

# 20 TREND 16 INSIGHT



## PRIVATE LABEL TRENDS

### *Bye-bye Generic, Hello Private Label*

Back in the late 70's and early 80's, one could saunter down the cereal aisle in their local grocer and find "cereal" in a simple lettered clear bag. Known as generics, this was the brand that would please a savvy mom's pocketbook but confuse her family because they might not taste or look the same as namebrand. Flash-forward to today: stores have shelves and shelves of private label products and consumers don't blink an eye about placing them in their carts. Suddenly, private label is THE new brand of choice for consumers all over the world, especially the younger ones. Store brands comprise at least 50% of the shopping cart for more than half of consumers signifying a desire to control grocery spending despite the improved economy [1]. And 71% of consumers believe that private label has improved in quality since the late 90's and early 2000's making it an easy choice [2].

Join us on a journey through a deep dive into the private label landscape. It'll be anything but generic.

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# The Market: The Public Wants Private Label To Be Healthy, Too

With nearly \$80 million in sales in 2015 and nearly 18% of all packaged goods sales, the MULO (multi-outlet) private label market is well-established but has also faced challenges [1]. Equivalence to national brands and being cheaper in price are the drivers for private label purchase. Consumers are demanding healthy options that have to taste good too. Also affecting the market are categories where national brands already have lost consumer favor due to health and wellness or low quality concerns, such as packaged nuts, refrigerated meals, frozen ice cream novelties and dairy based dips and spreads. Cereal is also losing its battle with consumers as more convenient, on-the-go options are filling consumers' mornings. When the national brands struggle, it follows that the store brands will as well. Regardless, the MULO private label food and beverage market is expected to reach \$84.7 billion by 2020 [1].

There are three types of private label CPG's: value, organic/natural, and premium and each can be found across several distribution channels or MULO's. Supermarkets, mass merchandisers (Target), warehouse clubs (Costco), specialty supermarkets (Trader Joe's) all carry at least one store brand to entice price-conscious consumers.

## What's Affecting The Market

**IMPROVEMENT OF ECONOMY** – As consumers continue to recover from the recession, they are back to spending money but not on discretionary items. Food, an obvious necessity, is eating up 10% of the average consumer's budget and many are making 13% less than they were 10 years ago [3]. Rising food prices and consumers' fast pace lifestyles necessitating more eating out certainly are contributing to this increase. While private label grew thru 2012 after the recession it has since stabilized in recent years.

**TRUST & TRANSPARENCY** – Recent food recalls with private label products, especially those of Trader Joe's in the past year, have created trust issues for consumers with private label brands. While 20% of the average supermarket's sales are from private label goods, Trader Joe's are 90% [4]. Interestingly, Trader Joe's has always committed to its manufacturers that it wouldn't disclose who makes what for them. Over the years, some brands have been leaked here and there but the company loyally refuses to reveal brands because of price conflict. In this era of transparency, it remains to be seen what if any effect this might have on companies or store brands who decline to reveal source ingredients or manufacturers. With 81% of consumers desiring more transparency about the manufacturers of store branded products and 79% wanting production locations, retailers that depend on store brands might have to rethink their labeling strategies [1].

**PERCEPTION IS EVERYTHING** – Of course, there remain consumers who can't imagine a store brand being as good as a national brand. Many of them are Baby Boomers or Matures who recall the stigma of "generic" brands no matter how the quality, taste, or appearance has improved over the years. These consumers might only have 25% of their shopping cart made up of private label goods [5]. Winning them over is certainly possible through a variety of tasty marketing strategies including sampling.

# Driving Trends

Health and wellness continues to be a growing driver for consumers when making food and dietary choices. The top three drivers that inspire consumers to select a store brand are better-for-you (BFY), natural/organic or minimal ingredients. It's clear that the products that are created under a health halo certainly are scoring major points with consumers [6]. It's interesting to note that many established private label brands that already focused on natural and organic are extending their marketing into the BFY realm to adjust to the changing consumer landscape.

Clean label and ingredient sourcing are also industry trends affecting consumer preference for private label products and this is expected to increase as awareness grows. These drivers point to the expectations consumers now have for store brands: not just value, but quality, which often equates to healthiness (such as lack of artificial ingredients, which are often perceived as unhealthy).

