

Opportunity for Private Brands in times of disruption

PLMA trade show seminar

30th May 2022



Who's here today



François Videlaine

Partner, Paris



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Partner, Cologne

The opportunity

The way forward



The opportunity

One of the strongest
differentiating factors
vis-a-vis competition

Large value pool, and
favorable growth
prospects – yet uneven
across geographies and
formats

A direct **enabler to food
and non-food
sustainability**



Private Brand is one of the most powerful differentiators of a retailer's value proposition for consumers



Shopper experience

Store location
In-store experience
eCom experience



Price perception

Pricing
Promotion
Loyalty
Basket value perception



Offering

Assortment mix – National and Own Brands
Quality of products



Digital and analytics

IT architecture and technology

Data and advanced analytics

Devices and connectivity

Own brand product quality ranks among the top drivers of loyalty

Drivers of shopper loyalty in grocery retail, 9 European countries



SCOPE



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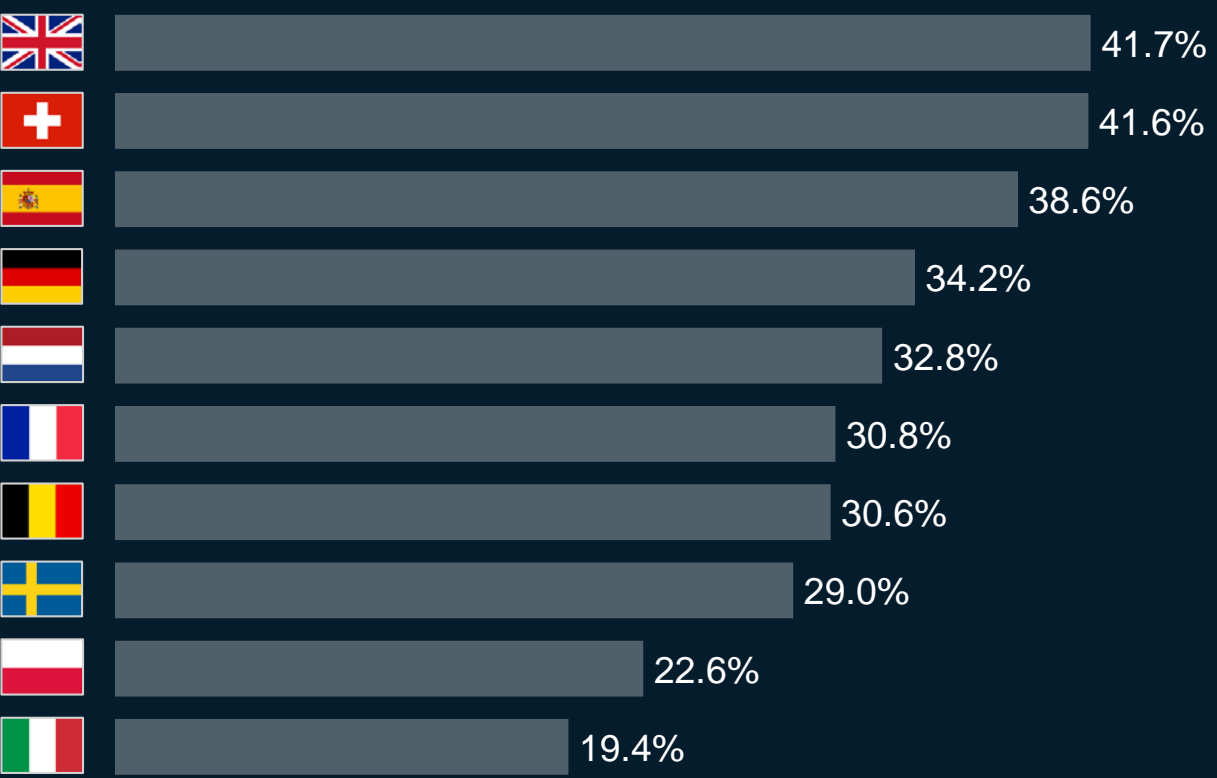
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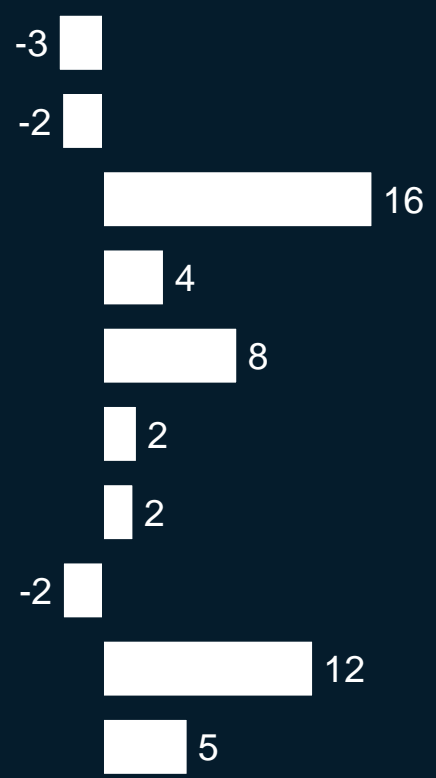


