The Future of Retailer Brands

May 2010

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Agenda

- Executive Summary
- Retailer Brand Performance and Forecast
- Consumer Update
- Capitalizing on the ‘Retail Brand Era’
- Opportunities for Manufacturers and Retailers

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Executive Summary

- We are in a new era—the ‘Retailer Brand Era’
- Retailer Brand growth will continue but at a more modest rate than past few years
- Those retailers that operate in the Retailer Brand Era will have the strongest growth for their brands
- Product differentiation and the marketing of that differentiation—or lack thereof on the part of name brands—still a key determiner of retailer brand development

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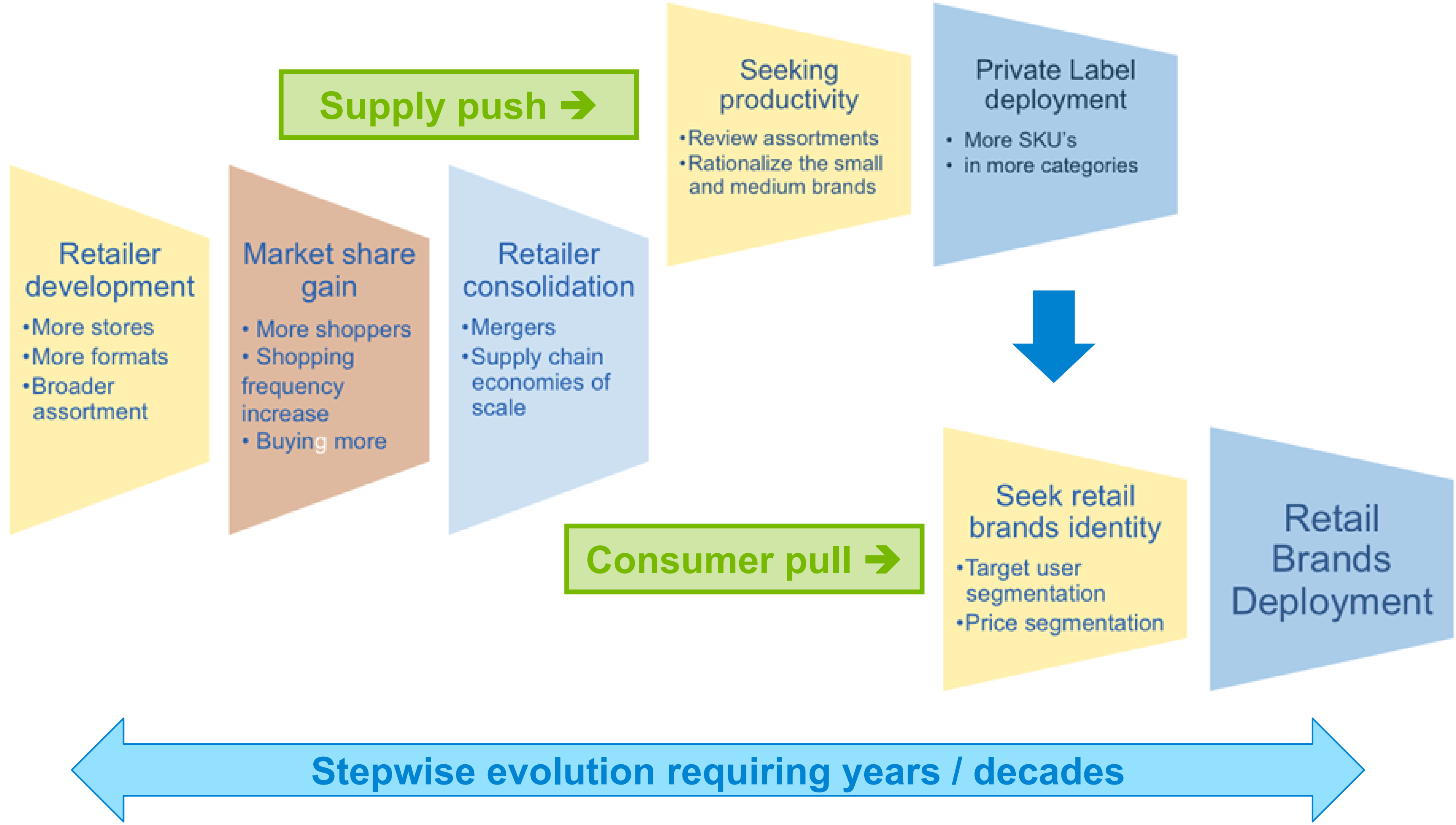
Retailer Brand Performance & Forecast

The Retailer Brand development process takes time—from years to decades



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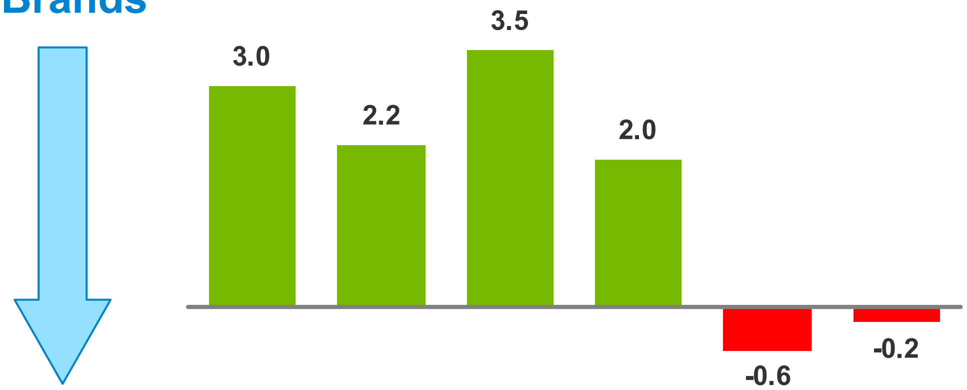
U.S. consumers turned to Retailer Brands in a down economy, but branded now improving

Retailer Brands

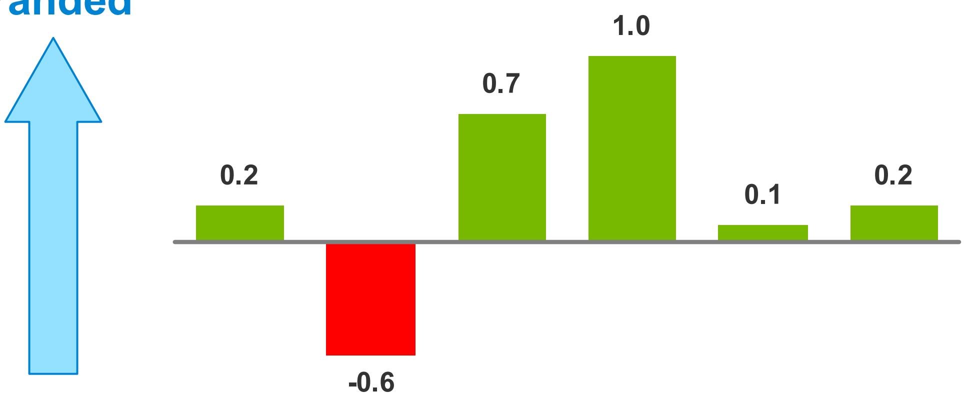


% Unit Sales Growth for last 6 (4-week) periods

Trend Drivers: Dairy, Dry Grocery

Still Growing: Fresh Produce, Fresh Meat, Alcoholic Bevs, Deli, Packaged Meat, Frozen Foods, HBA, Non-Food Grocery,

