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# GROCERY PRIVATE LABEL: Trends Create Opportunities for Proven Players

## MORE OPTIONS FOR PROVEN PERFORMERS

It's an interesting time for suppliers to the private label (aka "store brands" or PL) grocery market in the U.S. Just as the products themselves are getting more attention from shoppers, the companies that make them are attracting interest from investors and acquirers.

We look at some of the trends shaping this "moment" in the private label sector, and consider how the opportunities for industry players may be changing as well.

### Why now?

- European blueprint shows the way: innovations and companies coming to the U.S. market
- Retailer strategy shift: compete on quality and price
- Retailer marketing shift: more attention to consumer preferences, packaging, brand tiering
- Demographics: Millennial and Gen Z shoppers supplant the Boomers, and they are feeling the budget squeeze
- Supply chain: pandemic showed retailers the advantage of having more control of some product lines

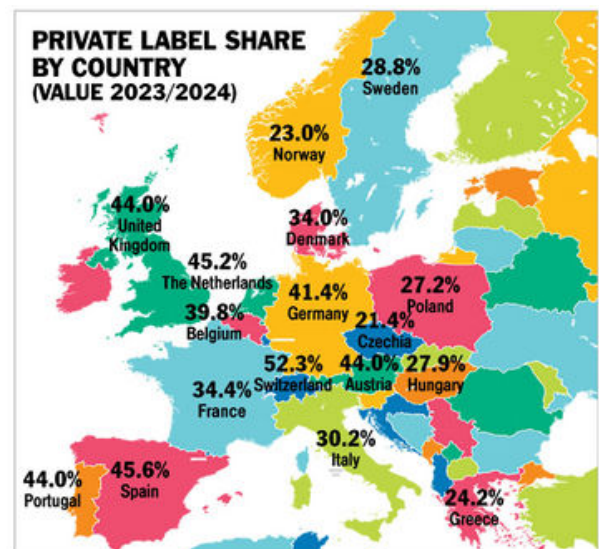
No surprises here, but as the landscape changes, so does the value brought by established, profitable, innovative food manufacturers partnering with leading grocery retailers. With value comes options – like investment, growth, acquisitions, mergers, and sale.

## PRIVATE LABEL SALES: EUROPE LEADS THE U.S. BY A SIGNIFICANT MARGIN

European shoppers buy more private label products, and European retailers like Aldi and Lidl have demonstrated that combining value and quality can keep the shoppers coming back for more. In Switzerland, over half of the sales value of grocery food and nonfood categories came from PL sales.

### Private Label Share (sales value)

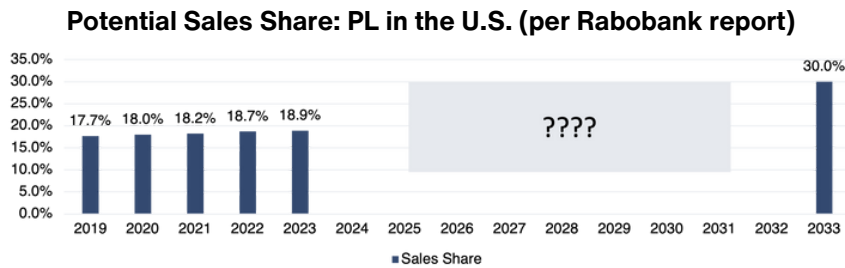
- Europe overall: 38.6%
- 3 largest markets combined: U.K., France, and Germany: 40.4%
- U.S.: 18.9%



### 30% BY 2033?

According to a new report from Rabobank, the U.S. market for store brand products could reach 30% by 2033, with a variety of factors at play:

- Constrained consumer spending from rising prices at the grocery store
- Retailer consolidation (Kroger/Albertson's, for example)
- Increase in Aldi, Lidl and Trader Joe's stores (Aldi is expected to open 800 new stores by 2028)
- Improved quality in PL brands from:
  - Investment
  - Vertical integration
  - Supplier expansion and capacity growth
  - Growth in international specialty suppliers entering US market through acquisitions, partnerships, and greenfield openings