While European PB markets have plateaued these past years, there is significant room to grow in uneven local competitive landscapes

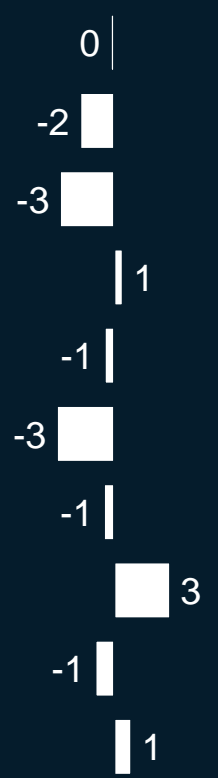
Private Brand sales value share
2020, top 10 EU markets



Change
2006-2015, pp.



Change
2015-2020, pp.



10 trends across 5 themes that will shape the grocery industry



ECONOMIC HEADWINDS

- 1. Decreasing volumes
- 2. Inflation



WIDENING POLARIZATION

- 3. Increased price sensitivity
- 4. Higher quality in entry-price tier
- 5. Growth of sustainable and healthy products
- 6. Growth in premium



ONLINE

- 7. Slower online growth with more differentiated offers



NEW PROFIT POOLS

- 8. New revenue streams outside of the core
- 9. Advanced Analytics – Personalized & localized



TALENT

- 10. Shift in people model



We see 10 key trends to shape the grocery industry in 2022 and beyond



ECONOMIC HEADWINDS

1. Decreasing volumes

-2.1% vs. 2020 in volumes

2. Inflation

63% of CEOs see inflation as the top trend in 2022

WIDENING POLARIZATION

3. Increasing price sensitivity

52% of low-income consumers plan to look for ways to save money for groceries in 2022 (+12 p.p. vs. 2021)

4. Higher quality in entry-price tier

30% of CEOs see quality increase in the entry-price tier as an important trend for 2022

5. Growth of sustainable and healthy products

+15 p.p. higher sales growth than market for the 10 brands most bought by eco-friendly consumers

6. Growth in premium

20% of high-income consumers plan to buy more premium products in 2022

ONLINE

7. Slower online growth with more differentiated offers

1/3 of consumers who shop online weekly get their groceries at 3+ e-com players

NEW PROFIT POOLS

8. New revenue streams outside of the core

Up to 8% of online sales from leading US players achieved through retail media networks, with margins of more than 50 percent

9. Advanced Analytics – Personalized & localized

23% of CEOs see the adoption of advanced analytics applications as a key priority for them

TALENT

10. Shift in people model

39% of CEOs mention hiring the right talent as top trend for 2022 and see reskilling needs increasing

Several key trends in European grocery are favorable towards Private Brands

ECONOMIC HEADWINDS

2. Inflation

Giving retailers with strong private label offerings in the entry price an advantage



WIDENING POLARIZATION

3. Increasing price sensitivity

Price sensitivity is expected to increase further in 2022



4. High-quality entry-price tier

Consumers who shop entry-price levels are less willing to make trade-offs on the quality of these products



5. Intensified sustainability & health focus

Further widen retailer's assortment of healthy and sustainable products












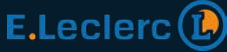





6. Growth in premium

Demand for higher-quality, fresher products



Top players in terms of Private Brand appreciation have better market share evolution than peers

	Europe top 5 average											
	Market share change (MS) ¹	Promoter score (PS) ²	MS	PS	MS	PS	MS	PS	MS	PS	MS	PS
Top 2 players in terms of private brand appreciation	+0.5pp	28%	+1.5	35%	+0.7	26%	+1.4	30%	-0.9	24%	-0.2	24%
			 		 		  		 		 	
Midfielders in terms of private brand appreciation	+0.1pp	20%	-0.1	27%	-0.3	16%	-1.2	19%	+0.1	13%	+2.2	24%
Bottom 2 players in terms of private brand appreciation	0.0pp	13%	0.0	9%	-0.4	18%	-0.2	12%	+0.1	8%	+0.5	17%

1. Market share evolution in pp, 2016-2020

2. Share of shoppers willing to recommend the grocer to a friend (answers 9-10 on a scale from 0 to 10)

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The momentum towards Net Zero is undeniable