Branded



Trend Drivers: Dairy, Dry Grocery

Still Declining: Packaged Meat, Deli, Frozen Foods, Alcoholic bev, Fresh Produce

Source: Scantrack®, a service of The Nielsen Company; (FDM w/ Walmart) ending 04/19/2010 (versus prior year)

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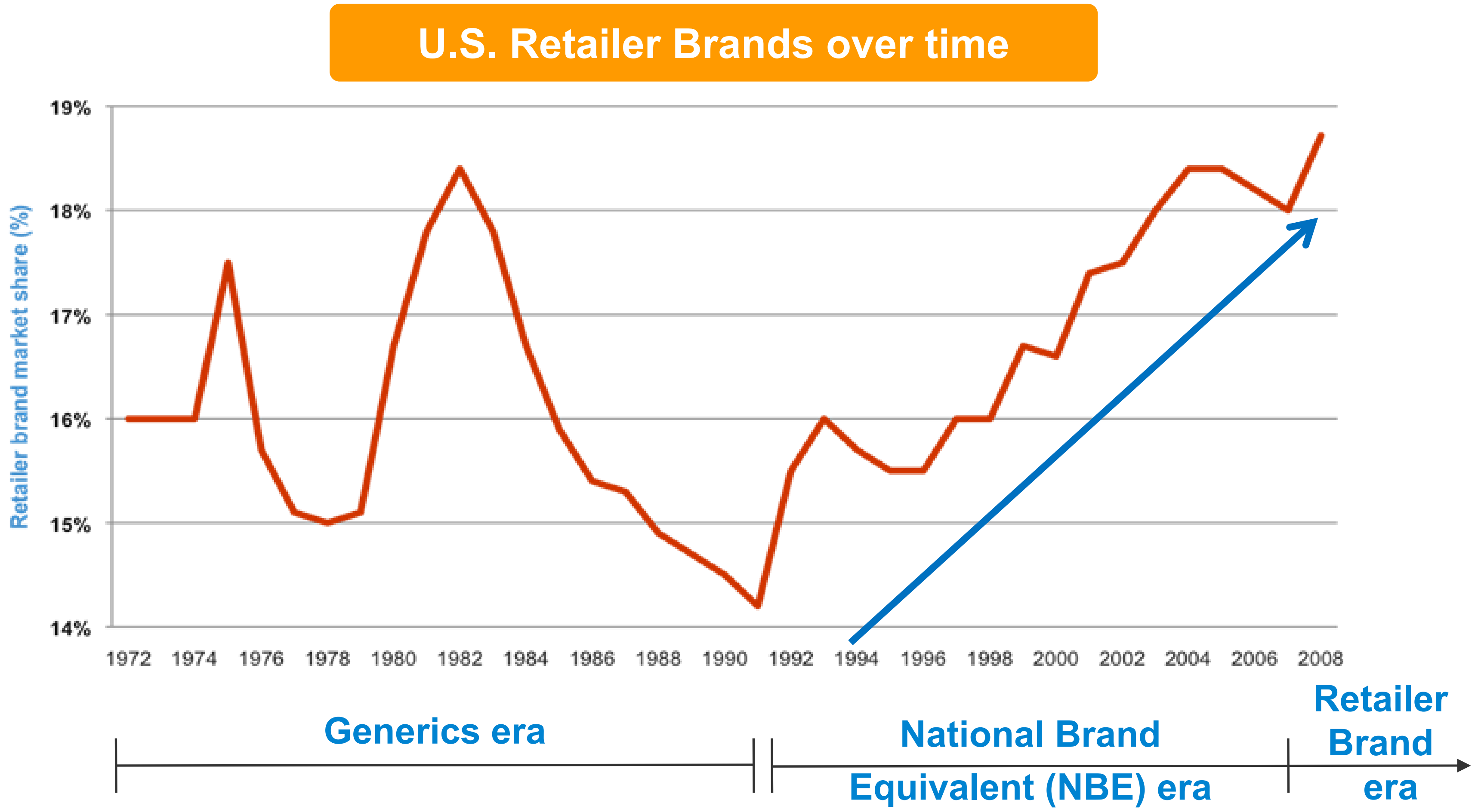
We are experiencing the start of a new era in Retailer Brands



Source: Hoch Banerji (1993), ACNielsen, BEA, Conference Board, Canback Dangel analysis

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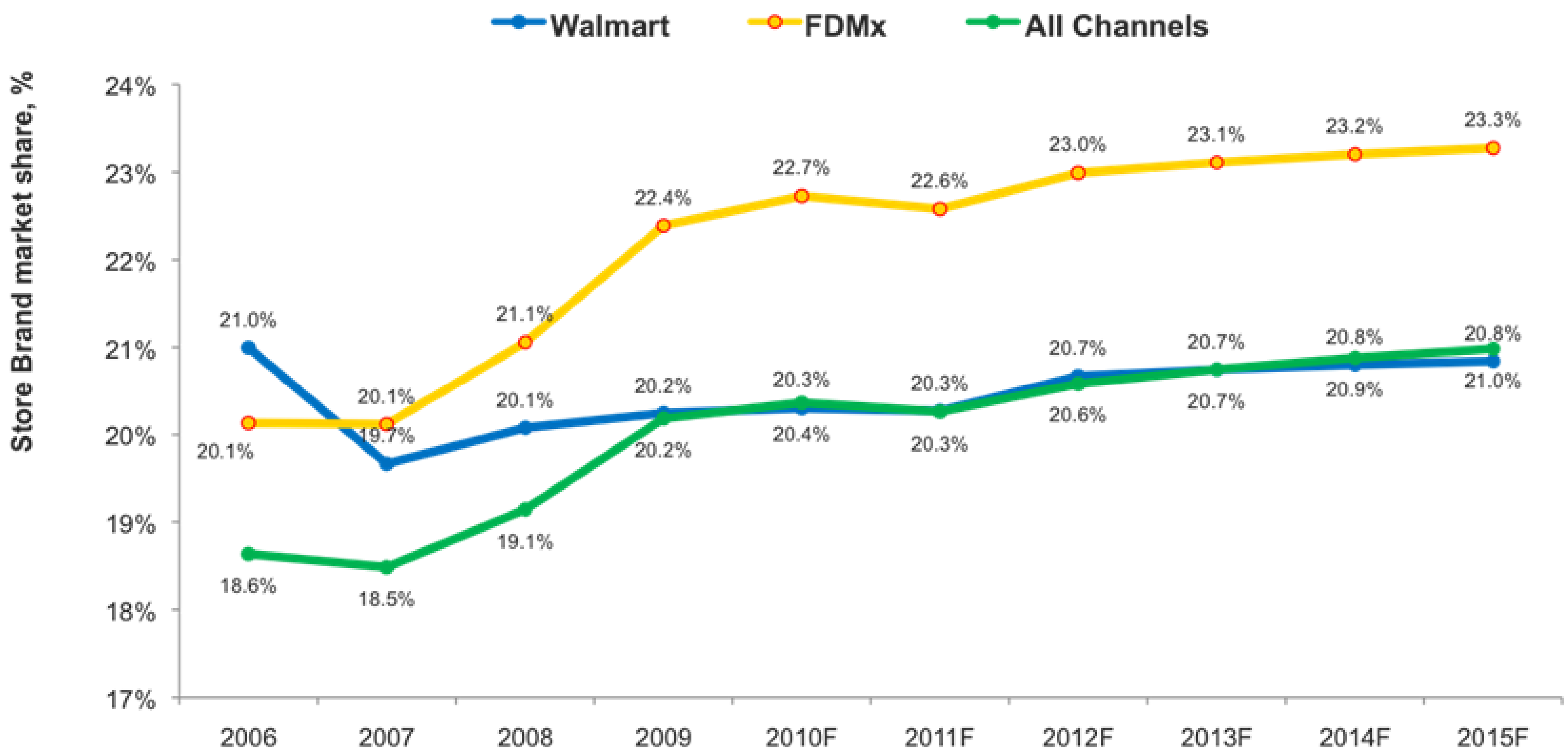
Nielsen predicts slower Retailer Brand unit growth into 2015 than during ’07 & ’08

Retailer Brand Units Market Share Forecast : 2009–2015



Source: Nielsen Scantrack and Nielsen Homescan data.

