

The Power of Private Brands

*Shopper-Based Information, Insights and
Best Practices to Drive Profitable Growth with
IGA Private Brands*

Prepared for



Prepared by



WILLARD BISHOP

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Situation

“Ignited by the recession, private label is on an upward trend.”

“Ninety-one percent said they will continue to buy private label when the economy improves.”

– The Rise of the Value-Conscious Shopper – A Nielsen Global Private Label Report – March 2011

“The message from our latest taste-off: Don’t be reluctant to give any private label product a try. In fact, our results may knock some of those iconic brands off their pedestals.”

– Consumer Reports, October 2010

Shopper demand for—and purchases of—private brands are growing briskly. According to PLMA (Private Label Manufacturers Association), private brand items account for 24% of unit sales and 19% of dollar sales in U.S. supermarkets, both all-time highs. While there are several drivers of the general increase in shopper demand for private brands across the grocery industry, three of the most important include:

- ▶ **Economy** – The challenging economy combined with high food price inflation is encouraging shoppers to look for ways to stretch their grocery budgets and private brands provide such money-saving options. And, it’s a good bet that shoppers will not revert all the way back to their old free-spending ways when the economy improves.
- ▶ **Quality** – The quality of private brand products continues to improve and is now typically as good as that offered by national brands. Shoppers are finding that they can trade to private brands without sacrificing quality.
- ▶ **Marketing** – Retailers are becoming strong marketers of their stores and unique product offerings. They’re actively positioning their private brand programs as an important component of their value offerings, i.e., providing a key way for consumers to be smart shoppers and save money in their stores.

These factors are having a similarly strong influence on IGA shopper demand. IGA shoppers are increasingly focused on price and value, they have tremendous trust in IGA private brands and are looking for even more IGA brand products in their stores.

IGA retailers and LDCs (licensed distribution centers) have a great opportunity to strengthen shopper appeal, encourage more intensive shopping and increase profitable sales by enhancing the breadth of their IGA private brand programs and effectively highlighting the availability of IGA private brand options throughout the store. IGA conducted a study and commissioned this white paper to demonstrate the importance of private brands to today’s shoppers and how IGA retailers can take full advantage of the private brand opportunity.



The Study

In early 2011, IGA began a study—with the assistance of Willard Bishop LLC—to assess shopper perceptions, preferences and behavior relative to private brands and identify how IGA members can successfully satisfy shopper demand for private brands at retail. Information, insight and best practices were captured from three main sources, i.e.,

- ▶ **IGA Shoppers** – Since the primary objective is to identify ways to meet IGA shopper needs, the study began by capturing insights directly from IGA shoppers to better understand:
 - ▶ What they are looking for from supermarkets in general and IGA retailers in particular.
 - ▶ Their perceptions of private brands in general and IGA private brands in particular.
 - ▶ How IGA and the IGA private brand offering can enhance the shopping experience.
 - ▶ What IGA should do to encourage them to purchase more IGA private brands.

This involved conducting qualitative and quantitative shopper research, i.e.,

- ▶ Six focus group discussion sessions across three market areas—with approximately 10 IGA shoppers in each group—to glean qualitative shopper insights.
- ▶ Approximately 400 one-on-one in-store interviews with IGA shoppers at a cross-section of IGA stores to benchmark/quantify shopper perceptions and needs.
- ▶ **IGA Retailers and LDCs** – The search for best practices in private brand marketing and merchandising started by capturing best practices from selected IGA retailers and LDCs that are already on the forefront of private brands. This involved:
 - ▶ Interviewing a cross-section of IGA retail operators and LDC executives to gain their perspectives into the private brand opportunity and specific practices that are successfully driving private brand sales in their companies



The Study

- Visiting/auditing a cross-section of IGA stores across the country to see how individual stores are applying best practices for maximum impact.
- Collecting and analyzing private brand performance data from selected IGA members to identify the impact that robust private brand programs can have on their performance.
- **Non-Members** – Additionally, there is tremendous value in identifying best practices from outside the IGA family and tailoring such practices for use in IGA stores. Consequently, the study also identified appealing best practices from non-member retailers that have the characteristics for success if adopted at IGA member stores.