90%

of **emissions** are now targeted for reduction under **net-zero commitments**

\$130 T

of **capital** from banks that have declared they will manage these assets to **keep global warming below 1.5°C**

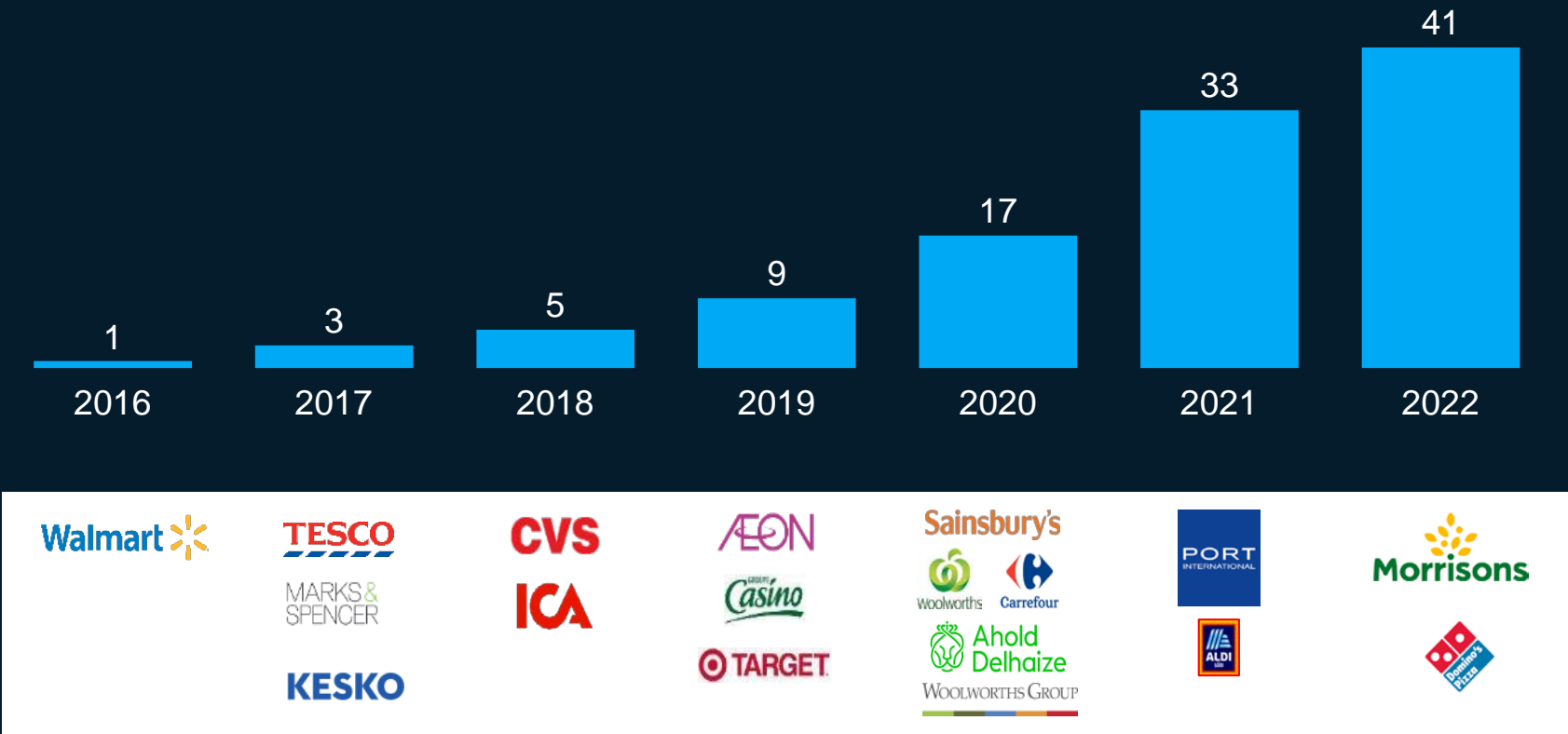
70%

of each year's **capital outlays** will be **spent on low-emissions** assets in a scenario where the world reaches Net Zero emissions in 2050

Source: Net Zero Tracker, Energy and Climate Intelligence Unit, Data-Driven EnviroLab, NewClimate Institute, and Oxford Net Zero, 2021. Includes countries that have achieved their net-zero targets, or have put them in law, in policy documents, or made a declaration or a pledge.; Via the Glasgow Financial Alliance for Net Zero (GFANZ)

Increasing numbers of grocers & retailers are making commitments to science-based targets

Food & staples retailers having set approved Science-Based targets¹
Number of retailers



By specifying how much and how quickly they need to reduce their greenhouse gas emissions, science-based targets provide companies with a pathway to future-proof growth