Source: 4i Consulting Forecast, copyright 2010. Forecasting results are estimates built on a series of qualified inputs and assumptions to predict future results. Actual results may differ as unpredictable factors may influence final results. All forecasts are tested and validated utilizing 95% confidence level intervals and are statistically sound based on the factors utilized for the exercise. R ranges from 80 to 90% for the typical category; lower where historical data periods are limited

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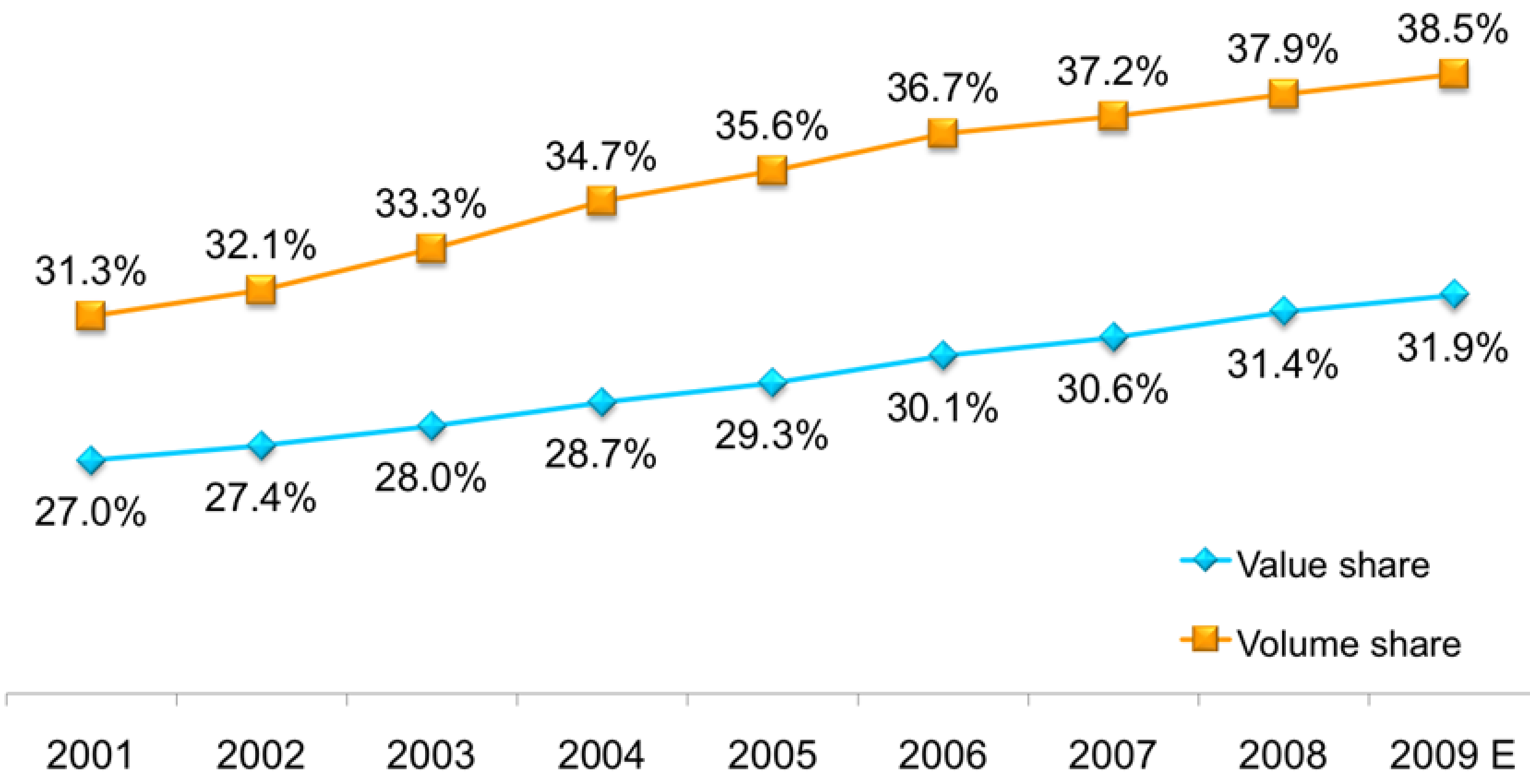
Retail Brands grew quickly in Europe: **7 points in 8 years**



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U.S. consumer spending on Retailer Brands lags most key European countries

Retailer Brand Spending

	2008 spend per inhabitant				2008 spend per household			
	Mio of inhabitants	€	£	$	Mio of households	€	£	$
Belgium	10.4	€375	£300	$ 551	4.4	€886	£709	$ 1,303
France	60.5	€354	£283	$ 520	25.3	€846	£677	$ 1,243
Germany	82.7	€548	£438	$ 805	39.3	€1,153	£922	$ 1,694
Italy	58.1	€96	£77	$ 142	22.4	€250	£200	$ 368
Netherlands	16.3	€362	£290	$ 532	7.1	€831	£665	$ 1,222
Spain	43.1	€246	£197	$ 362	15.2	€697	£558	$ 1,025
UK	59.7	€634	£508	$ 944	26.1	€1,451	£1,161	$ 2,159
USA	298.2	€193	£152	**$ 283**	112.7	€509	£403	**$ 749**
Total	**629**	**€299**	**£238**	**$ 440**	**253**	**€745**	**£593**	**$ 1,097**