IGA and Willard Bishop wish to thank all IGA retailers and LDCs who participated in the study and generously provided insight and data as well as access to their stores and shoppers.



Shopper Insights

The first step in the study was to capture information and insight from IGA shoppers to better understand why they shop at IGA, why they are seeking/purchasing private brands and how IGA can improve their private brand program. IGA shoppers were extremely generous with their perspectives and provided valuable insight into a wide range of topics.

“I’d like to see all the IGA employees stay just the way they are. Stay kind, stay helpful. It’s a great store. I love shopping there, keep up the good work..”

- ▶ **Appeal of IGA Stores** – It’s no surprise that loyal IGA shoppers love their local IGA stores for a wealth of reasons.
- ▶ **Local ownership** – They prefer to support local businesses and keep their grocery dollars in the community.
 - » *“I’m locally minded, so I prefer to shop at my local IGA store as opposed to Stop & Shop or some other bigger chain because I want to support that store and keep them thriving.”*
 - » *“IGA means more family-oriented; they’re part of the community.”*
 - » *“I’m supporting my hometown. I’m supporting the kids that work there.”*
- ▶ **Community involvement** – IGA shoppers greatly appreciate how their local IGA stores support their communities and shoppers willingly repay this commitment with their business.
 - » *“The people that own the local IGA are philanthropic; they contribute to the community...and I appreciate that.”*
 - » *“The IGA is loyal to the community so I feel loyalty toward them.”*
- ▶ **Pleasing shopping experience** – IGA stores provide patrons with a comfortable, enjoyable and productive shopping experience without having to navigate a much larger, more complex competitor.
 - » *“If I can’t find it at IGA, do I really need it? I don’t need to walk through those huge stores and walk through the lawn furniture section to find milk. I’m done with that.”*



Shopper Insights

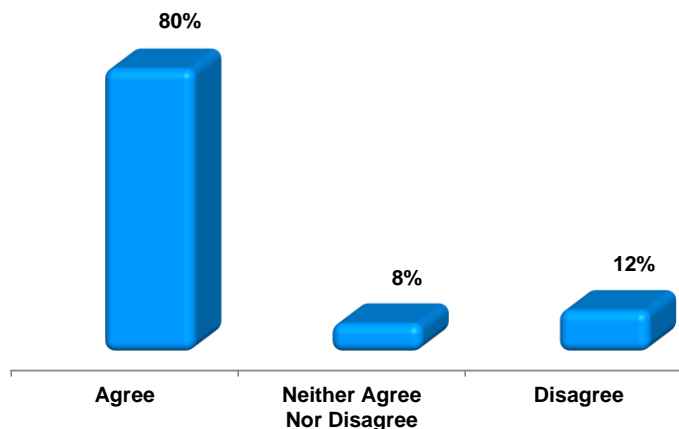
- » *“I’ve grown up with IGA, it’s like comfort food.”*
- » *“When I’m in one of those superstores, I think to myself ‘there’s so much, how will I ever get to the last aisle and find the things I need?’ IGA is an intimate place to shop for groceries. I just like that warm and fuzzy feeling I get when I start down that first aisle.”*
- **First class customer service** – Shoppers are attracted to IGA’s friendly, knowledgeable and attentive service. While shoppers report “feeling like a number” in a national chain store, they feel like a valued customer in an IGA store.
 - » *“IGA is a smaller, friendlier place. They get to know their customers. They care about their customers.”*
 - » *“At IGA you don’t have to wait long to check out. I’ve left many carts at other stores standing in line.”*
- **Superior perishables** – IGA shoppers report finding the best quality perishables—particularly meat, deli and produce—at their local IGA store.
 - » *“Their meat department is phenomenal and their produce is phenomenal.”*
 - » *“The people working behind the deli counter really know their products...how they’re prepared and why they’re better.”*
- **Strong values** – IGA shoppers recognize that IGA offers them the opportunity to “work the system” and stretch their grocery budgets with sale prices and private brand options.
 - » *“Some people might think that IGA is more expensive because it’s a smaller, local store. But if you hit their sales right and take advantage of their (private) brands, you can do pretty well (versus competing stores).”*
 - » *“I’ve noticed that when IGA runs something on sale, it really is on sale; it’s a good price.”*