Targets are considered “science-based” if they are in line with what is necessary to meet the goals of the Paris Agreement

The initiative is a collaboration between CDP, the UN Global Compact (UNGC), World Resources Institute (WRI), the WWF and more

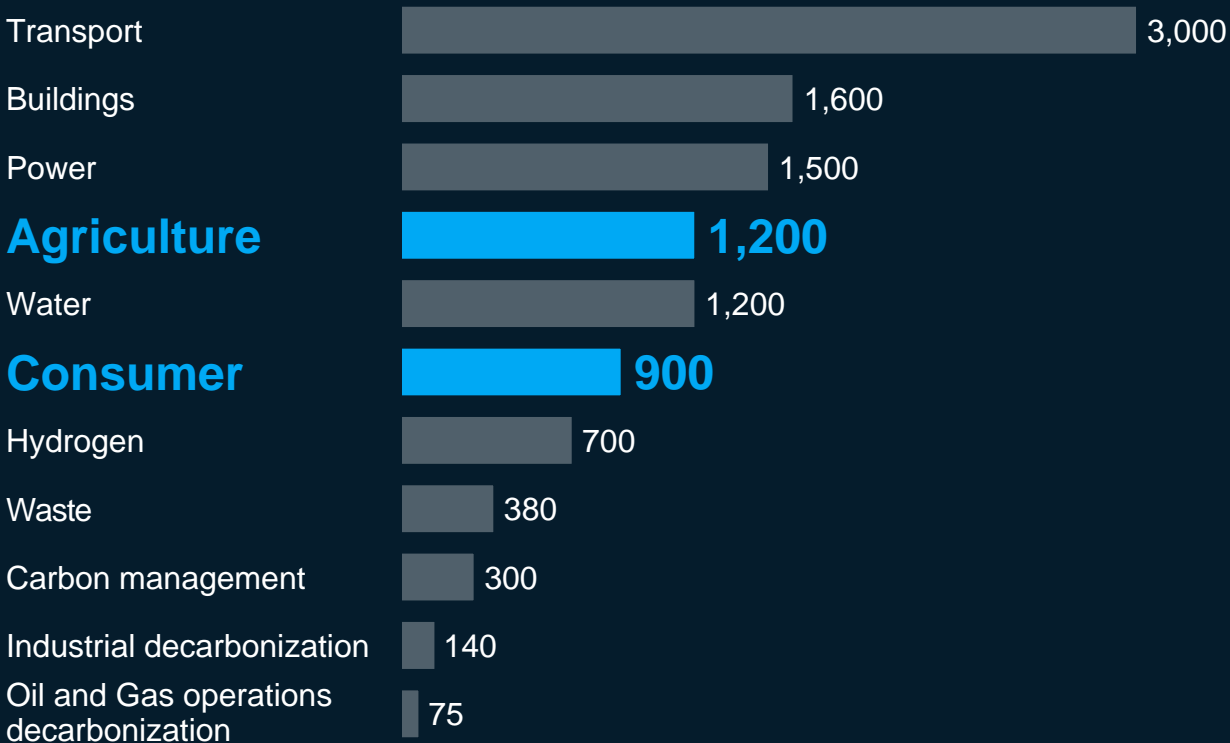
1. The Science-Based Targets initiative (SBTi) is a joint initiative by CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI) and WWF. Data retrieved on March 28th 2022, sector filtered “Food and staples retailing”

The net-zero transition will require ~\$9.2T annual investment and create \$8-11T in sustainable market value

Annual investment under a Net Zero 2050 scenario, 2020-2050
Average in \$ trillion



11 sustainability investment sectors with \$8-11 trillion in addressable market value by 2030
USD bn



The way forward

A **challenging problem** to solve, with large diversity of starting positions and a set of legacy beliefs hampering growth

Solution requiring redefining **Private Brand business model across most of retailer departments** and rolling out **consumer-back category strategies**

Sustainability can be an area where Private Brands are **playing offense**



We encounter 3 archetypes when assessing a grocer's current use of Private Brands

Underplayed PBs “few and cheap”

- No clear PB strategy
- Minor tactical complements to NB assortments mostly focused on entry-price points
- Transactional relationships with frequently-changing PB suppliers

Undifferentiated PBs “cheaper alternatives”

- PBs pulled as defensive levers against lower-end value propositions
- Mostly copy-cats from A-brands, with less sophisticated product specs or promises
- Suppliers' relationships focus on securing product sourcing at the lowest costs

Unclaimed PBs “quality Brands”

- PBs managed as quality Brands not brands: focus on product quality (ingredients, sourcing, etc.), not consumer benefits/promises (real or emotional)
- Significant assortment complements to both A- and B-brands filling the gaps between CPG products and consumer expectations

Legacy beliefs can hamper growth of Private Brand

Myths ...