**BFY** – Almost 2/3 of consumers cite BFY as the reason they would likely buy store brands, which is ironic considering store brands originally were designed as value alternatives, not healthy ones [1]. However, this attribute allows budget-conscious consumers, especially those with children, the ability to manage their finances along with their health goals.



Simply Nature Green Pea Crisps contain 50% less fat than regular potato chips. The baked product contains no GMOs and is low sodium and naturally free from gluten and lactose.

**NATURAL** – Despite the confusion surrounding its definition, “natural” claims follow BFY as the selling point for 61% of consumers, especially Millennials and households with children [1].



Sam's Choice Tuscan Style Minestrone with Uncured Bacon is a slow simmered soup that is deliciously robust with wholesome, from-the-field ingredients, and unique flavor combinations.



Simply Balanced Organic Pizza Sauce contains organic tomato, basil and parsley.



## Driving Trends *continued*

**MINIMAL INGREDIENTS** – There is no question that consumers are starting to equate the number of ingredients on a label with health. Nearly 55% of consumers across all age groups would pay more for a store brand that had minimal ingredients and almost 58% find store brands with simple ingredients purchase-worthy [1].



Trader Joe's Dried Fruit Dried Baby Bananas are new to the range. They are said to be the sweetest, the most delicious and the perfect size for snacking.



Pueblo Lindo Chicharronez Spiced Wheat Snack features chile and lime flavor, and contains no synthetic colors, artificial flavors, or trans fat per serving.

**CLEAN LABEL** – To meet consumer demand for transparency and healthier eating objectives, many private label products are jumping on the clean label bandwagon and earning customers along the way. Easy-to-read ingredient lists that are short and simple and product claims, like simple and organic, make it easy for consumers to consider a store brand.

**SOURCING** – Local food marketing channels are finding their niche as consumers are flocking to farmers' markets, regional food hubs and CSA's to locally source ingredients, especially fruits, vegetables, meats and dairy items. About 52% of consumers would be inspired to purchase store brands that used locally sourced ingredients signifying opportunity for manufacturers looking to earn the loyalty of the health-driven consumer [1].



# Flavors

In years past, private label brands took their lead from national ones when it came to flavor innovation; however, a shift has occurred and many private label brands are innovating by using flavor as their secret weapon. Brands like Target's Archer Farms and Trader Joe's are having great success with this strategy, and are winning consumers who eagerly wait for the next seasonal flavor in their favorite coffee, sweet treat or savory snack.

Trader Joe's summer 2016 promotion featured mango and claims it to be the "secret to summer happiness". Trader Joe's has innovated with flavor like no other private label brand, navigating pumpkin spice, sriracha, ginger and peppermint, among others. Other flavor and ingredient trends that are often seen in private label include incorporating ancient grains into formulations and an increased focus on foods like black bean and cauliflower. (Hello frozen and fresh cauliflower rice from Trader Joe's.)

Playing with flavors like honey, that read health and wellness but satisfy a sweet tooth is on-point. Consumers' diverse palettes satisfy the demand for pickled, fermented flavors, especially as consumers turn up their noses at "too sweet." Ethnic innovations exploring regions like India and the Middle East continue. Finally, despite health demands, consumers still want indulgence and the combination of salty and sweet has established itself in the private label arena. Could it be that flavor innovation is the key to winning over consumers reluctant to try a private label brand?

## PUMPKIN



Beekman 1802 Farm Pantry Harvest Pumpkin Spice Chili Seasoning (Target) is gluten-free and USDA Organic certified seasoning and retails in a 1-oz. pack featuring preparation instructions and recipe ideas.



Tuscan Garden Pumpkin Cornbread Croutons (Aldi) contain 0g trans fat, and can be used for dressing salads.

## MANGO



A mango filling sandwiched between two mango cookies. Part of Trader Joe's mango summer theme.



Trader Joe's Sweet and Spicy Mango Dressing gives a salad some sweet heat.

## ANCIENT GRAINS



Simply Balanced (Target) Gluten-Free All-Natural Chicken Breast Strips are made with ancient grains and comprise breaded chicken breast with rib meat.



Savoritz (Aldi) SrirachaGrains Crisps combines trendy worthy sriracha with ancient grains and contains greater than or equal to 15g wholegrain per serving.