FX rates:	2008
€	£0.80
€	$1.47
£	$1.86

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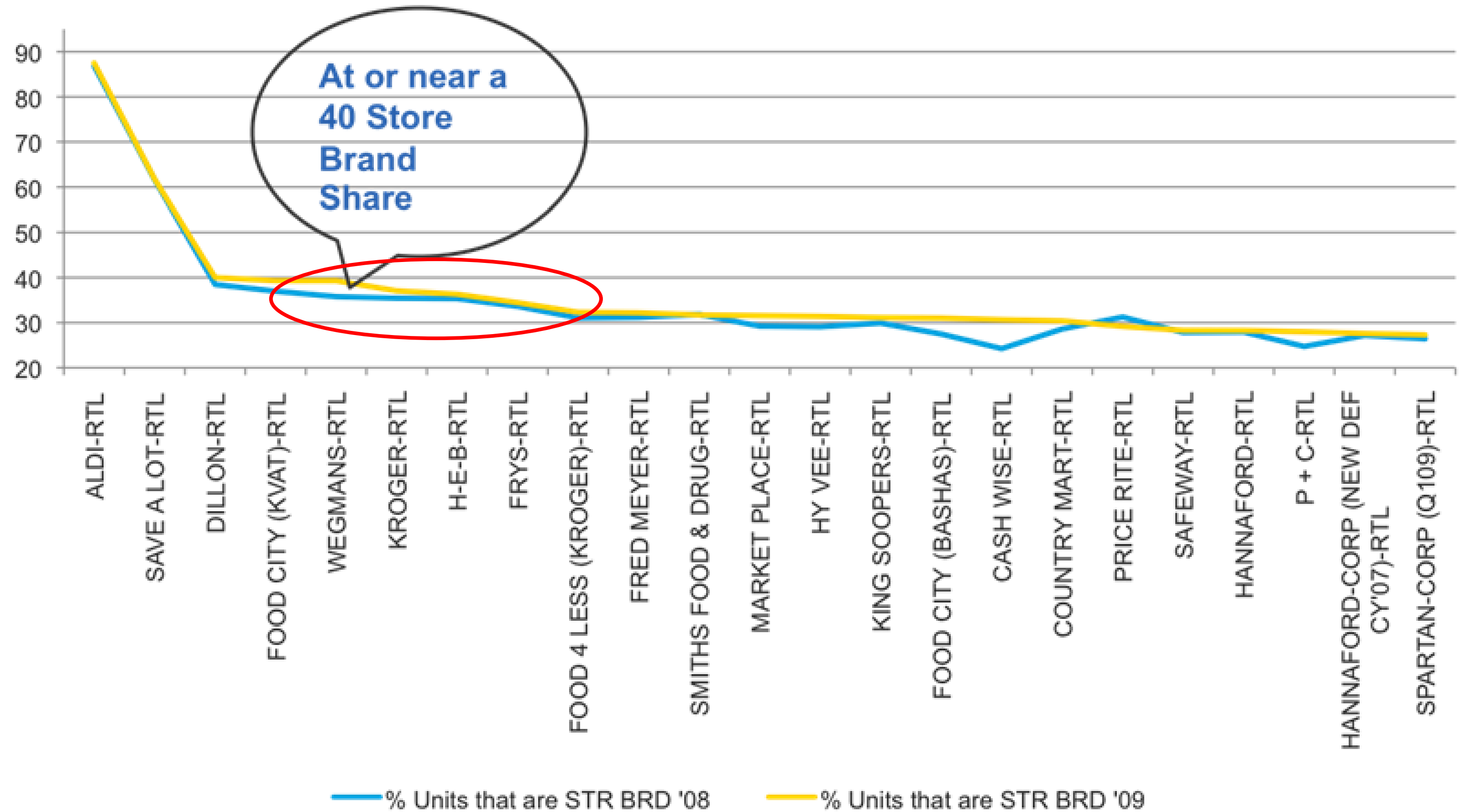
Many major U.S. Food/Drug/Mass retailers already have Retailer Brand unit share of 25–40%



Source: Nielsen Homescan data 52 weeks ending 3/20/2010

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Retailer concentration is increasing, but U.S. has long way to go

Percent Share of Top 3 / 5 retailers (*)

Below 25%

- Serbia
- Bulgaria
- Turkey
- Indonesia
- Poland
- Philippines
- Russia
- Vietnam
- Romania
- Ukraine
- China

25-50%

- Portugal
- Taiwan
- Estonia
- Czech R
- Greece
- Thailand
- Hungary
- Italy
- **USA**
- Korea
- Malaysia

50-75%

- Belgium
- Ireland
- Singapore
- Lithuania
- UK
- Germany
- France
- Spain
- Netherlands

Above 75%

- Switzerland
- Sweden
- Denmark
- Finland
- Norway
- Austria
- Hong Kong
- Slovenia

(*): Top 3 retailers in European markets; Top 5 retailers in Asia Pacific and U.S. markets

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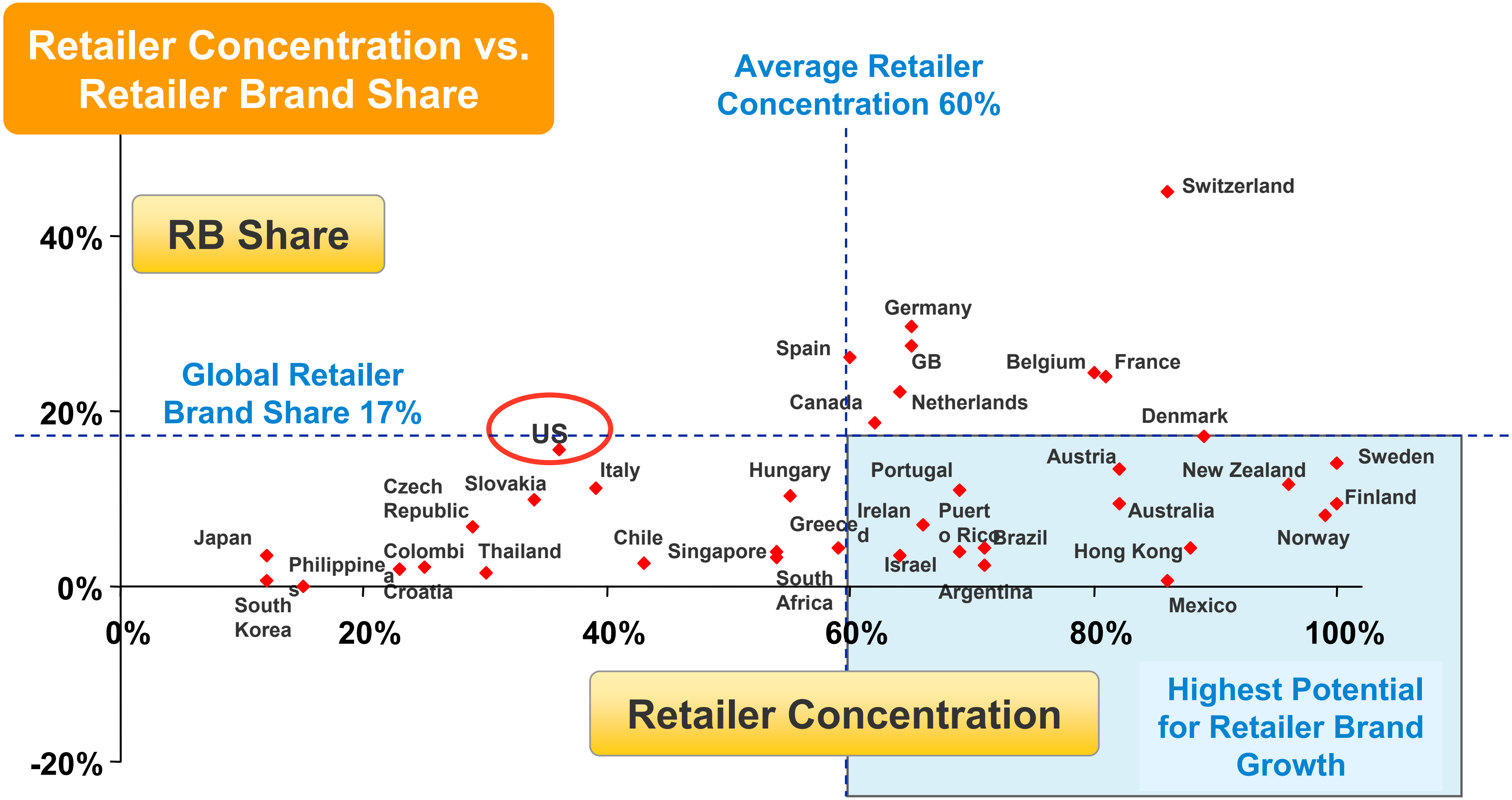
Lack of consolidation will keep U.S. Retail Brand growth more modest than found in many other countries



*Retailer concentration measured as the share of sales held by the top five retailers within each country

* Source: ACNielsen Global RB study 2005 (analysis of 38 countries reviewing 80 categories across 14 larger product areas) 52 weeks to April ’05 vs. YAG

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Summary—Key Takeaways

- We are in a new era for retailer brands—the 'Retailer Brand Era'
- U.S. Retail Brand development will continue to grow modestly due to a lack of retail consolidation.
  - Some U.S. retailers already at European levels and will grow faster than the U.S. as a whole

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Consumer's View of Retailer Brands

Who buys Retailer Brands?...
EVERYONE!