Shopper Insights

- ▶ **Searching for Value** – IGA shoppers are determinedly looking for value. They feel the impact of the economic downturn and are attempting to compensate by becoming “smarter shoppers” who focus on finding low prices and the best available values.

**More Focused on Price and Value Than
I was a Couple of Years Ago
(% Responded)**



- ▶ *“I’m buying more in bulk and searching for more store brands.”*
- ▶ *“I’ve seen the prices increase at the store. I am now more apt to look for sale items and sometimes not go with the brand names that I used to buy because they’re so much more expensive.”*

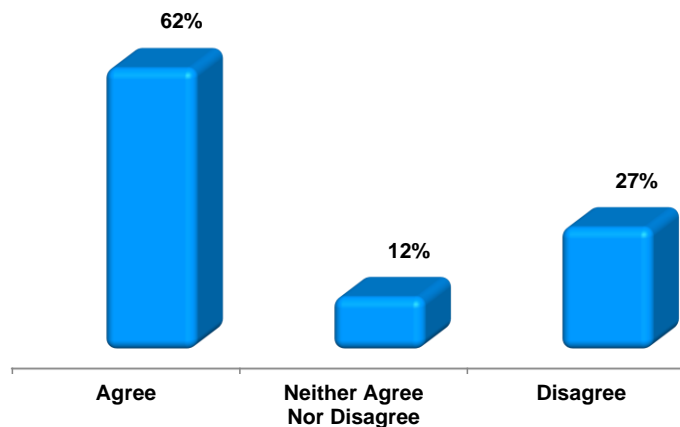
In fact, eight out of ten IGA shoppers are more focused on price and value than before. Accordingly, IGA retailers need to do their best to highlight the values that are available to shoppers in their stores, because that’s at the forefront of shoppers’ minds. It’s also highly likely that IGA shoppers have fundamentally changed their shopping behavior. And, even when the economy improves, they’ll continue to look for value. So any actions that IGA operators take to offer greater value to their shoppers today will continue to pay dividends in the future.



Shopper Insights

- ▶ **Increasing Focus on Private Brands** – IGA shoppers report that they're purchasing more private brands than ever before in an effort to save money.

**Purchased More Store Brands
Than a Couple of Years Ago
(% Responded)**



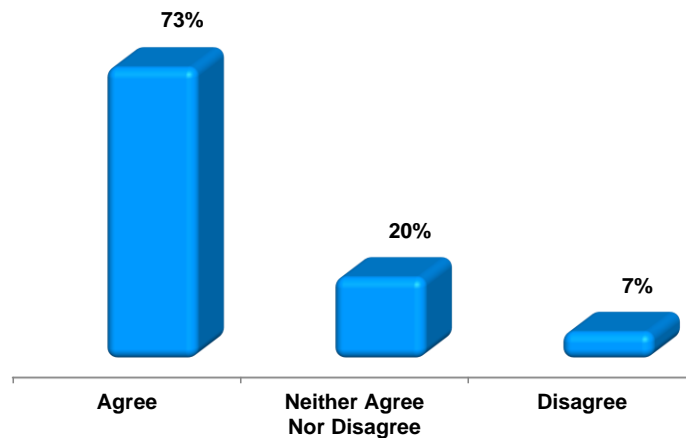
- ▶ *“I have looked more closely at store brands over the past year—and have switched away from some name brands that I always bought—because of the price differential.”*
- ▶ *“I used to buy whatever I liked, mostly name brands. Now I’m going more to store brands because they’re cheaper. Money’s tighter and I’m looking for the deals.”*
- ▶ *“I’ll try the store brands now because you have to watch your money. I try to spend less; you have to today.”*

Store brands provide strong value and have a great impact on a retailer’s overall price image. The majority of IGA shoppers are purchasing more private brands than they did a couple of years ago, from all stores they shop. The new opportunity is to ensure that these shoppers can do so in their local IGA stores.