### COMPARISON SHOPPING: A CLOSER LOOK AT THE U.K. & EUROPE

	U.K./Europe	U.S.
Sales concentration of grocery retailers: TOP 4 players <sup>1</sup>	2/3 sales (U.K.)	1/3 sales
Promotional spending by CPG brands <sup>1</sup>	MEDIUM	HIGH
Average price difference between store brands & name brands <sup>1</sup>	30% (Western Europe)	20%
Quality, selection & tiering	LEADER	FOLLOWER

#### European retailers have more leverage than U.S. retailers do, overall.

- Retailers control the supply chain (which is more manageable in Europe than in the U.S.)
- U.S. retailers have less leverage sourcing manufacturers for their private labels – often the same CPG brand companies do both jobs – which can set up a complicated competitive dynamic.

#### But some factors are consistent.

- Grocery prices are higher everywhere - in the U.S. about 26% higher than they were in 2019<sup>2</sup>
- Consumers are anxious about higher food prices, and have noticed how CPG brands have gotten more expensive since the pandemic (shrinkflation)

Data sources: (1) Research paper from Prof. Jan-Benedict Steenkamp, UNC Chapel Hill, cited in "Knockoffs No Longer: Store Brands Get Fancy in a Private Label Revolution," Jinjoo Lee, WSJ, 6/21/2024. (2) "Knockoffs No Longer: Store Brands Get Fancy in a Private Label Revolution," Jinjoo Lee, WSJ, 6/21/2024



## SHIFTING DEMOGRAPHICS AT THE CHECKOUT

Baby Boomers remember generic, black and white labels on sad boxes of frozen peas – perhaps supporting the U.S. consumer’s loyalty to national grocery brands. But as Millennials and Gen Z’ers cruise the supermarkets they are finding a different landscape and it appears they like what they see.



### Are times changing?

For Gen Z shoppers, store brands (aka private label or PL) are core shopping habits.

According to a 2024 PLMA study, **64% of Gen Z shoppers buy store brands always/frequently.**

Are U.S. demographics aligning with the quality, pricing and variety that today’s store brands offer??



## DYNAMIC AT WORK: THEY CAME FOR THE COST SAVINGS & STAYED FOR THE QUALITY – SHIFT TO PRIVATE LABEL

With product improvements & astute marketing, U.S. and European grocery retailers are pressuring CPG leaders in selected categories. Innovation, sustainability, and taste profiles are no longer the exclusive domain of branded companies.

Thoughtful packaging design and effective tiering strategies draw shoppers in. Retailers are investing in and paying closer attention to their target markets.

- **Europe:** Tesco Finest; Sainsbury’s Taste the Difference; Carrefour’s Reflet de France
- **U.S.:** Albertson’s Signature Select (revamped in 2023)& O Organics; Target’s Favorite Day (2021); Walmart’s bettergoods (launched 2024); Kroger Smart Way (2022)

“Over the years, the quality of private label products has improved significantly, resulting in a positive shift in consumer perception.”