Private Brands generate **less margin than A-brands**

We will **lose our commercial agreements with A-brands** if we push Private Brands too much

Only few of our shoppers come to our stores to **buy Private Brands**: iconic products like **Nutella, Coke, Pampers** remain the true footfall drivers

Own brands are cheap: they **destroy our brand image** and blur the natural boundaries between grocers and discounters

Private Brands can only complement our assortment, with low-end or niche products

... and realities

In % of sales or mass margin?

On all or selected terms – e.g., promotion funding?

Which consumer segments – e.g., millennials? Is this true for all categories?

What about own niche brands – e.g., on organic, veggie?

Which categories could switch to a PB-first offer – e.g., condiments?



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Solving the PB complexity requires retailers to address a set of critical questions and redefine its PB business model



Retailers can unleash profitable growth of their Private Brands by adopting a more consumer-driven approach

From an inner view
based on Private Brands
penetration and margin
contribution that optimizes
sales and margin ...

... to an outer perspective anchored in the consumer lense that drives differentiation and builds loyalty



The way forward

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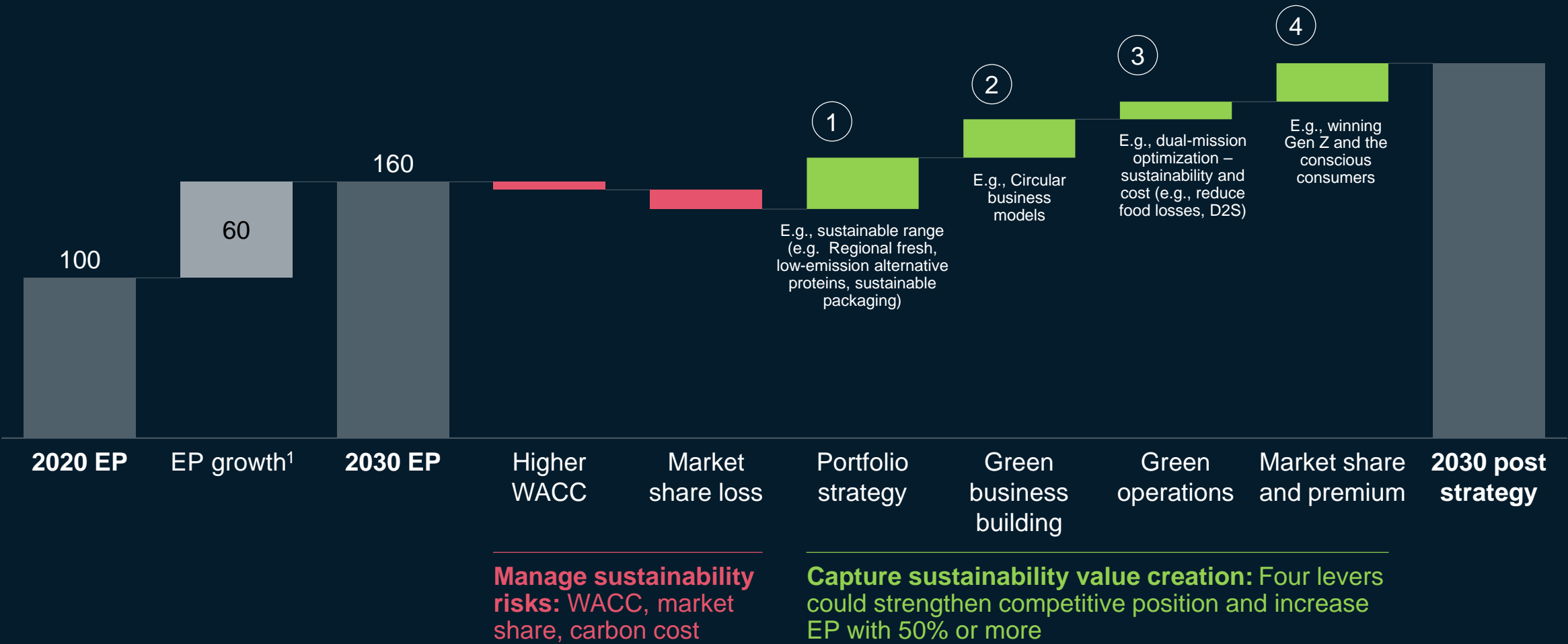
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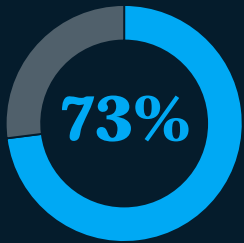
Sustainability: Moving from risk mitigation to value creation

