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# CANADIAN

## Grocery Retail

### Private Label Industry Guide



**Saskatchewan**  
**GROCERY RETAIL & FOODSERVICE**  
**VALUE CHAIN INITIATIVE**

*Adapting to Consumers Demands and  
Capturing New Market Opportunities*



# **1 The Canadian Grocery Retail Private Label Industry - Overview**

## **1.1 Private Label Products**

Private label products in Canada have been an important part of many grocery retailers growth strategy and their product mix for a number of years. Private label products are used to establish a retailers value credentials because these products are usually the opening price point within many categories. Private label products also give retailers greater control over pricing and promotional strategies of a core group of products and this reduces their reliance on national brands in these areas.

Canadians generally view private label brands very positively due to the strong consumer protection laws in Canada, and a highly regulated grocery sector with a number of quality food chains. It should be noted that in general, private label brand recognition in Canada is less than that in other countries where private label food products have a longer history. The exception is Loblaw's Presidents Choice® line of food products and the Loblaw's Joe Fresh® of clothing products. The generally good perception of these two private label brands actually assists the growth of other stores private label products.

The general axiom in the food industry in Canada is the more troubled the general economy, the more likely consumers are to save a few pennies at the expense of innovative products, environmentally friendly products and even taste. Surveys indicate that Canadian consumers are willing to forgo

branding, sustainability and packaging in order to create a sense of savings and safety. Many Canadian consumers have made the transition from being a discount shopper to a smart shopper who knows how to maximize their purchase dollar. This transition has assisted the growth of private label brands and challenged national brands.

National brands have responded by focusing on innovation and sustainability and even repositioning brands as good values.

However, surveys indicate that private brands, house brands, or private label products are starting to lose some of their momentum in the retail landscape. A recent survey by Ipsos Marketing appears to indicate that Canadian Consumers are beginning to find them less than desirable replacements for national brands. Nielson data indicates that in 2011 private label sales of food products in Canada were relatively static. Unit sales rose 3% but the revenue generated from those sales was flat at \$11.4 billion. By comparison, national brand unit sales rose 1% but revenues rose 2%.





## **1.2 Private Label Sales**

Private label sales are growing globally but recent data is finding little of it in Canada. The Nielsen Company reported that private label food products market share in Canada stood at 18.1% in 2010, down slightly from 18.4% the previous year. The year 2010 marked the sixth straight year that private label market share had fallen in Canada. By comparison, private label market share in Europe stood at 46% in 2010 and 43% in the U.K.

According to Packaged Facts, sales of private label food products in the U.S. are set to grow from \$95 billion in 2011 to \$113 billion by 2014. Their market share is predicted to rise from 19.1% to 23% over the same period.

Recent studies indicate that 68% of Canadian shoppers prefer to buy branded food products on sale than private label. It is interesting to note that almost as many Canadians believe that those same name brand manufacturers make the private label products. An average of 60% of Canadians believe that private label food products are as good as name brand but only 40% believe that private label health and beauty products are as good.



## **2 The Canadian Private Label Retail Food Consumer**

### **2.1 Canadian Private Label Consumer**

The typical Canadian private label consumer is becoming older and wealthier. A new study by the Nielsen Company indicates that although the heaviest private label users still tend to be from larger households, with three people or more and higher incomes of \$70K or more, the face of the private label buyer is evolving to one person households, age 55-64, no kids and with incomes of \$100K plus.

The study indicates that despite private label products being on average 30% lower in price than national brands, those who buy the most private label products tend to spend more per grocery trip than the average shopper. Private label products account for more than 33% of a heavy user's total shopping bill in Canada.

The study also indicates that despite the recent economic downturn, Canadian shoppers did not switch from national brands to private label products. National brands in Canada responded to the economic downturn by meeting consumer's needs for value by driving more sales through feature pricing. At the same time private label increased prices at a higher rate than national brands thus narrowing their shelf price advantage.