- ▶ **Recognizing IGA Private Brand Quality** – IGA shoppers find that IGA private brand quality is the same as national brand quality. They don’t feel they’re giving up anything other than high prices to purchase IGA brand items.

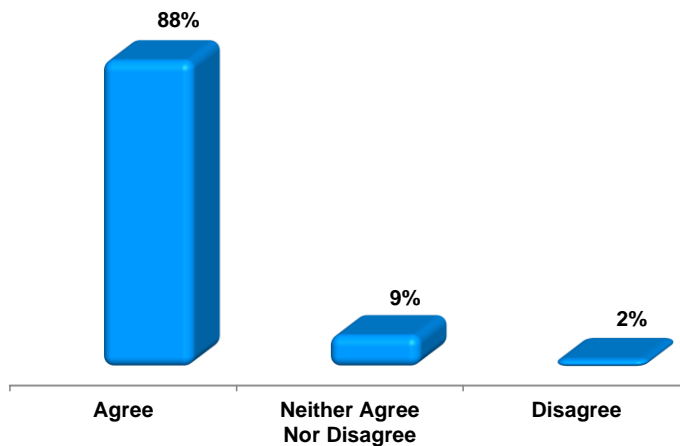


IGA Store Brands are Same Quality as National Brands (% Responded)



And, IGA shoppers have an exceptionally high level of trust in IGA private brand products.

I Trusted IGA Store Brands (% Responded)



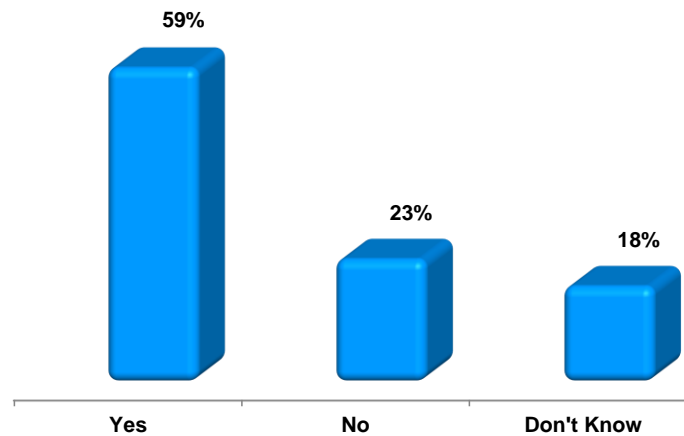
- › *“I would trust the IGA brand more than any of the other private brands. I don’t think I’ve had a bad experience with them. They will always be good.”*
- › *“When I see the IGA logo, especially on a store brand, there is a high level of confidence in it which comes from my experience with IGA. I know that the IGA brand is going to be a quality product.”*



Shopper Insights

- ▶ **Looking for More IGA Private Brand Options** – Almost nine out of ten IGA shoppers are looking for even more IGA brand products. They recognize the value these items offer and want to see them more widely available across the store.

Would Like to See More IGA Brand Products
(% Responded)



What better way for IGA members to strengthen their connection with shoppers than by giving them exactly what they want, i.e., more IGA private brand products.



IGA shoppers report that they're increasingly searching for value and looking for private brands to provide such value. They also strongly trust IGA private brand products and would like to see more of them available in their local stores.

While simply offering private brand products is a necessary step to better meet shopper needs, it's not sufficient. IGA retailers also must effectively "sell" private brand products to their shoppers. So, the study looked into best practices in marketing, merchandising and generating trial for private brand products captured from:

- ▶ IGA shoppers.
- ▶ IGA members (retailers and LDCs).
- ▶ Retailers outside the IGA family.

