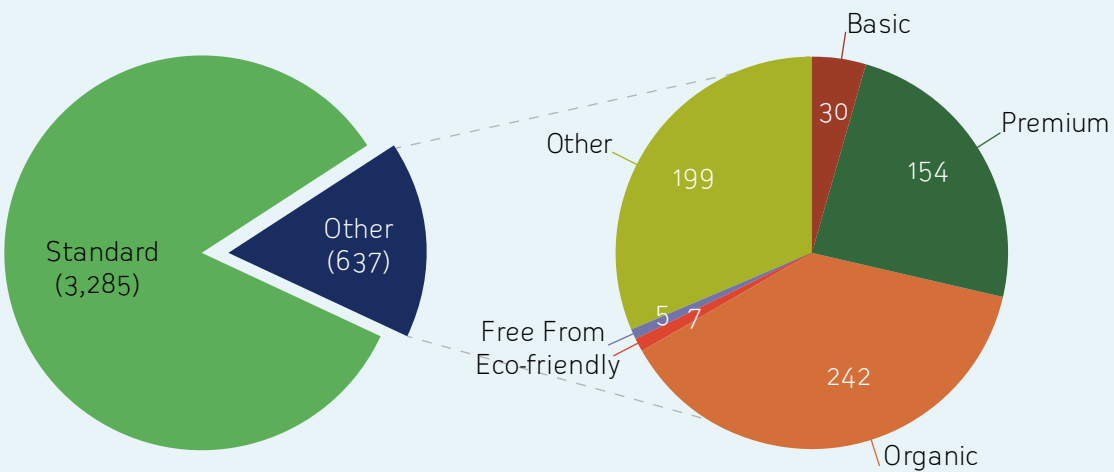
### COLRUYT

TOTAL NUMBER OF PRIVATE LABEL SKUs: 2,705



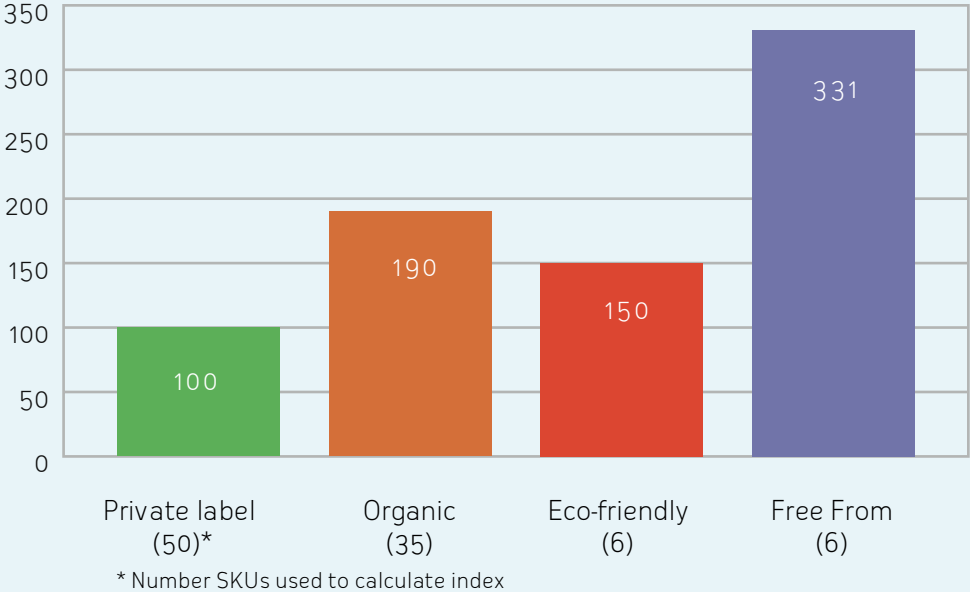
### CARREFOUR

TOTAL NUMBER OF PRIVATE LABEL SKUs: 3,922

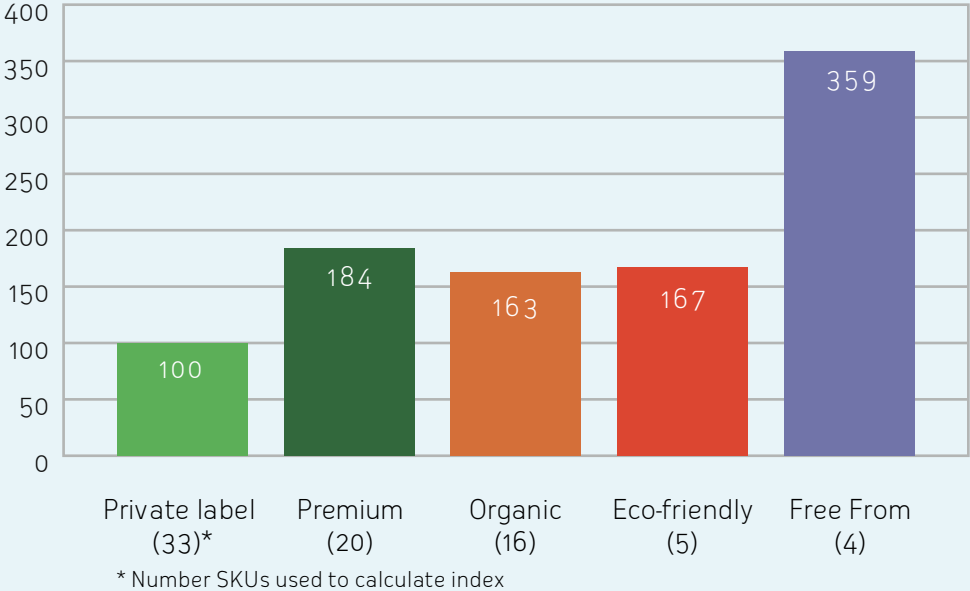




### COLRUYT PRICE INDICES OF VALUE ADDED PRIVATE LABELS



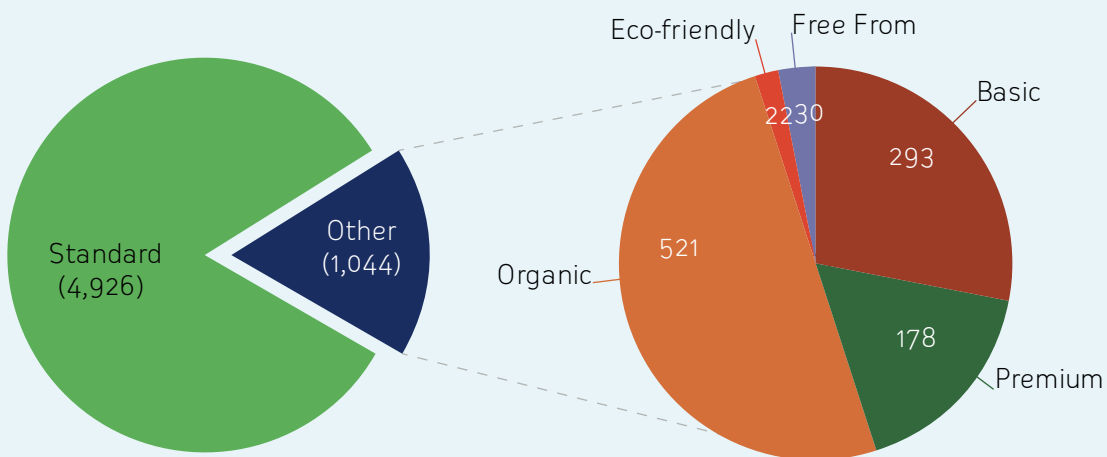
### CARREFOUR PRICE INDICES OF VALUE ADDED PRIVATE LABELS





## ALBERT HEIJN

TOTAL NUMBER OF PRIVATE LABEL SKUs: 5,970



The Dutch retail market is highly fragmented with only two mainstream retailers having a significant market share: Albert Heijn with 35.3% and Jumbo with 18.7%. Plus Supermarket is the third largest with a market share of only 6%. Considering the substantial annual volume required to justify the creation of a PPL, this is only a viable option for the big-two retailers in a country with a population of only 17 million.