The two biggest ethnic groups in Canada, South Asians and Chinese have shopping patterns that will impact private label sales in the future. When grocery shopping, Chinese and South Asians prefer finding the right price on brand name items, buying 25% more on promotion. These shoppers are not looking for private label, which they often perceive negatively.

In 2012, less than 25% of consumers said that they intended to purchase more private label food products in the coming 12 months compared to the year earlier. This is in comparison to more than 33% who said that they intended to increase their purchases of private label products in 2009. There may be two reasons for the consumers change in intention to purchase. First, industry experts note that consumers are experiencing "frugal fatigue" and want to go back to their favorite branded products and secondly, private label manufacturers are doing a better job of masking the fact that their products are private label.

Two thirds of consumers perceive private label quality to have improved over the past five years and only 24% of adults said that private label did an excellent job of meeting their needs in 2012, compared to 32% in 2009.

### **2.2 Gross Margins**

Private label food products generate retailer gross margins that are more than 20% higher than those of comparable brands. Consumers, on average save approximately 30% on a comparable private label product versus a brand name product.

The additional margins are a strong incentive for food retailers to increase their assortment of private label products at the expense of branded products. However retailers walk a fine line between offering a value proposition of private label products and disenfranchising their customers who have a strong association and attachment to specific branded products.



### **3 Key Trends that are Driving the Growth of the Canadian Private Label Food Industry**

#### **3.1 International Growth**

It has been forecast by Rabobank, a Dutch Financial institution that specializes in food and agriculture that 50% of sales at the world's food retailers will come from private label products in 2025 – up from 25% in 2011. However in Canada the growth in private label food products has remained at 17%-18% for the past 5 years. The opportunity for the development of private label products for the international market is significant for Canadian food manufacturers. For example, Presidents Choice Decadent cookies are now sold in major retailers in the U.S.

#### **3.2 National “A” Brands versus National “B” brands**

Rabobank, forecasts, from a European perspective, that National “A” brands such as Coca-Cola, and French's, Nestle and Heinz will remain on store shelves, anchoring price levels for a category and offering shoppers consumers the familiar names they trust. In the case of the “B” brand category they would be required to either invest in quality and target the premium market or focus on private label.

Research is clear in that in Canada private label and “A” brands are an inseparable combination. The national “A” brands give price point credibility to the private label brands and serve to establish the credibility of the retailer, and by extension, the private label brand.

#### **3.3 Innovation**

Private labels share of new food product launches almost doubled in the period from 2009 to 2010. In 2009 private label product launches represented 8.5% of new sku's, while in 2010 they represented 15.9% of new product sku's. Innovation in private label is now roughly proportionate to its share of the marketplace.



## 3.4 Good – Better – Best

One of the key trends in private label is the increasing sophistication of private label products. Retailers are coming out with new innovations that consumers want. This is evidenced by the recent introduction of the 200 sku (stock keeping unit) line of gourmet “Presidents Choice Black Label” products by Loblaw’s. The new line is being positioned as an “affordable luxury indulgence” and is targeted at those consumers who seek high end products in recessionary times.

Retailers in Canada such as Loblaw’s, are beginning to employ a European three-tier, private label price strategy. In the case of Loblaw’s the good is No Name®, the better is Presidents Choice®, Organics® and Blue Menu®; the best is Presidents Choice Black Label®. The strategy is to migrate consumers up the food chain and induce them to pay more for selected products. Evidence suggests that consumers trust the PC label enough to move up market with it.

In Europe where three-tier pricing strategies are the norm, Tesco and other grocers find that typical shopping baskets contain both premium and value private label products. In Canada, Walmart has recently introduced a high end private label line of 100 sku’s named Our Finest®.

The high end Walmart line is, like Loblaw’s Black label, positioned as “affordable luxury indulgence” and the packaging features a black label. The colour black is purposely used in both the Loblaw’s and Walmart private label

as it suggests “premium” for example black tie dinner, black label scotch or the black credit card.

The Life® range marketed by Shoppers Drug Mart features its own line differentiated by black packaging and labelled Life Premium Gourmet. Interestingly, sales of Life Premium Gourmet products have exceed those of branded products while maintaining a similar price point.