These best practices will help ensure that IGA retailers most efficiently and effectively meet shopper needs for private brands and that IGA retailers receive full credit from their shoppers for their private brand programs.

The best practices fall into six areas. Some practices are relatively common and others are quite unique. While IGA retailers have an infinite number of tactics they can use to drive sales of private brand products, the best practices that follow represent highly-effective, top-priority actions that have been validated by IGA members and shoppers and will best meet IGA shopper needs. These practices comprise a "playbook" that IGA retailers can follow, i.e., the blocking and tackling schemes that we know will work with your shoppers.

Weekly Ad

While some experts may say otherwise, many IGA shoppers told us that the printed weekly circular remains relevant to them. For many households, the weekly circular strongly impacts where they will shop during a particular week.

- ▶ *"I'm spending a lot of time looking at ads, trying to see what's on sale, comparing and contrasting prices."*
- ▶ *"Since we've been retired we look for more bargains and we have time to look for those bargains. We look at the flyers and look for the bargains."*



Best Practices

Following are several shopper- and retailer-validated best practices that IGA retailers can leverage to ensure their weekly circulars to appeal to IGA shoppers.

- ▶ **Feature an IGA Brand Section** – A great practice to educate shoppers about the availability and breadth of the IGA private brand offering is to group them in a special “IGA Brand” section of the weekly ad.
- ▶ **Stage Community and Themed Events Featuring IGA Brands** – Highlight IGA brand items in key community or themed events promoted in the weekly circular.



Themed promotion featuring IGA private brands



Best Practices

- ▶ **Quantify Savings Associated with IGA Brands** – Many retailers are successfully quantifying the savings associated with purchasing a basket of private brand goods—for a particular occasion or just to stock up—versus purchasing the corresponding national brand options. This tactic typically highlights significant, eye-catching dollar savings when the shopper trades to the private brand.



Retailer quantifying savings when trading to store brands for Thanksgiving dinner



Aldi quantifying savings from trading to their own brands for Super Bowl party items

- ▶ **Tell a Story** – Everybody loves a story, so IGA retailers have a great opportunity to reinforce personal connections with shoppers by telling stories in the weekly circular about their own or team member experiences with IGA private brand products. Emulating Trader Joe's creative stories about their private brand products, IGA retailers can tell equally creatively stories about their



Best Practices

experiences with IGA private brands, e.g., how they used them, what their family's/friends' reactions to them were, etc. These stories can even feature a picture of the IGA owner or team member next to the product and the story.

- ▶ **Create Meal-Themed Promotions** – IGA retailers can also build meal-themed promotions featuring IGA private brand products and highlight them in the weekly circular. These promotions can be developed around a special theme or occasion, e.g., Valentine's Day, or just for "everyday".



Valentine's Day promotion from Waitrose (United Kingdom) featuring a Dinner for Two promotion built around private brand products



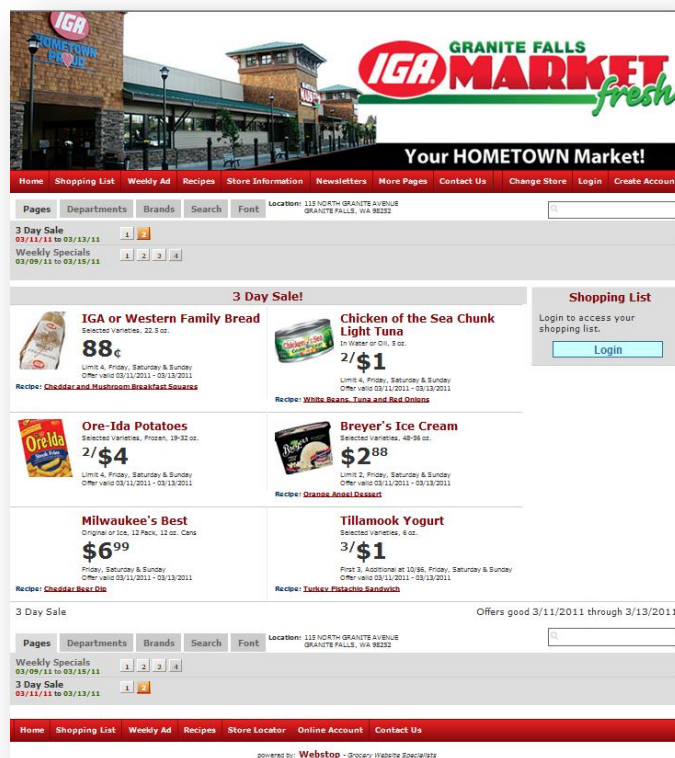
Food Lion promotion to Feed a Family of Four for under \$10 featuring a wide range of private brand products