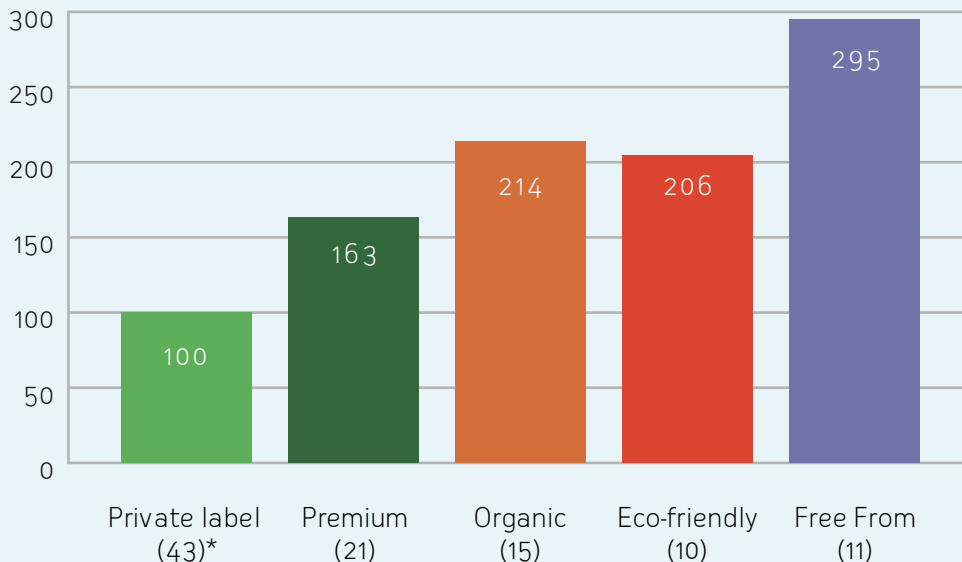
Albert Heijn offers a limited range of 178 SKUs of PPL under the AH Excellent brand. Over the past two years it has reduced the number of Excellent brand SKUs in favour of many upmarket premium third party owned brands. These are exclusive to Albert Heijn and could therefore be considered a form of private label, albeit none of these products carries the store banner brand or refers to Albert Heijn on the packaging. In April this year it was announced that French retailer Picard (frozen premium products) is to enter cooperation with Albert Heijn. In the first stage, 47 SKUs will be listed in 270 Albert Heijn stores. In doing so Albert Heijn seems to be following a strategy of brand proliferation instead of one single store banner brand being used for PPL. The company also

has various VAPLs in its range that address consumer lifestyles, social responsibility and sustainability. These are Organic (512 SKUs), Eco-Friendly (22) and Free From (30).



Organic private label in Albert Heijn

**ALBERT HEIJN  
PRICE INDICES OF VALUE ADDED PRIVATE LABELS**



\* Number SKUs used to calculate index

Shortly after the takeover by Jumbo of deli-restaurant La Place in 2016, the La Place brand was introduced in the Jumbo stores as a PPL. Initially this brand only offered coffee but whilst writing this report the range has been rapidly expanding and is expected to increase from the 15 current SKUs to 100 SKUs by the end of 2018. La Place chefs are collaborating with Jumbo product and concept development managers to create new products. We expect exciting opportunities for manufacturers across Europe to have their products listed under the La Place brand. Other VAPL categories still have a modest presence in the Jumbo stores. However, due to its rapid market share growth and development of Jumbo as a retailer this is expected to change in the near future.

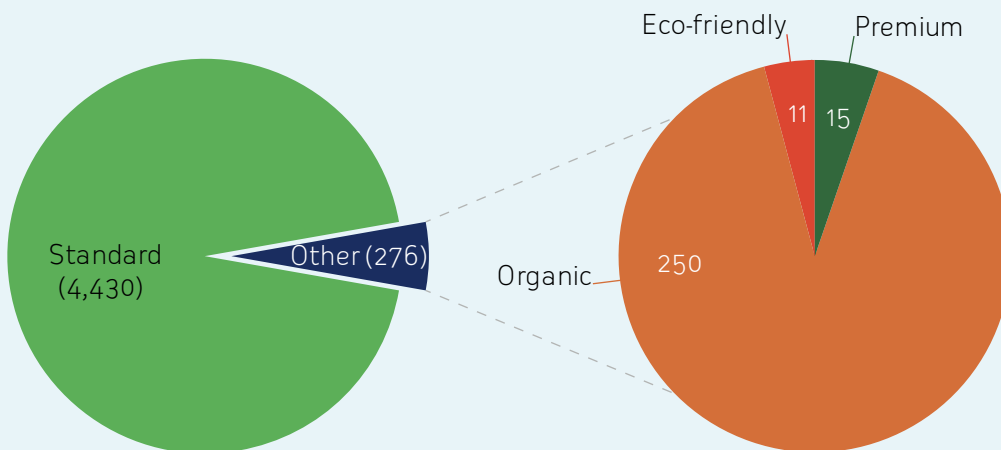
**“Lidl is now considered the benchmark quality for our Standard Private Label” (International Buying Manager Retail)**

