Private label: Seizing a greater share of the global shelf

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Private label products are seizing an increasing share of global retail sales on the back of both supermarket consolidation and an improved image, according to a new report from Euromonitor International.

Euromonitorâ€™s new report on "The World Market for Private Label" shows that the global private label market grew by 6% in 2004, comprising 16% of total retail sales. Western Europe dominates the market for private label accounting for over half of global retail value sales. In 2004, Euromonitor Internationalâ€™s research shows that Europeâ€™s most developed priva label markets were Germany and the UK, reporting sales of $US15.2 billion and $US 13.9 billion respectively.

Image overhaul for private label
Private label products have come a long way from their original image as the poor relation to national brands. The private label market has changed dramatically in recent years, thanks to the introduction of premium products and products that cater to specific market segments, such as low fat or organic products. Although some private labels still compete successfully on a generic basis, offering a low cost alternative to national brands, many private labels are now becoming synonymous with quality and innovation.

Retailers are starting to differentiate themselves on the basis of their private label offering. For example, when Sainsbury realised it was being outperformed by rival Tesco, the company was forced to rethink its strategy on low-priced own label products. Sainsbury worked hard to turn itself around and create an image of quality, partly with the help of celebrity Chef Jamie Oliver. Now the UKâ€™s two leading retailers, Sainsbury and Tesco offer premium ranges under the "Taste the Difference" and "Finest" private labels respectively, as well as a number of other value added ranges, such as organic products.

Supermarket consolidation drives growth
Euromonitor believes that the single most important factor in the rise of the global private label market has been the development and consolidation of chained grocery stores. International retailers such as Tesco, Carrefour and Wal-Mart, which operate strong private labels, have expanded both within their core markets and into emerging markets. This has greatly increased the availability of private label products and has forced local retailers to develop private labels in order to compete.

The impact of a concentrated supermarket network can be seen especially in the UK, which has one of the most developed private label markets in the world. In the UK, competition at store level is intense, as consumers remain loyal to their preferred retailerâ€™s brand. Successful retailers have established a connection with the consumer by offering products with added value, especially in categories where national brands do not suffice. On the other hand, the US grocery retailing industry is more fragmented, which has limited the development of its private label market. Even though the US is one of the largest private label markets in absolute terms, its share of total sales does not compare with many European markets.

Strong performance by ready meals and disposable paper products
Despite successful branding initiatives by leading retailers, private labels are still hard pressed to compete with powerhouses, such as Coca-Cola, NestlÃ© and Mars. This is especially true in sectors where brand image is key or where long-established, global players dominate. For example, Euromonitor Internationalâ€™s research shows that in the beer, spirits and baby food sectors, private label accounted for only 1.3%, 1.5% and 1.6% of retail sales respectively in 2004. Private labels have traditionally held strong shares in commodity sectors, such as disposable paper products (DPP), where branding is less important. According to Euromonitor International, DPP performed well in 2004 with a 15.2% share of global retail sales.

One of most promising private label sectors is ready meals or chilled/processed food. This sector offers retailers the opportunity to capture high margins and expand into a number of segments, including low-fat, ethnic or premium meals. Ready meals performed particularly well in developed markets such as the UK and Switzerland in 2004, capturing 71% and 69% of the market respectively. This is largely due to the progress made by both Sainsbury and Tesco with their high quality ready meal brands. Private label ready meals are also popular in Japan, with Daieiâ€™s Savings range the most popular private label brand of frozen ready meals.

Future of private label
Euromonitor International forecasts that the global market for private label will grow by approximately 6% in 2005 to

reach 17% of total retail sales. The greatest potential lies in emerging markets where supermarkets with well-developed private labels are expanding rapidly.

Although growth is expected across all sectors, the highest increase in share is expected in the ready meals sector. Euromonitorâ€™s research shows that ready meals will grow from a 23.6% share in 2004 to a 27.1% share in 2008. Growth will be underpinned by the trend towards busier lifestyles and convenience, while innovation will expand product ranges further.

Euromonitor sees the future of private label as bright, as long as retailers continue to be innovative. In order to be successful it is no longer enough to produce copycat products; retailers must retain customer loyalty, generate a strong store identity, improve margins and compete effectively both with branded products and other retailersâ€™ brands.

Euromonitor International's new "World Market for Private Label" report analyses the impact of private label products in key consumer markets. Trends in total retail sales and supermarket penetrations set the scene, offering an insight into the potential for private label in national markets. Private label market shares are analysed by region, country and product sector, allowing you to identify growth markets and product trends. Sector coverage includes: packaged food, pet food, soft and hot drinks, alcoholic drinks, cosmetics and toiletries, disposable paper products, OTC healthcare, consumer electronics and large kitchen appliances

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