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Demographic trends do not favor Retailer Brands

Retailer Brand buyers:

- Younger households
- Non-Hispanic
- Larger HHs—those with children at home
- Heavier spenders overall

Brand buyers:

- Older HHs
- Hispanic
- Smaller HHs
- Lighter spenders

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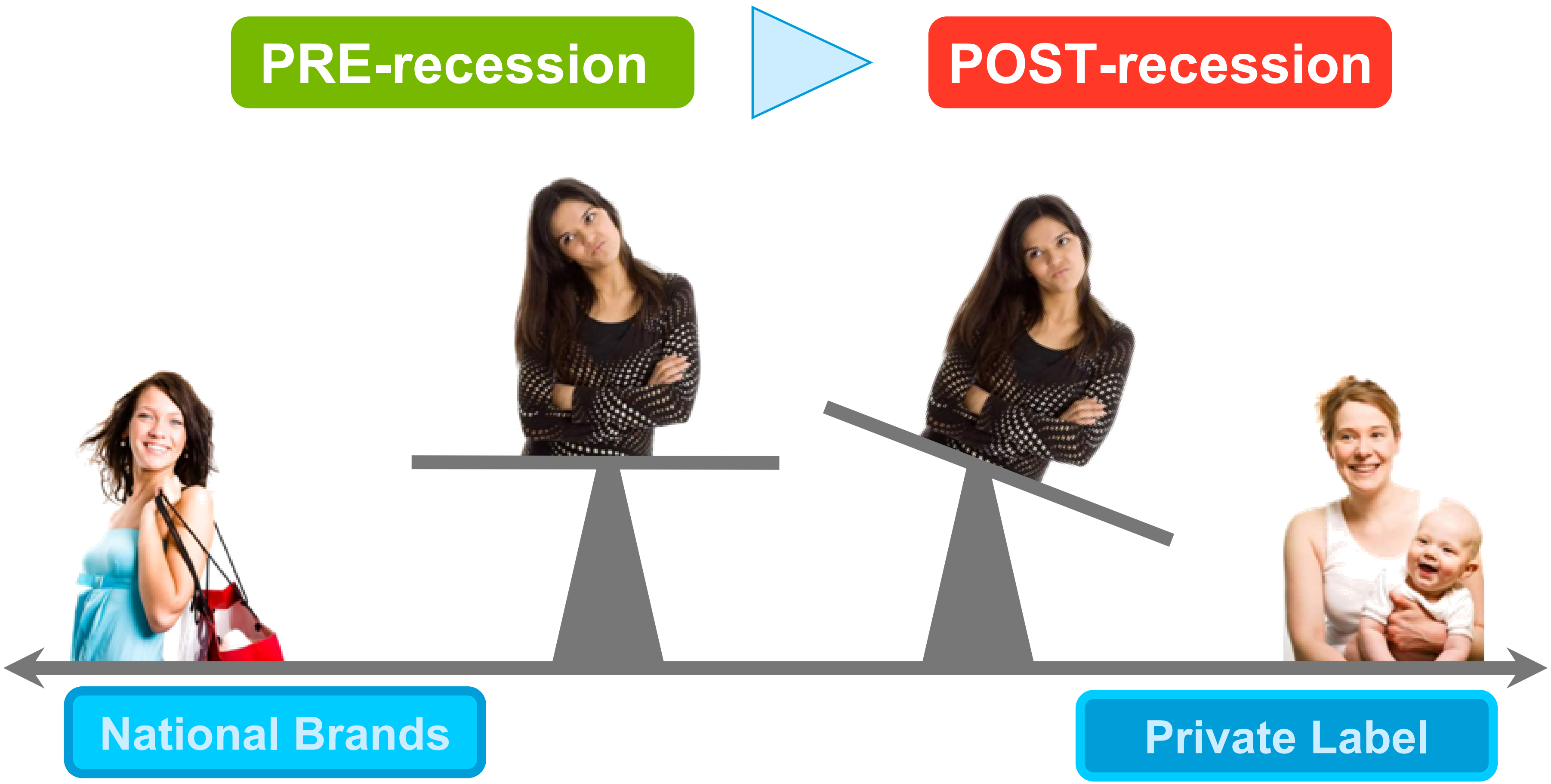
We are not talking about every shopper

The SHIFT is in the MIDDLE … the FENCE-SITTERS



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Two big reasons why Retailer Brand growth seen in last two years will be sustained

1. **The secret is out: It's (often) just as good**

RISK

2. **"Savvy Shopper" is a badge of honor**

REWARD

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The Retailer Brand shopper "new" mentality

Out with ***"cheapskate"***…

…In with ***"savvy shopper", "frugalista", "deal maven"***

Out with ***"they might not like me scrimping"***…

…In with ***"they'll probably think it's just as good"***

Out with ***"it might be terrible"***…

…In with **"they'll love that there's dessert, too"**

Out with ***"take the wrapper off before they see"***…

…In with ***"tell my neighbor what I've discovered"***

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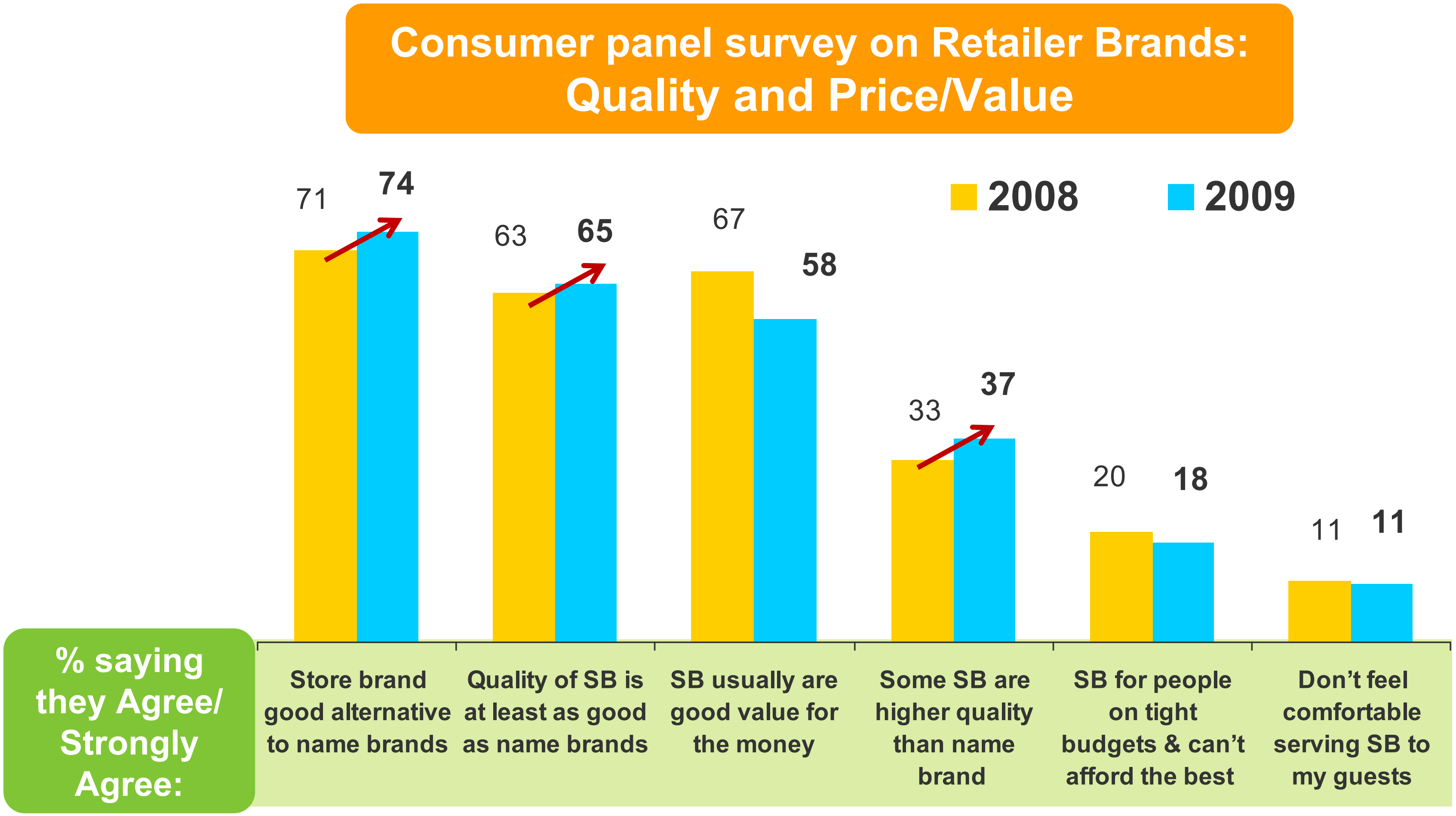
Consumer perception of Retailer Brand quality is strong and still growing



