

GROCERY HEADQUARTERS

FOOD FORUM

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Private Label Allure

Mainstream wellness shoppers are taking a second look at private label organic products, especially staples such as pasta and cereal.

IF MARKETING RESEARCH FIRMS TRULY HAVE THEIR FINGER ON THE PULSE OF CONSUMERS, IT LOOKS LIKE ORGANIC AND NATURAL PRIVATE LABEL PROGRAMS ARE HERE TO STAY. Mambo Sprouts Marketing, an organic-oriented marketing firm based in Collingswood, N.J., reports that while consumers are still interested in buying organics, they are waiting for sales, using more coupons and purchasing more store brands to make the move to organics more affordable.

A recent Mambo poll found that the overwhelming majority of consumers (88%) believed private label brands play an important role in their cost savings strategy, with one in four buying more of these products since the recession started. The private label organic products most to likely to be purchased include grocery staples such as pasta, cereal and grains (80%); dairy (72%); condiments (61%) and household cleaning products (61%), according to the poll.

The majority of respondents said they plan to continue buying organic private label even when the economy improves.

In addition to cost savings, improved quality seems to be a factor influencing changing consumers' perceptions of private label and stimulating trial and repeat purchases of natural and organic wellness store brands. A report by J.D. Power and Associates on the private label industry found that while pricing is a key factor for consumers, the quality and flavor of private label organic items drive much of shoppers' purchasing habits. Not surprisingly, respondents polled by J.D. Power ranked Whole Foods and Safeway highest for their private label programs, driven in large part by their organic brands.

"Organic offerings and healthy foods stood out for all retailers because consumers see them as valuable options today," says Janet Eden-Harris, vice president, J.D. Power Web Intelligence, based in Westlake Village, Calif. She adds that unique and original flavors as well as additive-free features and the product's appearance were also key purchase drivers. "Not surprisingly, consumers noted that innovative, modern packaging definitely enhanced private label's image," says Eden-Harris.

Laurie Demeritt, president of the Hartman Group, based in Bellevue, Wash., says most organic and natural brands don't resonate with consumers in the same way as conventional brands. "Organic and natural brands don't carry the same nostalgia for shoppers, primarily because these products were not in our lives when most of us were kids," she says. "Simply put, there is an absence of feeling any loyalty or emotional connection with national organic brands and as long that is the case—providing there is a strong value proposition—consumers are willing to embrace private label organic."

Jeff Weidauer, vice president of marketing for Little Rock, Ark.-based Vestcom International, concurs that the lack of history mainstream consumers have with natural and organic products spells opportunity for retailers to develop strong store-brand programs. "In many cases, so-called 'healthy' brands are new to the average shopper and have no foundation of credibility to build upon," he says. "In addition, the relative lack of marketing funds, compared to a major CPG, puts these brands in the same arena as store brands. The difference—and the advantage—that store brands have in this case is the credibility of the store itself."

Value also plays a key role, he says. "Couple the greater trust from the shopper with a greater perceived value as a store brand and it's easy to see how those products drove greater trial and acceptance with shoppers," notes Weidauer.

Kim Greenfeld, a principal with Campo Verde Solutions, a Boston-based consulting firm to the organic and natural food industry focusing on private label wellness programs, attributes the initial success of private label programs to retailers' previous efforts with traditional private label. "During the past several years, consumers have seen quality and value in these types of products and are transferring that mindset to wellness store brands," says Greenfeld.

MOM APPEAL

Long term, Greenfeld believes there is an opportunity for mainstream retailers to build sales, especially if they focus on Moms and their desire to provide their kids with healthy products. "When others are pulling back this group is increasingly buying more and more natural and organic products because they perceive them to be healthier," she says. "Aspects such as GMO free, sustainability and traceability are key issues to this demographic group as are foods free of artificial flavors and colorings and value-add organics."

Marcia Mogelonsky, a global food and drink analyst with Mintel, a Chicago-based market research firm, says there is still plenty of room for retailers to grow their natural and organic store brand programs. "Current penetration, with few exceptions, is still relatively low. Coupled with the lack of established national brands and acceptance of private label at its highest level spells opportunity for future growth," she says.

Improved quality is something that should not be overlooked, notes Bob Johnson, founder of Danville, Calif.-based Organic Foods International. Johnson says retailers have spent years developing loyalty for their conventional private label programs and what we are beginning to see is the "halo effect" where shoppers are looking at retailers with a private label wellness offering as being more knowledgeable in terms of food and nutrition. Johnson has experienced both sides of the business—the retail challenges of creating a strong private label brand when he was a vice president at Trader Joe's and in his current role developing programs for other retailers.

"Companies like Safeway have brought organics to the forefront and awareness of its existence to customers who may not have otherwise have tried organic. What's more, bringing in an executive from Whole Foods to help run the program was one of the smartest things Safeway could have done," says Johnson. "They deserve all the praise they have received for their O program. It actually only represents about 1% to 2% of their total store sales, but its ability to affect people's perception of who Safeway is and what they stand for has been monumental."

START WITH COMMODITIES

For retailers considering launching a new private label wellness program the Demeritt suggests focusing on commodity categories such as produce, meat and baked goods. "For example, at this point in time, the average mainstream shopper may say they buy locally to offset their carbon footprint, but what they really care about is that the food is fresher and healthier for them and that it supports local farmers."

At the same time, Demeritt says it is important to note that retailers need to keep their eyes on the values and features core consumers are attracted to because in time the mid-level shoppers will want that as well. "If we haven't arrived there yet, organic and natural will be the cost of entry for private label in the near future,

meaning retailers need to be researching today what the next differentiator or value-add feature will be beyond organic," she says.

Greenfeld says suppliers with a background in organic and natural products can help retailers position themselves to gain a piece of the wellness private label business. "Companies such as UNFI, Daymon and Topco are positioned to help someone like a 15-store operator get into organic and natural private label," she says. "It may cost more compared to doing it yourself but these companies have the experience and expertise."

Greenfeld says the sheer number of new companies popping up requires retailers to carefully weigh their options. "As with conventional private label, retailers should ask questions such as who manufacturers the product, what are the minimum runs, what is the minimum shelf life, how do you handle distribution and can they help you with the marketing?"

As to which categories or products to start with Greenfeld suggests retailers not be afraid to target low hanging fruit. "Look at where the sales are the strongest and typically that is the perimeter categories such as produce, meat, deli and dairy," she says. "It really boils down to the retailer knowing who their customer is and what their thresholds are."

Weidauer says retailers have the upper hand today in terms of driving new product growth and acceptance. "The two necessary components of a product launch are awareness and trial," he says. "Since retailers don't have the marketing funds to launch products via mass media, they generally work with direct mail and in-store promotion. The good news is that this is not only a viable launch method it's likely the preferred one, given the ongoing fragmentation of media. Make sure you're helping to both educate shoppers on the benefits of the product, while calling it out through the effective use of shelf edge media and signage."

From Demeritt's perspective, she'd like to see retailers make a stronger connection between their private label brands and the store name. "Retailers have more brand equity in their name than perhaps they realize, but they need to do more to connect the two," she says.

Mogelonsky says retailers need to invest in marketing and promotion.

Jay Totman, a sales manager for Natural Dairy Products Co., based in West Grove, Pa., says retailers are more evolved in their understanding of organic, a dramatic departure from years past. "At first, we were getting approached by dairy buyers from large supermarket chains telling me how they wanted to launch a private label organic dairy line, but it was clear they didn't know the first thing about organics, what the company believed in, what your story was or the fact that you were local. They just wanted organic milk with their name on it, but today I'm happy to say much of that has changed."

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