## BLACK BEAN



Trader Joe's Organic Black Bean Rotini is gluten-free and USDA organic and kosher certified.



Sam's Choice (Walmart) Spicy Black Bean Soup with Lime is preservative free, and can be prepared on the stove top or in the microwave. It is described as slow simmered soup that is deliciously robust with wholesome, from-the-field ingredients, and unique flavor combinations.

## HONEY



Simply Balanced (Target) Organic Honey Nut Hoops are lightly sweetened oat cereal touched with honey.



LiveGfree (Aldi) Apple Almond Honey Gluten Free Granola contains premium quality, certified gluten free oats, almonds, apples and flax seeds, sweetened with brown cane sugar and organic honey.

## MAPLE



Aunt Maple's (Aldi) Maple Pancake Mix contains no artificial flavors.



Beekman 1802 Farm Pantry (Target) Sawing Logs Granola is now available. This granola comprises a blend of rolled oats, almonds, peanut butter, and small farm sourced maple syrup.

## FERMENTED



Clancy's (Aldi) Dill Pickle Flavored Potato Chips contain no artificial flavors, trans fat, gluten or lactose.



Trader Joe's Spicy Pickled Vegetables are Trader Joe's version of traditional Mexican Jalapeños en Escabeche with the twist of carrots, onion, cauliflower and jicama.

## ETHNIC



Trader Ming's Kung Pao Tempura Cauliflower comprises large cauliflower florets enrobed in a light tempura batter that bake up crispy on the outside, and tender on the inside.



Trader Joe's Seafood Paella contains rice with shrimp, calamares, mussels and bell peppers. This product is made to be traditional, with short grain white rice, loads of seafood and peppers, all sprinkled with a liberal dose of saffron.



Trader Joe's Vegetable Samosas comprise cauliflower, green vegetables and Indian spices wrapped in crisp, flaky pastry.

## SALTY/SWEET



Great Value (Walmart) S'mores S'mores Ice Cream Sandwich is made with marshmallow swirls in artificially flavored graham and toasted marshmallow ice cream, sandwiched between graham wafers edged with chocolate flavored chips.



Trader Joe's Molten Salted Butterscotch Macarons are now available. The product is described as a hybrid of a lava cake and macarons



Baker's Corner Salted Caramel Cookie Bar Mix (Aldi) is now available. This product has a caramel glaze and salt topping, natural flavor



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## Consumer Attitudes

When it comes to store brands, the consumer is a finicky one. While they appreciate the value and contribution a store brand makes to their food budget, they aren't willing to sacrifice taste because they have national brands that have set the standard. However, the Millennial consumer is more open-minded to private label products out of financial necessity, and have increased their usage of private label goods 16% over the last year, especially in the frozen prepared meals/side dishes, and cereal categories [1]. Millennials also gravitate to unique brands with exclusive flavor offerings or BFY attributes and these can be found in store brands. Millennials don't feel a strong loyalty to national brands and their wariness of large manufacturers makes them the perfect target for private label brands. It shouldn't be any surprise that 26% of Millennials are considered high private label purchasers with 75-100% of their total shopping cart comprised of these goods. Compared to the 20% allocated to private label by other groups, the Millennial consumer is a private label magnet [1].

How do consumers as a whole perceive private label products? Some interesting bites [5]:

- Nearly two thirds of store brand food purchasers (64%) agree once they've tried a store brand product, they're likely to try another.
- Some 63% agree store brand foods are higher quality than they used to be.
- More than one third (37%) prefer to buy store brand products over brand name products, and 29% agree store brands are more innovative than name brand products

## Big Box, Wholesale, Or Specialty: Moved To Tiers

Big box stores such as Walmart and Target or specialty grocers like Whole Foods are finding success from creating multiple private label brands targeted to specific consumer needs. Value priced, premium and BFY brands can be found in many retailers looking to meet customers' health and wellness goals while not stressing their wallets. With 73% of consumers craving more premium store brands but only 30% willing to allocate extra cash to them, retailers have a private label challenge on their hands [1]. All of the retailers listed have made an enormous effort to focus on packaging, flavor and transparency. It's also interesting to see how many new products each company has introduced over the last five years; if the first six months of 2016 are any indication, new private label product introductions are on track to increase 29% over 2015. Let's take a look at what's happening on the retail level.