Source: Homescan®, a service of The Nielsen Company, Panel Views survey 2008 & 2009

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Consumer interviews uncovered two reasons consumers do not buy more Retailer Brands

1. Product Performance—Retailer product does not perform in some categories
2. Category on the “Not Okay” List—In some categories, consumers still not willing to try a retailer brand

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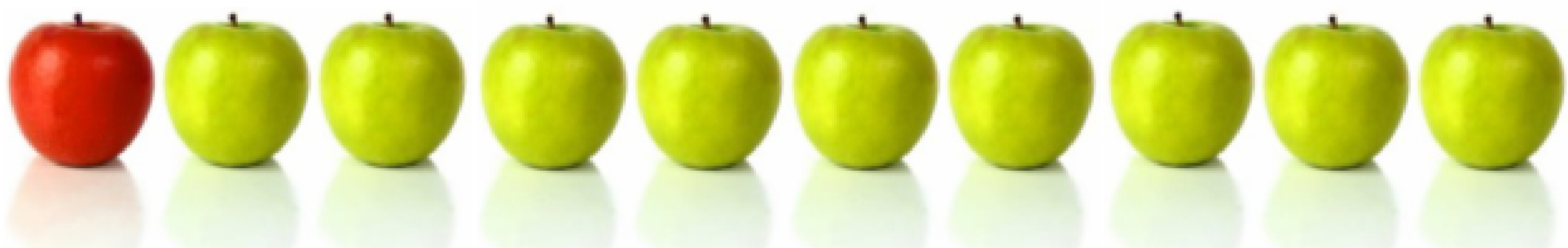
Bottom line: Consumers are noticing

In order to be irreplaceable



One must always be different

Coco Chanel

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Summary—Key Takeaways

- Long-term demographic trends do not favor Retail Brands—Retailer will need to reach Hispanics and older HHs to maintain growth in 10–15 years
- Economy generated trial, but retailers need to check their repeat; even some of the top retailers have product performance issues within their brands in some categories
- Consumers have upped the ante for name brands in terms of value
  - *"Prove to me why your product is worth more money than the retailer brand."*

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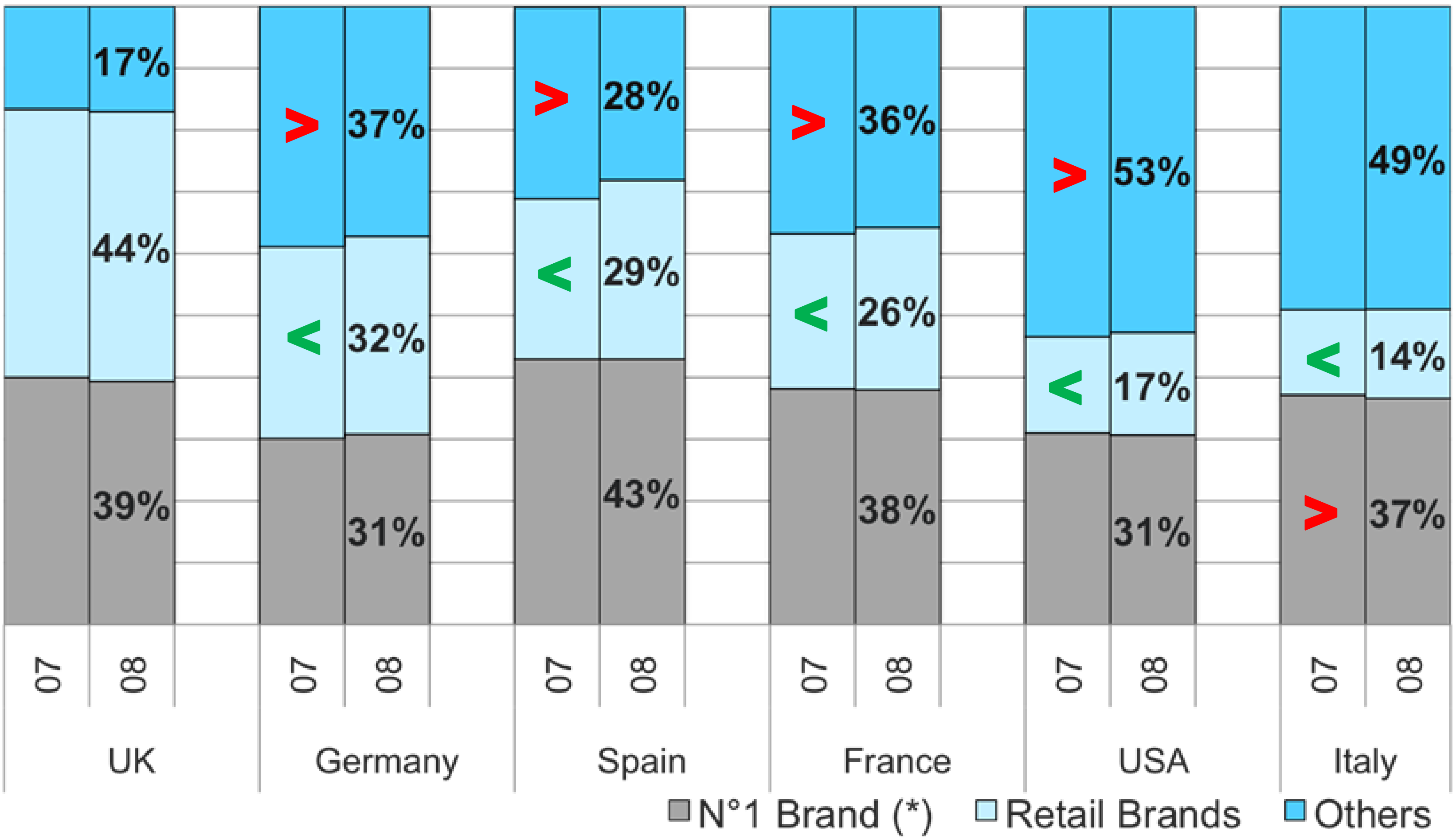
Capitalizing on the Retailer Brand Era

Retail brands essentially gain at the expense of secondary and small brands in U.S. & Europe



(*): Based upon a sample of frequently purchased categories

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New requirement for brand marketers: Greater Reward! What's your brand's greater reward?