Best Practices

- ▶ **Ensure Ad is Available Online** – There is clearly a difference of opinion among IGA shoppers with respect to where they'd prefer to find weekly ad circulars. Some shoppers want the hard copy ad in their newspaper or delivered to the home. However, many younger shoppers are demanding different methods of communication, e.g., electronic and/or online communication. In today's digital age IGA members should strongly consider establishing their own websites and making their weekly ads available on their websites.

"I pretty much just ad shop. I actually hardly shop at IGA because they don't have an online ad. We don't get a paper. If I could get their ad online I would shop there because I hear they have really good deals."



IGA weekly ad available online

Promotions

Promoting private brands in the weekly circular and in-store is a great way to attract attention to—and drive sales of—private brands.

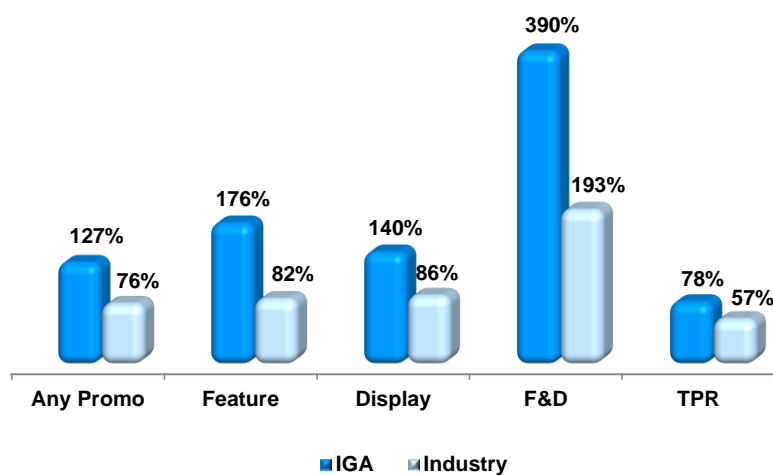
- ▶ **Promoting via Feature and Display** – Nielsen data indicates that IGA private brands respond particularly well when promoted, i.e., when IGA retailers promote IGA private brand products in their stores they generate up to twice the sales lift compared to when the



Best Practices

average U.S. retailer promotes their store brands. IGA shoppers are value-oriented and aggressively looking for opportunities to save money and promoting IGA private brands seems to attract shopper attention and purchases. Consequently, a best practice is to promote IGA private brand products, ideally featuring them in the weekly circular and complementing the ad with in-store displays.

IGA vs. Industry Private Brand
(Promotion % Sales Lift)



- ▶ **Price Shielding** – Price shielding is a promotional tactic in which retailers promote private brand products at the same time as they promote comparable national brand products within the same category. Willard Bishop research conducted at seven supermarket chains over the past few years indicates that simultaneously promoting private brands and their national brand counterparts drives better performance overall and for each of the brands versus promoting them alone.
- ▶ Retailers grew sales dollars the most when both private brand and comparable national brand products were promoted at the same time.