The arrival of Target in Canada in 2013, with its strong private label portfolio, including premium positioned foods, will put further pressure on further pressure on food retailers to seek competitive advantage through premium and super premium private label food products.

In 2010 in the U.S. approximately 75% of major food retailers had multi-tiered private label programs compared to less than 50% of food retailers in 2007. This rapid expansion of multi-tiered programs has not yet taken place in Canada and represents an excellent opportunity for the future. Targets entrance into the Canadian market may accelerate the growth in multi-tiered private label programs in Canada.





### 3.5 Healthy For You

There is a strong emerging trend for private label products to become “healthy for you” by reducing the levels of saturated fat, sodium and added sugars. This trend is designed to counter reformulation of thousands of the brand name products to a healthy for you format.

Walmart has introduced a “Great for You” icon that will be positioned on the front of all its private label products. The new icon is part of Walmart’s initiative to help customers build healthier diets. Loblaws has also introduced a new icon for use on all its private label products. The new icon is designed to provide consumers with more information on the health properties of Loblaws no name® and PC® products.

Walmart is also working on the reformulation of its Great Value® private label products. An example of the reformulation is the reduction of 15% of the sodium levels in Great Value ketchup.

### 3.6 Formulation and Packaging

Private label products in Canada are rapidly overcoming the stigma once associated with ‘generic’ products as a result of continued innovations in both formulations and packaging. The drive for increased innovation

in formulations and packaging will continue to put pressure on branded products to follow suit or lose shelf space.

### 3.7 Package Sizing

Package sizing for private label food products has not followed the trend of branded products to reduce the package size in order to maintain

retail price points and increase margins.

A recent survey in the U.S. found that 74% of surveyed consumers believe that the size of some packaged goods is smaller. As a result 64% of the surveyed consumers stated that they were seeking store brands

where the size remained the same. The trend to not follow the same degree of size reduction will most probably continue for private label products.

### 3.8 Differentiation

Retailers who are increasingly using private label products differentiate themselves from the competition. The use of premium, organic and natural private label products is a key trend among retailers to offer a strong and unique value proposition to their customers while creating a strong sense of differentiation from the competition. This method of differentiation is reinforced by the increased level of promotional activity of private label products versus that of national brands by retailers over the past 24 months.



## **4 Understanding How the Grocery Retail Private Label Works**

### **4.1 Important Factors**

There are several important factors to consider in gaining an understanding of the private label food sector in Canada. The first factor is that the food retailers own the real estate and are focused on maintaining market share and maximizing the profit per square foot of each store. The second factor is that private label products generate approximately 20% more profitability than branded products. The third factor is that food retailers in Canada can source and import private label products from food manufacturers located around the world. The fourth factor is that sales of private label food products in Canada have been relatively stable over the past 5 years despite the economic downturn that has affected millions of Canadian consumers.

### **4.2 Real Estate**

The Canadian food retailing sector has sales of approximately \$84 billion, accounts for over 20% of total retail sales in Canada and is expected to grow to over \$100 billion by the end 2014.

The industry is comprised of over 21,000 food stores, divided into chains, comprised of large conventional supermarket, general merchandise retailers, drug stores, box stores and convenience store formats, and independents, which are either franchised or unaffiliated. Total chain and independent food sales have maintained a consistent market share of 60% and 40% respectively over the last 10 years.

Canadian consumers spend approximately 9.2% of total personal expenditures on food, one of the lowest percentage expenditures of household income in the world.

The food sector real estate in Canada is owned and controlled by the food retailers. The food retailers determine the shelf space (real estate) allocated to each brand, generic or private label food product. That determination is based, among other things, on an assessment of each brands effectiveness in drawing consumers to the retailers store, the profitability per square foot of each branded and non-branded product and the market position of each brand “A” or “B” in respect to market share and the growth potential in the category for a private label product.