**Katya Withma**  
Associate Director  
Mintel Food & Drink<sup>1</sup>

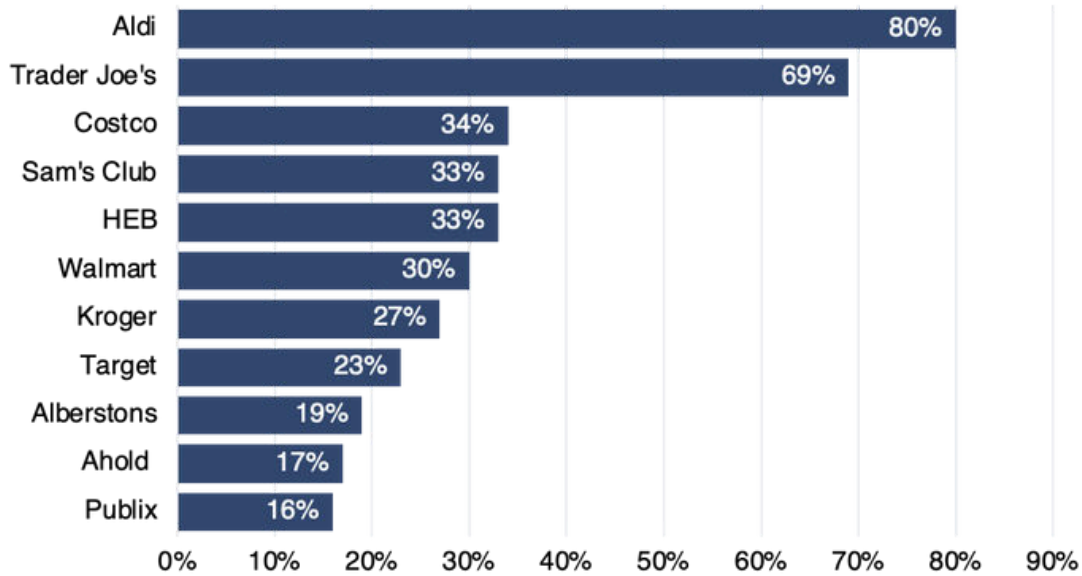


(1)Donna Eastlake, “Private label grows again – why brands should be worried,” FoodNavigator, 10/21/2024

**SOME GROCERY RETAILERS ARE ALL IN ON STORE BRANDS – OTHERS NOT (YET?)**

Stores that have seriously invested in their own branded products chose a path -- to become a destination. And they sell a lot of private label products.

**Private Label share of total sales (U.S.)<sup>1</sup>**



**WILL THE U.S. CATCH UP TO EUROPE?**

**Chasing its biggest rival:**

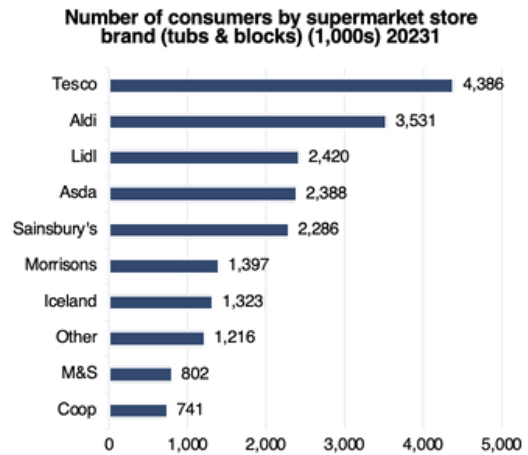
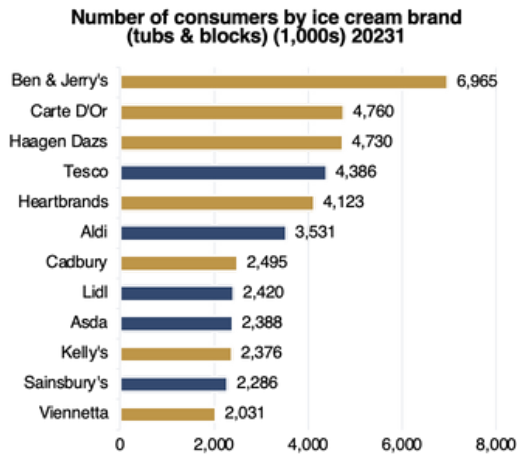
Lidl and Aldi are direct competitors in their home market, but Aldi is far ahead of Lidl in the U.S.

- 1st Lidl discount store opened in 1973 in Germany.
- Entered U.S. market 2017, today ~175 stores (Aldi has 2,428)
- Brand relaunch in U.S. in Oct. 2024
- In 2024, 12,279 stores in 31 countries



(1) Numerator data, 12 months ending 6/30/2024. Includes categories other than grocery

**CONSUMERS SPEAK: HOW DO STORE BRANDS STACK UP IN THE U.K. ICE CREAM MARKET??**



Source: Statista

**Store brands are competitive with the leading brands, many of which are owned by**

- **Unilever:** Ben & Jerry's; Carte D'Or; Viennetta; Heartbrands
- **Froneri:** Cadbury; Kelly's, Nestle

**Who manufactures the store brands sold in the U.K.? *Probably:***

- Froneri (largest private label manufacturer in Europe)
- YSCO (owned by Belgian coop Milcobel, being sold to PEG Davidson Kempner Capital Management)