**WALMART** – In 2014, Walmart introduced its Price First Label designed to meet the needs of the value demanding consumer. Looking to compete with dollar stores and value grocers like Aldi, Price First was linked to the store's Savings Catcher app that allowed customers to track and compare prices in their neighborhoods. Interesting to note: Walmart recently announced the discontinuation of Price First with rumored plans to instead focus on a natural and fresh private label line.



# Big Box, Wholesale, Or Specialty: Moved To Tiers *continued*

**TARGET** – Segmentation is the name of the game for Target's marketing strategy, as its name implies. From bringing in customized goods from high end designers like Lily Pulitzer or Nate Berkus to its value priced up&up brand, Target has it all when it comes to private label. Its Archer Farms premium brand fulfills the customer looking for unique ingredients and flavor that rival the top high-end national brands while its Simply Balanced brand meets the needs of the BFY crowd seeking healthy and organic. While many of the new products in 2016 are repackaging of the store's Market Pantry line, 2015 products had some unique innovations including Archer Farms Cinnamon Sugar Sweet Potato Tortilla Chips. The Simply Balanced Organic line was also represented with products like Ginger Peach Unsweetened Sparkling Water and Uncured Pepperoni Rising Crust Pizza.



Archer Farms Carrot Cake Snack Bites with Walnuts, Cookie & Carrot Pieces have been added to the range.



Archer Farms Chicken Poblano Firecrackers is a quick and effortless appetizer with white-meat chicken, jalapeno jack cheese, poblano peppers, tomatoes, corn and onions in a crispy shell.

**ALDI** – Known for targeting the budget conscious shopper, Aldi also recognizes that their customers want BFY products, natural options all at a reasonable price point. In addition to removing artificial colors, partially hydrogenated oils and MSG from its store brands, Aldi created three unique brands with differing targets. Simply Nature, focused on “honest ingredients; Specialty Selected, offering high quality and “imaginative” ingredients; and

Fit & Active which encompass BFY and value. Not surprisingly, Aldi is #1 when it comes to the number of product introductions over the last five years and, in 2016, is on track to contribute 40% of total new products introduced this year [9].



Simply Nature Creamy Almond Butter is free from 125 kinds of artificial ingredients, preservatives, gluten and lactose.



Specialty Selected Blue Cheese Bites are described as potato snacks with a smooth and subtle cheese flavor. The crunchy and zesty product is naturally gluten-free.

# Big Box, Wholesale, Or Specialty: Moved To Tiers *continued*

**TRADER JOE'S** – The undisputed king of the private label, Trader Joe's has created entire stores around private labels. With ethnic variations like Trader Giotto's, Trader Jose's or Trader Ming's along with its namesake brand, Trader Joe's has set the standard while keeping its vendors secret and its prices low. 80% of its sales come from in-house brands made up of creative ingredients and trend forward flavors that keep price-conscious consumers filling their carts over and over [7]. Setting its competitive sights on Whole Foods recently, Trader Joe's has taken some of its prices down even further in response to the 365 Whole Foods brand. Trader Joe's sales are twice those per square foot of Whole Foods [7]. Ethnic flavors and ingredients have always been the cornerstone of the Trader Joe's brand and 2016 didn't disappoint with products like the newly introduced Crispy Green Curry Shrimp Gyoza, Spicy Pickled Vegetables and Island Salsa, featuring mango. As of June, 2016's new product introductions almost reached those of 2015 [9].



Trader Joe's Uncured Bacon Jam is described as a slightly sweet, savory, smoky, downright bacon-y, deliciously adaptable uncured bacon spread that can be used on everything from burgers, BLTs and gourmet grilled cheese to pizzas, dips and delectable appetizers.



Trader Joe's Gluten Free Crispy Crunchy Ginger Chunk Cookies are new to the range. These buttery and rich ginger chunk cookies melt in the mouth, have been baked until golden brown.

**WHOLE FOODS** – With a reputation for high quality store brands at a higher price point, Whole Foods isn't just offering a value line—they are creating a whole store around it. Called 365 by Whole Foods Market, this mini-me began opening locations across the U.S in 2016 with more to come in 2017. The 365 brand will offer value-tiered products along with the fresh food options the retailer is famous for, on a smaller, more intimate scale.