There is no food brand in Canada that cannot be replaced by another competitive brand. There is also no food category in a retail store in Canada that does not have a private label offering that competes with branded products. While this is not to suggest that most brands will be replaced by private label offerings, the reality is that retailers will always endeavor to replace brands with more profitable private label products whenever possible.

However, while 38% of Canadian consumers purchased private label food products in the past 12 months, the market share of private label brands has remained essentially static for the past 5 years. This suggests that the retailers have to proceed cautiously in introducing additional sku’s of private label products into the assortment as consumers will switch stores to purchase favourite and trusted brands.



## 4.3 Private Label Sourcing

There are virtually hundreds of new private label food products introduced into the market place in Canada each year. For example, in 2011 Loblaws and Walmart collectively introduced over 400 “Black Label” type food products in addition to over 300 new Presidents Choice and Great Value products. This number does not take into consideration the number of new products introduced for Sobey’s or Metro or Overwaitea to name but a few retailers with private label offerings.

Product development times for new food products range from 22 to 44 weeks for private label products versus 52- 78 weeks for new branded products. The time variance is based on the fact that a significant number of private label products are based on existing product formulations and manufacturing practices while many new branded product formulations are developed from scratch.

There are a large number of food processing companies that specialize in manufacturing private label food products for a wide range of retail customers. In addition to these specialized companies there are brand name manufacturers that also make similar or ‘like’

products of their branded products for their larger retail customers. In many instances these branded companies have determined that it is in their best interests to manufacture a private label product for a large retail customer in order to maintain the relationship with the customer and retain critical real estate. Canadian private label products are now sourced from food manufacturers located around the world. The sourcing is often undertaken by specialized firms who work closely with retail clients to develop products, formulations, ingredients sources, packaging and processing sources. It is difficult for any one major retailer to acquire and retain the internal human and financial resources necessary to launch several hundred new products each year. It is for this reason that a significant portion of the private label industry is outsourced to specialized firms.

## 4.4 Terms of Sale

Private label products are normally procured on a buy-sell basis with no provision for marketing funds. Payment terms are normally negotiated as are such items as who pays for the development of formulations, who owns the formulation, who pays for the development of packaging, who pays for the packaging and who is responsible for the packaging and finished goods inventory.

The negotiation of the terms of sale are an important aspect of the private label programs as more often than not the private label products produced under contract are cancelled at some point in time due to poor performance at retail or a change in marketing direction. The rule of thumb is that 90% of new products introduced at retail fail – applies to private label as well as branded products.



## 4.5 Category Management

Category management for private label products is usually the responsibility of the retailer's private label buyer/category manager. In many instances the private label category managers are in direct internal competition for real estate and retail customers with the category managers who purchase and develop programs of branded products.

The retail private label category manager has a similar mandate as the branded category manager, increase turns, improve sales per square foot, and achieve specific category margin objectives. In some organizations the category manager/buyer has a dual mandate for both branded and private label products. In these instances there is a strong potential for

conflict of interest as often branded companies will be reluctant to share future product plans for fear of have their new products "knocked off".

Branded food companies in Canada have been particularly adept at maintaining market share and increasing sales by repositioning the value equation of their brands to compete with private label and generic food products. The branded companies have followed consumer trends, reformulated products to a more healthy for you positioning and increased promotional activity at retail through social media. The net affect has been to hold private label market share to approximately 18% for the past five years while the share of private label in many countries in Europe exceeds 40%.







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The Agriculture Council of Saskatchewan (ACS) Inc. has developed this electronic guide for the Canadian Grocery Retail Industry as part of its continuing efforts to support the agriculture and agri-food industry and develop the capacity and tools for food growers and processors to enter the Canadian Grocery Retail Industry.

The purpose of the guide is to provide food growers and processors with a better understanding of the Grocery Retail Industry and how to tap into business opportunities within it. ACS has engaged Ackerman & Associates, consultants to the Grocery Retail Industry, to help create this powerful reference tool. Ackerman & Associates is an alliance of senior consultants focusing on business strategy support – research, value chain design and implementation – for the Grocery Retail Industry.

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