Illustrative economic profit, modelled with top-down assumptions

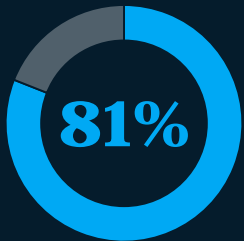


1. Assuming 5% EP growth

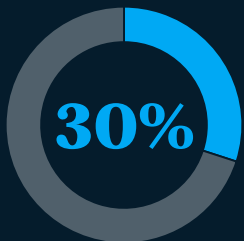
1. Portfolio strategy to strengthen sustainable products and brands



of global consumers say that they would definitely or probably change their consumption habits to reduce their impact on the environment



of global respondents said that it is "extremely" or "very" important that companies implement programs to improve their environment



of global respondents are willing to pay a premium for products that deliver on social responsibility claims

Food and beverage sales

Conventional products

0.7%

Sustainable products meets "simple <10" requirements plus has a sustainability claim

3.7%



Household care sales

All products

2.2%

Household care with sustainability claims

7.1%



2. Green business building – The impact of new sustainability players shows the power of an "absurd ambition"



50% y-o-y growth over the past 5 years; valued at approximately 2 BUSD; recent 400 MUSD funding from Blackstone to expand capacity in Europe, US and Asia to meet surging demand

Oatly to build plant-based dairy drinks factory in UK

Foodbev.com, March 10, 2021



77-fold increase in US retail coverage in less than 2 years; valued at approximately 4 BUSD after late 2020 financing round

Impossible Foods recruits scientists to double R&D department in 12 months

FoodDive, October 21, 2020



>100,000 Sign-ups for reusable packaging scheme in the US that covers 80 brands and 400 products