## WHERE DOES ICE CREAM FIT ON THE GROCERY STORE BRAND PRODUCT SPECTRUM?

### Not the first and not the last.

- Generic, mostly undifferentiated products tend to be the first place store brands compete.
- Premium, highly distinctive products with very strong CPG company support tend to be harder categories to crack

### Ice cream people are passionate and committed – a category with staying power.

- Ice cream lovers have brand loyalty and care about quality. They also like to review, compare, opine and participate on social media about their ice cream finds.
- Ice cream, especially eaten at home, is seen as “small pleasure” or treat that is affordable even when other luxuries are unavailable, so it holds up better to household budget constraints (as compared to a daily Starbucks visit, for example)

### Ice cream’s cold chain requirements & dairy inputs enhance the value of “local”.

- Notable: Unilever’s spinoff of its \$8.5 bn global ice cream business, at least in part because it is a “different business” from the rest of its shelf-stable portfolio of products – from manufacturing to transportation to point-of-sale.
- “Greenfield” entry in a new geography has higher supply chain hurdles than shelf stable packaged products

## SO WHAT’S THE OPPORTUNITY....OR OPPORTUNITIES?

- Quality U.S. providers with **infrastructure, facilities and track record** are best suited to support retailers replicating the European model of private label offerings
- Ice cream manufacturers have a **valuable spot at the nexus of dairy and cold logistics**, with proven relationships up and down the value and supply chains





## PRACTICE TEAM



**Robert Adams**  
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Robert is a leading Corporate Finance Advisor with a wealth of experience in Debt Fundraising and M&A. He is a Fellow of Chartered Accountants Ireland. He has developed a strong reputation for financing and refinancing business and property based portfolios, working across a broad range of Corporate Finance activities. He has significant commercial experience in undertaking M&A, Business Reviews, Due Diligences and Strategic Advisory for Corporate clients. Robert has developed a large client base across a broad range of sectors throughout Ireland.



**Rick Thomas**  
CEO  
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Rick Thomas, FOCUS' CEO, has 25 years of consulting, management and M&A advisory experience across industries including manufacturing, distribution, and food service. Prior to joining FOCUS, he served as Vice President at VSI, a boutique investment banking firm located in Washington, DC. He led M&A activities for publicly and privately held companies in the middle market, several of which have annual revenues in excess of \$1 billion.



**Brian Barrett**  
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Brian Barrett, a FOCUS Managing Director, has extensive expertise in providing strategic advice to entrepreneurs, business owners and companies to assist them in achieving their strategic ambitions and preparing for significant value events. He has over 16 years of corporate finance experience working with SME's, large corporates and semi state bodies across Ireland. Brian has successfully project management and complete many significant transactions across multiple sectors, including retail, technology, food & beverage, agriculture, logistics, banking, energy and leisure.



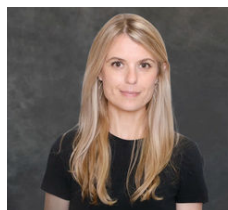
**Barry Calogero**  
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Barry Calogero, a FOCUS Managing Director, brings more than 30 years of executive management and consulting experience, with an emphasis on driving operational excellence and improving the enterprise value of companies around the world. He has deep expertise across industries including food & beverage manufacturing and distribution. Previous to FOCUS, he was COO of Coastal Sunbelt Produce, where he was responsible for operations, supply chain management, street sales, and asset velocity of the private equity-backed, \$300 million company.



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Kate Elliott is the Director of Research and oversees the production of research, financial modeling and analysis, and writing assignments that are integral to FOCUS' process-driven methodology for executing M&A transaction work.



**Beth Johnson**  
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Beth Johnson, a FOCUS associate, supports buy-side and sell-side engagements as well as capital raising. Prior to FOCUS, she led capital raise events as the Director of Development at 4P Foods, a fresh foods distributor serving B2B and B2C customers across the mid-Atlantic region. Her experience includes working with founder-owned businesses in the natural/organic segment and agtech ventures, with an emphasis on regenerative agriculture.