Private brands have become one of the biggest powerhouses on store shelves today. As in-house support, outsourced development and manufacturing capabilities grow, these retailer-branded products are gaining prominence—and consumers are eagerly snapping them up. Executives at consumer packaged goods companies cannot afford to ignore these trends. They must find a way to balance competitor and customer when dealing with retailers. Those that align their product lines with private brands will be the ultimate winners.

Private labels are fast becoming the biggest competitors for consumer packaged goods (CPG) companies. For example, U.K. grocer Tesco’s house brands now have more than 50 percent penetration in its stores, while Walmart’s Great Value label is America’s largest food brand. In some grocery categories such as pain relievers, milk and paper towels, private brands combine for the category lead. As retailers acquire more manufacturing capacity, capture consumer insights and improve their brand management skills, they are making a mark in more complex categories such as beauty products.

Consumers, seeking quality but still price-sensitive in the wake of the recession, are embracing these private labels. According to a 2009 study by research firm GfK Group, 90 percent of consumers believe that private-brand quality is as good as or better than major CPG brands, and that it typically saves them significant amounts of money. Once considered merely “affordable” alternatives, private labels are now often identified by consumers with attributes such as consistency, reliability and trust. It is not unusual at stores today to see only three brands in a category: the national leader, a private label, and a local or niche brand. As these trends pick up, billions in brand value will move from CPG brands to private labels in the next decade.

In light of these developments—and a general move by retailers to reduce stock-keeping units (SKUs)—CPG firms cannot stand still. As market share shrinks and shelf space becomes more precious, they must fight to stay ahead of the pack.

Emergency Response

Consumers and retailers have long considered national CPG brands to provide superior value and quality. Top CPG firms had access to information about consumer needs, product quality, cutting-edge innovations and...
sophisticated brand marketing—capabilities unavailable to retailers. However, this environment is changing. Retailers today can rent or buy these capabilities from an abundance of third-party suppliers and offer customers private labels of equal quality at lower prices. As retailers show more financial and managerial commitment to their private brands, CPG companies face a complex balancing act in which they must compete against their customers’ private brands while simultaneously maintaining strong relationships with them. As CPG firms seek an effective response, we suggest a six-pronged strategy.

**Get serious about SKU clutter.** For a category to grow, it must offer something of value to the shopper. Retailers are reducing SKU overlap on shelves to simplify shopping and to cut excess inventory, and it is increasing category sales and profits. Rather than waiting in the wings for retailers to simplify their assortments, leading CPG manufacturers will take matters into their own hands, using their own data about consumer category and product selection to eliminate duplicate and overlapping products from their portfolios.

**Reexamine your categories.** In 2009, private brands held about 20 percent market share across all grocery categories. However, every category is different. Low-complexity products and those with weaker national brands—milk, trash bags and bottled water, for example—generate much stronger private brand results. Categories with strong national leaders or relatively complex products, such as toothpaste and razor blades, have lower private brand penetration. As retailer efforts evolve, all categories will face differing levels of competition, based on how they are managed, prices and product performance gaps.

For categories at risk from private brands, leading brand manufacturers will differentiate by focusing on fundamentals: opening price point, price tiers, product innovation and packaging. In lower-risk categories, maintaining product and price leadership will help maintain or build share.

**Reexamine your retailer relationships.** Improved private brand products are part of many retailers’ broader brand-building strategy. Continued retail consolidation and larger, more efficient supply networks are helping retailers gain better coverage and improved results. But different retailers treat their private brands in different ways. Wal-Mart and Publix use their retail brands as value leaders within a category, but they conduct few promotions. Wegmans and Kroger, on the other hand, use private labels to drive store and image branding and promote them heavily.

As a result, leading manufacturers segment their retail customers just as they do consumer groups. Sales volume, growth, profitability, strength and relationship length influence what position they take with their retail partners. In cases where manufacturers simply cannot win the battle against a private label, they should instead find a way to coexist and differentiate. Ultimately, shoppers will decide the assortment strategy. Too many private label products and too few national brands may frustrate consumers who cannot find their brand.

**Reconsider duplicative “B” and “C” brands.** For the trailing brands in a category, the future is ominous. As private brands feature better shelf position, lower prices, improving innovative capabilities and eventually the cost advantages of scale, “B” and “C” brand volumes will decline, and their share of the market will shrink. As retail brand share increases, the retailer will be able to use its scale advantages to improve supply and lower costs, potentially increasing the gap further. The result is that weaker brands will have little opportunity to maintain their shelf space and market share (see figure).
Nevertheless, there are many strategies available to these secondary brands. CPG companies can use pricing, assortment or unique products to gain a foothold in different stores. They can work with large retailers to develop exclusive brand positions, or collaborate with smaller retailers that want to stand out with unique SKU offerings. The goal is for the retailer to benefit from differentiation while the manufacturer strengthens its brand value.

Secure—and even increase—“A” brands’ market share. Our research has found that SKU simplification and private brand growth actually combine to offer a unique opportunity for leading brands to improve their performance. As retailers trim assortments, leading brands can reinforce their positions as the consumers’ choice, and demonstrate to retailers that they stand to benefit from selling them.

Against multi-tier private labels, national brands are often caught in the middle when it comes to price and assortment. While “value” private brands appeal to lower-cost consumer tastes, “signature” private brands further disrupt the flow by demonstrating the same (or better) quality and value compared to national brands. Leading CPG brands can benefit by looking outside the box toward auxiliary services, innovative products and collaboration with suppliers, retailers, consumers and others.

Reconsider private brand manufacturing. During the consolidation of the early 2000s, many CPG manufacturers shut down their private-label manufacturing divisions to concentrate on their own brands. Private brand growth may lead to a manufacturing capacity shortage, and national CPG manufacturers may find private production worth the effort again. Retailers, no doubt, will be skeptical—they’ve seen manufacturers enter

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**FIGURE:** In the next decade, private brands will gain market share in the United States

<table>
<thead>
<tr>
<th>Year</th>
<th>“A” brands</th>
<th>“B” and “C” brands</th>
<th>Private brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>34%</td>
<td>53%</td>
<td>13%</td>
</tr>
<tr>
<td>2004</td>
<td>34%</td>
<td>52%</td>
<td>14%</td>
</tr>
<tr>
<td>2006</td>
<td>35%</td>
<td>50%</td>
<td>15%</td>
</tr>
<tr>
<td>2010</td>
<td>35%</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>2020</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Notes: “A” brands are the top three selling brands per segment; “B” and “C” brands represent the remainder of national brands. Results for 2010 and 2020 are estimates based on A.T. Kearney projections.

Sources: ACNielsen; Datamonitor; Planet Retail; A.T. Kearney analysis
and leave the market before, so manufactur- ers must reenter the supply market warily. Succeed and it can greatly enhance existing partnerships; fail and it may jeopardize customer relationships.

Friend or Foe?
As consumers continue to change their purchase decisions, all brands and products are vulnerable. Assortment reductions and strong brand differentiation will help the leaders thrive in this new private-brand environment, while trailing brands will be in danger of elimination. Sales strategies must reflect the changing nature of retail customers and their affinity to their own brands. By matching innovative products with innovative strategies, CPG companies can strike the right balance between competing and collaborating.

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