Sustainable Packaging For Retailers Offers Guilt-Free Shopping Experience

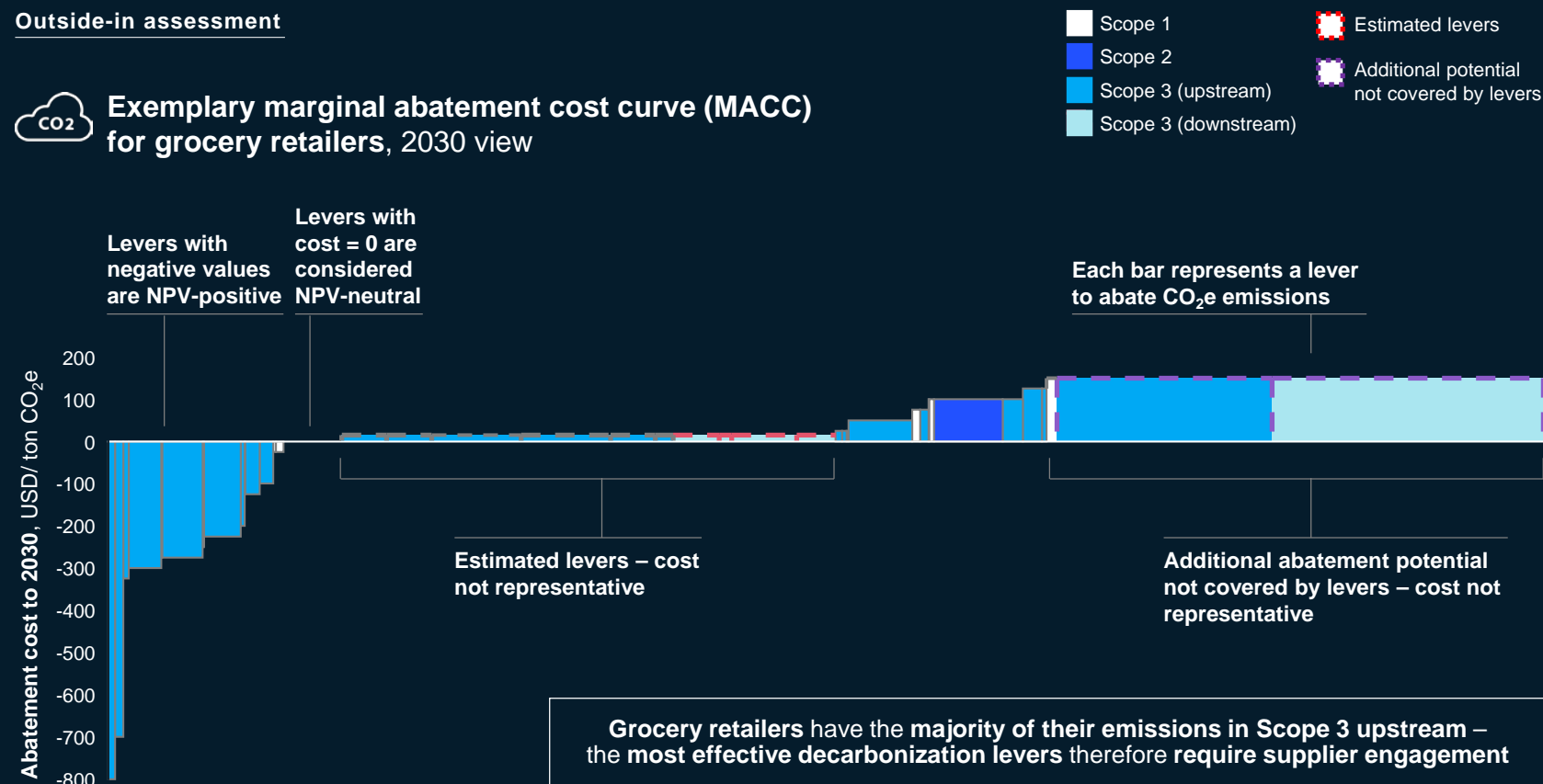
Forbes; February 11, 2022

3. Green operations – drive transition to net zero

Example: Grocery

Outside-in assessment

 **Exemplary marginal abatement cost curve (MACC) for grocery retailers, 2030 view**



Comments on outside-in MACC methodology

Levers are sourced from a proprietary database of business cases and research – **estimations are not specific to food retail**

Split of emissions between Scopes and categories is based on CDP averages in the convenience retail sector, while split of emissions within scopes and categories is based on benchmarks and estimation

Levers are **not tailored to a particular geographic region**, but assumptions used are mostly from Europe and/or North America

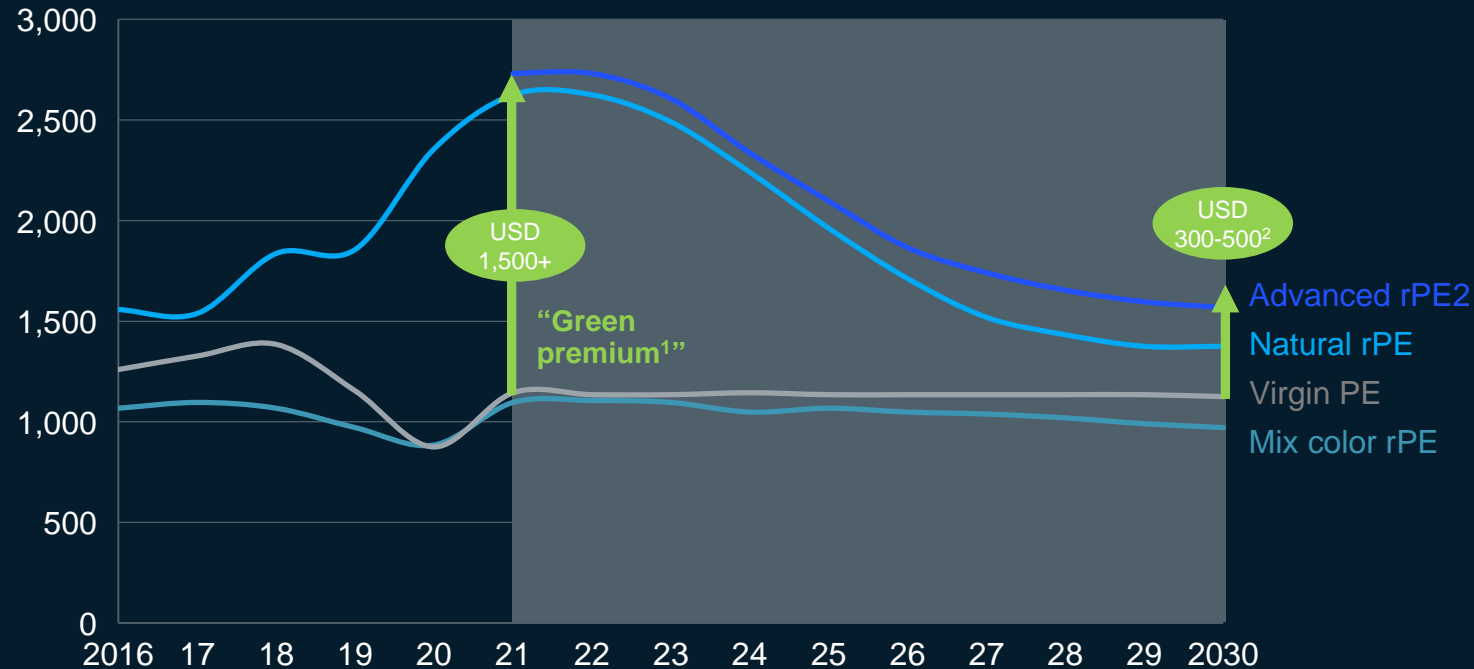
Presented levers are based on outside-in assumptions – more information would be required to further tailor these to retailers

4. Market growth & premium – the market is already differentiating

Illustrative analysis; preliminary and subject to change

Recycled materials currently sell at significant premiums – and prices expected to stay ahead of virgin ...