As in most other European countries, discount retailers have been very active in driving PPL sales. Lidl especially has been extremely aggressive and successful in pursuing this strategy. Around Easter and Christmas a wide range of SKUs under the Delicieux brand are



**Jumbo Ecologish, the Eco-friendly private label in Jumbo**

**JUMBO**  
TOTAL NUMBER OF PRIVATE LABEL SKUs: 4,706



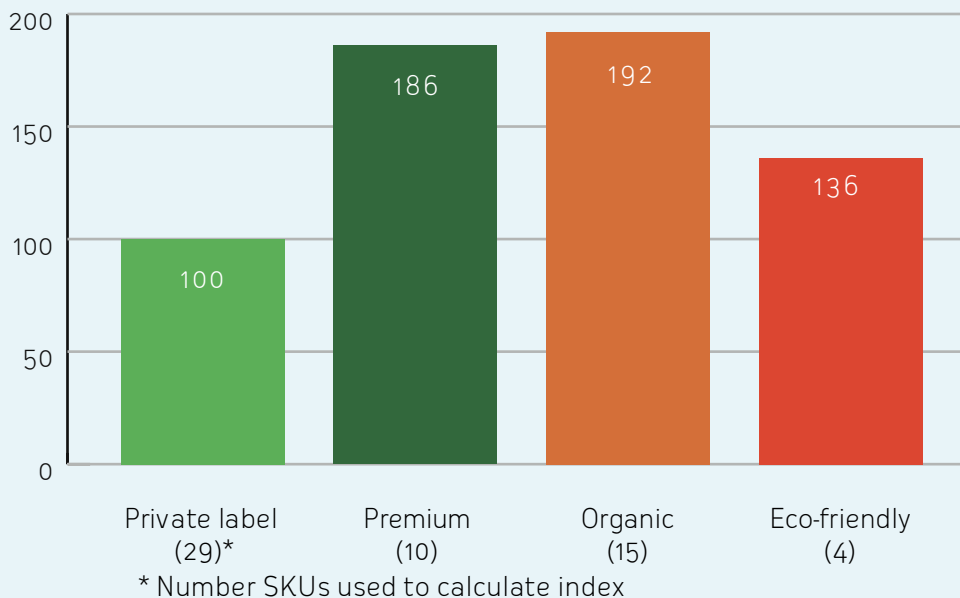
introduced, with a focus on fresh categories, to excite and entice consumers. Moreover, Lidl runs many country-specific fortnightly promotions such as Italian, French, Spanish and Greek.

Superunie, the buying platform for 13 regional, mostly family-owned, retailers in the Netherlands is too fragmented to justify the creation of VAPL lines. Plus Supermarkt with a 6% market share used to have a modest range of PPL under the brand name of Apetit. However, these products have since been delisted. Very recently another Superunie member: Hoogvliet, with a 2.1% market share, launched a PPL under the brand name of Buitengewoon.

The standard for price and quality in private label is increasingly set by discount retailers, outperforming mainstream retailers on both these elements. A senior manager in the buying department of a retailer acknowledged that “Lidl is now the benchmark quality for our SPL.” In response, mainstream retailers will actively seek to compensate the loss of margin by taking initiatives at the value-added end of the market. We believe retailers can make

the difference with VAPLs as they are credible to make trustworthy claims. The premium segment offers a great opportunity through more intense collaboration between retailers and suppliers to drive creativity, resulting in new products and packaging concepts. Furthermore, if consumer interest is high enough new niches will be developed by private label. Besides Free From, Eco-Friendly and Organic these could be Animal Welfare or Health, products aimed at the ageing population or vegetarians. Those suppliers who take an active role in this will be the ones who will benefit the most.

## JUMBO PRICE INDICES OF VALUE ADDED PRIVATE LABELS



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