From…

◀ **RISK** vs. **REWARD** ▶

To…

◀ **REWARD** vs. **BIGGER, BETTER REWARD** ▶

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Innovation has been a "brand" advantage – new H&W areas not a focus for many Retailer Brands

Health and Wellness Claims
Share of total Food & Beverage Sales

	Retailer Brand	Branded
Natural	8.1%	9.0%
Low Fat	6.7%	5.9%
Absence Of Specific Fat (Trans Fat or Saturated Fat)	0.6%	6.6%
Reduced Calories	1.3%	5.4%
Cholesterol Free	1.0%	5.1%
Fat Free	4.7%	3.9%
Reduced Fat	6.7%	2.6%
No Calories	0.7%	2.7%
Caffeine Free	0.7%	2.6%
Organic	1.9%	1.9%
Multigrain	0.4%	0.9%
Antioxidants	0.2%	0.9%
Good Source Of Fiber	0.1%	0.8%

***Example*: Cholesterol Free products generate only 1% of Retailer Brand food & beverage sales, but represent 5.1% of branded sales.**

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Who is making the right moves?

Retailer Brand Era denoted by significant marketing efforts by retailers

Source: Kroger.com

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Retailers leveraging consumer research to develop new Retail Brand lines and improve products

Source: SUPERVALU

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Retailers are innovating products—no longer just copying

Source: Wegmans

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Retailers are creating innovative packaging

- Retailers not only will need to keep up, but potentially surpass manufacturer product and packaging innovation

  Benefit:
  - Reduced costs
  - Increased customer base

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Retailers are promoting their brands

Source: http://www.heb.com

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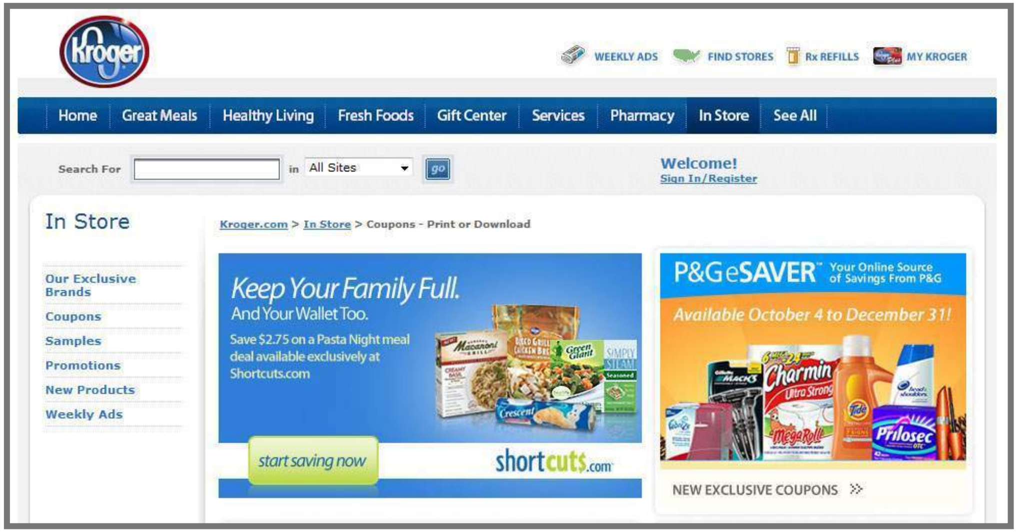
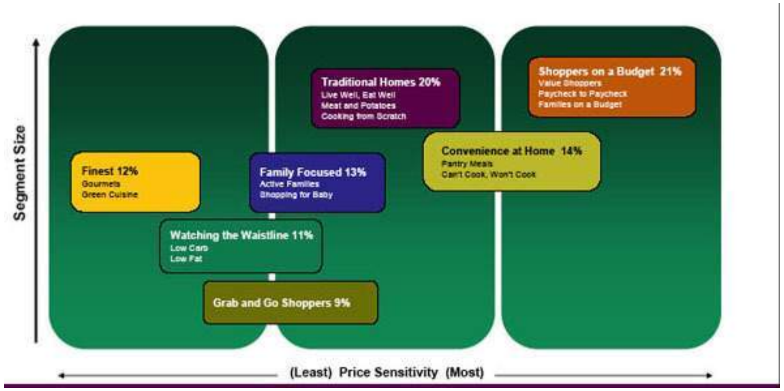
Retailers are creating integrated marketing plans and leveraging shopper segments

- 3 Screens + print + in-store
  - TV, Web, Mobile
- Classical brand marketing plans
  - Understand each brand's equity and build through marketing plans
- Starting to take plans down to segment
- Develop products and tailored marketing to consumer segments





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Following the success of Aldi and Save-A-Lot, new no-frills formats are popping up from other retailers

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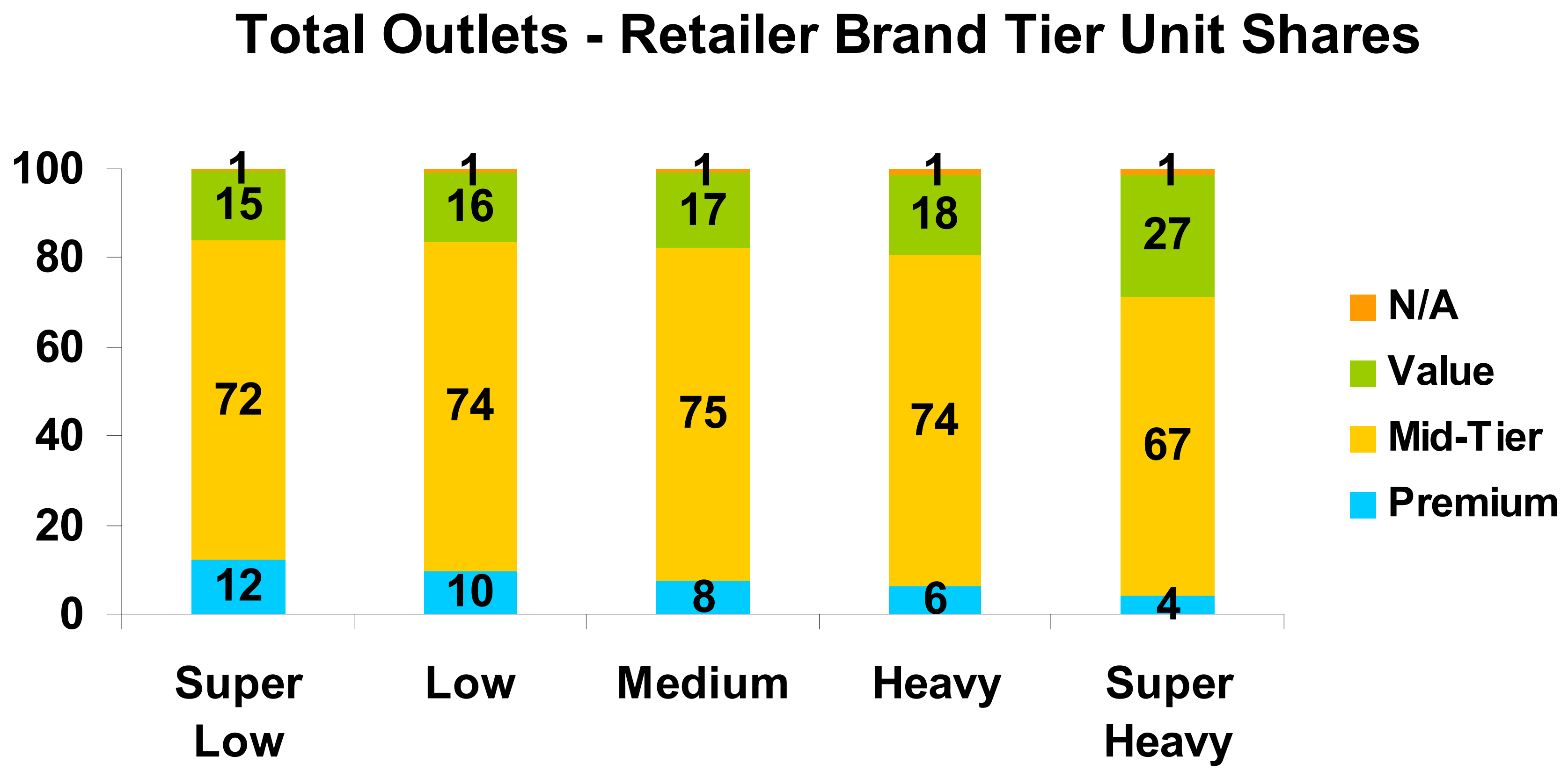
Retailers need to ensure their tier focus is in line with consumer demand