365 Everyday Value Coconut Craze Granola is now available. This limited edition product contains whole grain rolled oats, coconut shavings, coconut palm sugar, and expeller pressed coconut oil for beneficial fats



365 Everyday Value Organic Macaroni & Cheese is now available. This USDA certified product has been made with organic durum wheat elbow pasta and real organic cheddar cheese, and is formulated without genetically engineered ingredients.

# Big Box, Wholesale, Or Specialty: Moved To Tiers *continued*

**COSTCO** – We can't exclude the wholesale club master from our analysis as their Kirkland Signature brand is iconic. With a rep for quality that is as good if not better than national brands at a better price, Kirkland Signature represents \$24.6 billion in global sales for the retailer. To put this in perspective, that's higher than Pepsi (\$12.6b) and Frito Lay (\$11.7b) COMBINED [8]. Costco has the same philosophy as Trader Joe's not to disclose the manufacturer for their products like their customer's favorite vodka.



Kirkland Signature Basil Pesto is made with 100% imported Italian Genovese basil grown in the Liguria region of Italy. This is the only approved D.O.P. (Denominazione d'Origine Protetta [appellation of protected origin]) basil growing region in Italy because of the unique soil, sea air, mild climate, and soft spring rains that create a pure sweet basil.



Kirkland Signature Strawberry Spread is made with vine-ripened, fresh never-frozen strawberries harvested at the peak of ripeness. This allows less sugar to be used than in traditional preserves, enhancing the natural sweetness of the fruit to perfection.

**AMAZON** – We can't have a discussion about private label and leave off the #1 online retailer in the world. Amazon wants a spot on the private label team and plans to actively play in the game. Jumping off the platform of Amazon Fresh, the retailer's grocery delivery service, Amazon will develop its own brands with prices and profiles eager to compete. Given that other store brand retailers cannot match Amazon's levels of service, this entrant into the competition could make a whole new set of rules. Bet on Amazon to become a starting player.



# Opportunities

What are the opportunities for retailers in the private label market? And how can manufacturers differentiate or create their private label brand?

**CATEGORIES** – Heavy purchasers of private label goods (comprising 75% or more of shopping carts) would love to see more offerings in the baby food, sparkling bottled water, refrigerated meals, dairy-based dips and spreads, and nut- and seed-based butters [1]. While the ages of the consumers polled are a factor for the results, it is interesting to see categories like dairy-based dips and spreads on the list given the increase in hummus and salsa sales. For all of the categories, quality and taste still matter most along with appealing to consumers' demands for BFY, natural and of course, value.

**MULO SEGMENTATION** – Opportunity exists for convenience marts, dollar stores and drug stores to create or expand private label offerings, especially considering consumers' fast paced lifestyles and dependency on many of these outlets. As consumers between Generation Z up to Matures visit many of these retailers, especially drug stores, capitalizing on value, premium and natural tiers would be an optimal way of reaching this broad base.

**BRAND STORY** – Everyone loves a good story, especially Millennials who like a brand story more than any other consumer group. Retailers who take the time to create a brand story, support it across all marketing channels including social media and communicate often will gain these fiercely loyal customers who already appreciate store brands.

**TRANSPARENCY** – Developing a clean label, sharing ingredient sourcing and manufacturer identity all play into the consumer's need for transparency. Transparency relates directly to trust and earning

back consumer trust once lost is a difficult hurdle to overcome. The manufacturer that communicates readily with its consumer about the health profile of their products whether on product labels, advertising or social media will be one step ahead of the pack.

**SHARE AND SHARE ALIKE** – No matter what, there are always going to be consumers for whom private label isn't an option because they simply are skeptical. Sometimes these consumers just need a little nudge either from a sample or a friend. 66% of low store brand purchasers agree that they would be more likely to try store brand foods if they are sampled in-store or offered a free product trial [5]. And 17% of purchasers learned about a store brand through family or friends, speaking to the power of word-of-mouth and also social media [5].





## CLOSE

Have a private label brand that needs flavor differentiation or looking for trend insights to start the process? FONA can help. Our technical team and trend specialists are ready to take your private label brand to the public.

## CONTACT OUR SALES SERVICE DEPARTMENT

at 630.578.8600 to request a flavor sample or visit [www.fona.com](http://www.fona.com).

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