Retail Net Dollar Sales per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	120	178	208
Private Label	100	128	101	145
Total	100	123	150	185



Best Practices

- › Unit movement for private brand and national brand products doubled when both were promoted.

Retail Unit Movement per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	106	195	240
Private Label	100	133	97	163
Total	100	118	151	205

- › And, most importantly, gross profits increased the most when private brand and comparable national brands were promoted together.

Retail Adjusted Gross Profit per Item per Store per Week Index

	No Promo	Private Label Only Promo	National Brand Only Promo	Both Promoted
National Brand	100	113	248	289
Private Label	100	102	110	128
Total	100	106	164	191

Price shielding appears to draw traffic and excitement to the category so that everyone wins. However, price shielding is not intended to be used all the time. It should only be attempted when the penny profit for the promoted private brand item is equal to—or higher than—that for the comparable national brand. It's a best practice that IGA retailers are encouraged to use judiciously to help drive profitable category growth.

Pricing

Setting optimal prices for private brands and then effectively highlighting these prices on the shelf are key drivers of a successful private brand program.

- ▶ **Price-Setting** – A recognized and validated best practice is to set private brand prices at a gap versus the leading national brand in that category. And, it's important to ensure that these gaps are not too wide. As one IGA retailer reported, *"We use an average spread of 15%-20% versus national brands. A spread that is too large negatively impacts the quality image of the product."* And, an unnecessarily large gap may be leaving money on the table.



Best Practices

Instead, it's important to manage to an average gap of approximately 20%. While the gaps on individual private brand products may need to be much larger than that, the average gap should not exceed ~20%.

Some LDCs offer private brand pricing support and we'd encourage you to take advantage of these services where provided. As one LDC member stated, *"We offer our customer stores a vertical pricing program. We set our brand prices off of a targeted differential to Walmart and then price our IGA brand at a gap versus the corresponding national brand."*

- ▶ **Compare & Save Tags** – A successful, but largely under-utilized best practice in highlighting the value associated with private brands is to hang item-specific "Compare & Save" shelf tags that "do the math" and quantify the savings associated with purchasing a private brand versus a national brand. These tags do not need to be placed in front of every private brand SKU. Instead, they should be sprinkled down every aisle to send an overall savings message to shoppers; to convince them that switching to private brands can help them save money and stretch their grocery budgets.



IGA Compare & Save tags highlight savings associated with switching to IGA private brand products

During the study, IGA shoppers reported that they thought this was a very effective tactic to encourage them to buy more private brands. Unfortunately, they didn't see it in use very often. Many



Best Practices

LDCs have a “Compare & Save” shelf tag available to their IGA retailers. If your LDC makes it available, we’d strongly encourage you to take advantage of this proven program.

POP Material

POP material is a great way to educate shoppers about the breadth of the IGA private brand program and help them find IGA brand items in the aisles. And, IGA produces a wide range of colorful, high-impact POP that many retailers are already using.

- ▶ *“When you walk into our stores you know you’re in an IGA. We have ceiling signs, new packaging signs, perpendicular signs, shelf channels, and Compare & Save tags.” IGA Retailer*
- ▶ *“We’re strong supporters of IGA POP programs. We use the material in-store. We have IGA flags in the aisles, hanging signs around the perimeter...” IGA Retailer*



Overhead signs drive awareness of the IGA private brand program



Best Practices

And, IGA shoppers report that the new IGA private brand package design and color scheme helps them quickly and easily find IGA brand products when shopping the store.



Shelf-talkers and aisle blades help shoppers find private brands in their categories

While leveraging POP material can help drive awareness and purchases, the best practice is to ensure that the material is displayed in a clean manner, i.e., not cluttered. More is not always better when hanging POP.

Merchandising

Another set of best practices involves effectively merchandising private brand products across the store to generate attention to—and trial of—the private brand offering.

- ▶ **End-Cap Merchandising** – While end-caps should typically be devoted to the week's strongest sale prices, a best practice is to periodically allocate end-cap space to highlight private brands; whether on sale or at regular price, to increase awareness of the private brand options that are available.