Source: Homescan®, a service of The Nielsen Company; UPC-coded purchases; 52 weeks ending 12/26//09

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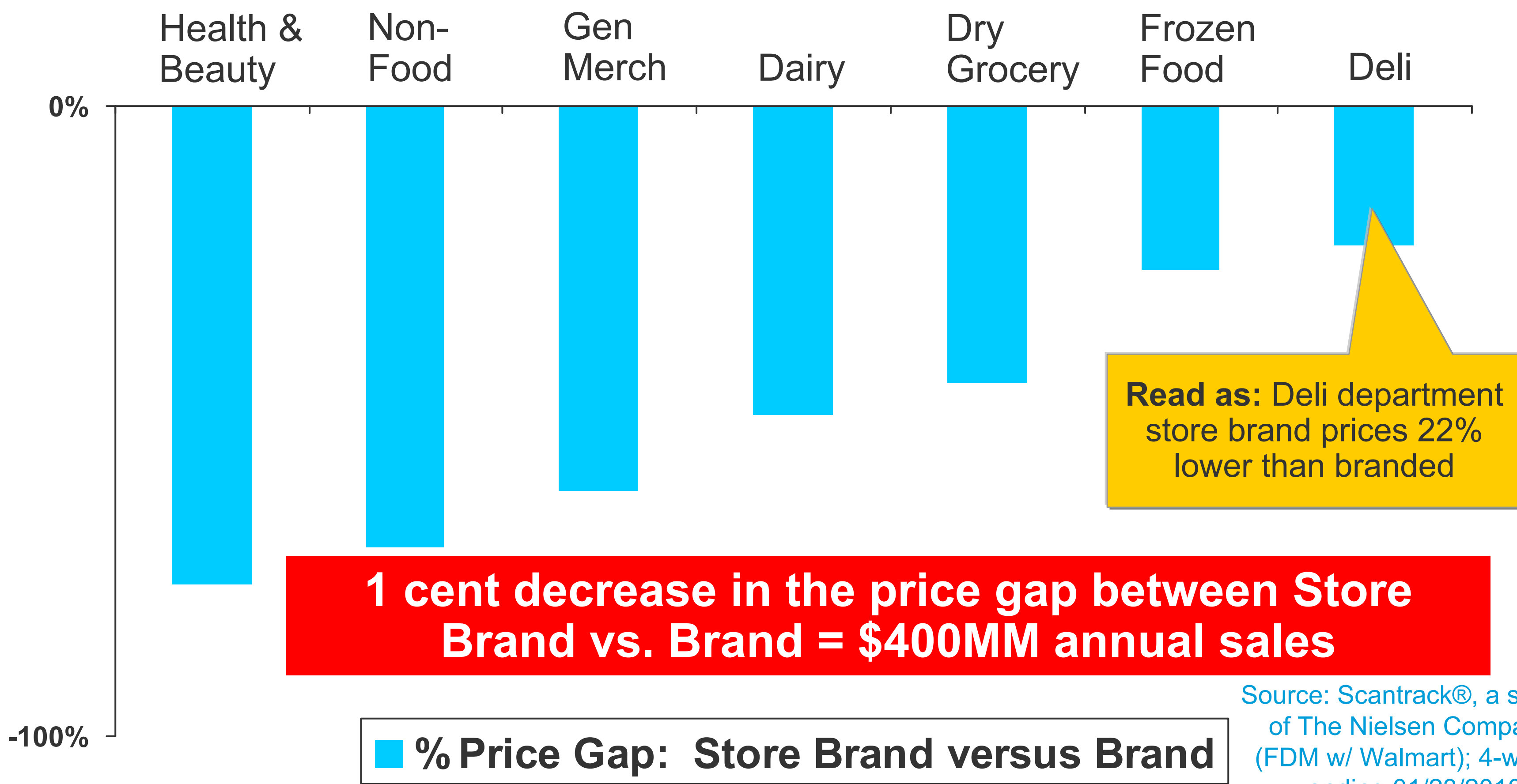
Do you have the right price gap to brands?

In departments and categories with extreme price gaps, the potential to enhance sales is significant



Source: Scantrack®, a service of The Nielsen Company; (FDM w/ Walmart); 4-weeks ending 01/23/2010

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The Future:
What should Manufacturers and Retailers Do?

What might we see in the future?

- Further retail consolidation, with many smaller, single market banners disappearing.
- Retailers trying new formats featuring more dominant store brand assortment.
- Some Major US retailers with store brand unit shares in the mid to upper 40s within the next five years.
- Large retailers producing store brands for other retailers.
- More non-leading-brand manufacturers adding store brand production to fill up manufacturing capacity.
- Stores becoming a more important marketing tool for retail brands and name brands.

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Closing thoughts

<u>For manufacturers</u>

- Understand where your products/categories fall in terms of store brands
  - Are they differentiated from store brands in the minds of consumers?
  - Research how you can differentiate
  - Innovate to remain relevant
- Leverage marketing/advertising to ensure consumers are aware of the differentiation
- Launch new items with evidence of item incrementality to the category, not just your brand.
- Plan for continued store brand growth.

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Closing thoughts

<u>For retailers</u>

Engage in Store Brand Era best practices:

- Research store brand equity, products and packaging
- Market your brands vigorously using multiple media including in-store and Online
- Require manufacturers to provide category incrementality facts for all new items

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Focused on addressing Manufacturer and Retailer strategic and tactical questions around retailer brands

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- OR if you have any questions regarding the content of this Webinar, you can also contact:

  Lisa Rider, Vice President, Retail Consulting Solutions,
  The Nielsen Company

  email: lisa.rider@nielsen.com   Phone: 813-366-9157

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