End-cap featuring IGA private brand items



Best Practices

- ▶ **Floor Displays** – Floor displays featuring IGA brands should be sprinkled across the store to reinforce the broad variety of IGA brand options.



Special floor/pallet display of IGA private brand items

- ▶ **Wall of Values** – Another highly-effective merchandising best practice is to dedicate a store's Wall of Values to private brand; either some of the time or all the time.

“We have a Wall of Values. We transitioned it from a mix of national brands and private label to full IGA private label a couple of years ago. This provides strong support for our store's value equation.”

– IGA Retailer



Wall of Values featuring IGA private brands



Best Practices

- ▶ **Avoiding Duplication** – A description of best merchandising practices would not be complete without identifying what IGA retailers should avoid, i.e., offering different private brands in the same category.



Private brand duplication

Some IGA members merchandise alternative private brands along with their IGA private brands. However, this is an inefficient and harmful practice. Private brand duplication unnecessarily wastes shelf space, clutters the shelf, confuses shoppers and denigrates the IGA brand; all without providing incremental value to IGA shoppers. We strongly advise IGA retailers to avoid duplication. Instead, shoppers have strong trust in the IGA brand. IGA retailers are encouraged to leverage the “Red Oval” and consolidate their private brand offering under the IGA brand. If all private brand items you require are not carried by your LDC, please request them. The alternative private brands will not have the same, positive impact on your shoppers as does the IGA brand.



Generating Trial

The final set of best practices focuses on how IGA retailers can most effectively generate trial of IGA private brand items and the answers are based directly on IGA shopper insights. While the following tactics are not necessarily “new news” to many retailers, IGA shoppers tell us that these ideas are well-suited to their needs. So, if we want to better connect with our shoppers, these practices are a great place to start.

Activity That Would Encourage Me to Purchase More IGA Store Brand Products
(% Rated Top-2-Box Score)



- ▶ **Coupons** – During the study, IGA shoppers repeatedly asked for coupons for IGA private brand products. Is this part of your promotional mix? If not, offering such coupons will be a highly-effective way to draw attention to your private brand program in general and selected items in particular.

“I would like more coupons on IGA brand products. That would probably encourage me to get them all the time.”



Best Practices

- ▶ **Highly-Visible Guarantee** – While all IGA retailers guarantee satisfaction with IGA brand items, few IGA shoppers appear to be aware of this guarantee. And, these shoppers state that offering a guarantee is a great way to make them feel more comfortable trying a new private brand item.



Sign highlighting the IGA private brand guarantee

It's not enough to simply offer a guarantee; such a guarantee is already found on most IGA private brand packages. IGA retailers need to effectively highlight the guarantee via signage and other communication vehicles throughout the store.

- ▶ **Sampling** – Product sampling is a tried and true best practice. All shoppers like to “try before they buy.” Sampling IGA brand items is a great way to introduce these money-savings items to your value-conscious shoppers.



Best Practices

- ▶ **Free Product** – The only thing shoppers like more than a sample is receiving a free product. Some retailers such as Publix, Target and Spartan periodically give away free private brands with the purchase of the corresponding national brand.



Private brand “Free Product” offer

This is a great way to introduce the private brand option at no risk to your shoppers.



Summary

The IGA private brand study found that IGA shoppers are concerned about the economy and have fundamentally changed the way they shop. They're looking to stretch their grocery budgets further than they ever have.

IGA shoppers love their local IGA stores, and prefer to shop there, provided the stores provide them with the value they're actively seeking; and in this search for value they're increasingly looking for private brands. Shoppers have tremendous trust in IGA private brands, they'd just like to see more of them.

IGA members have a great opportunity to leverage the power of shopper insights and best practices to enhance their private brand programs and drive profitable sales growth...by better meeting the up-to-date needs of today's value-oriented shoppers. The information and insight contained in this document—and on the IGA Alliance Website—are designed to serve as a starting point in this important journey.





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