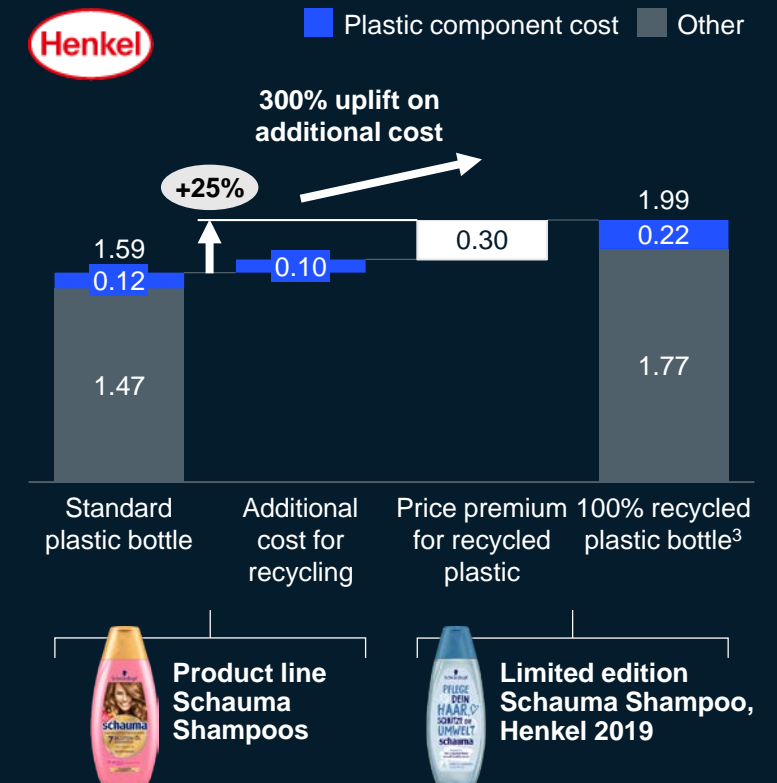
rPE price evolution
USD/tonne



1. Green premium may expand at lower oil price and narrow at higher oil price
2. Advanced PE green premium based on 15% ROIC with incremental capital of \$1,500-3,000 / ton
3. The bottles and caps are made from 100% recycled plastic

Source: IHS, Team analysis

... driven by ability to harvest attractive end-customer premia that provide a win-win for FMCG and plastics producers



Source: Henkel webpage, web search

McKinsey & Company

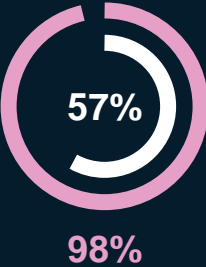
4. All four sustainable consumer segments have distinct attitudes towards the sustainable offer & communication of companies

Sustainable consumer segments, share of respondents in %

Average (across all sustainable consumer segments) — Within segment

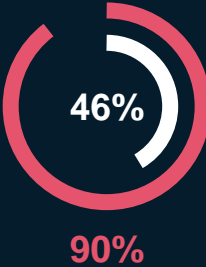
Low-income sceptics

(Very) sceptical of increased emphasis on sustainability in companies' communication



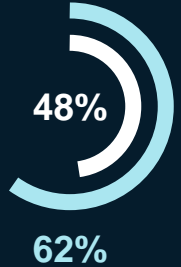
High-income sceptics

Not convinced of quality & selection of sustainable products at retailers (at all)



Medium-income trustees

Fear they cannot afford sustainable products in times of high inflation (at all)



High-income conservers

Find sustainability labels (very) helpful to make purchase decisions



Note: For 37% of European consumers, sustainability is (very) important; Sustainable consumer segments identified based on advanced cluster analysis

Given its increased relevance, retail companies need to define which role sustainability should play and which levers to pull

SELECTED SUSTAINABILITY EXAMPLES IN PRIVATE BRANDS



Upstream supplier integration



Lidl acquired Sky Plastic Group and Tönsmeier to supply recycled plastic

Compliment the group's approach "**REset Plastic**", with the aim to reuse 3/4 of the 2.2 mn tons of annual waste generated by the Schwarz Group

Target to **ensure upstream 100% rPET supplies** for its private labels' products until 2025

“Our approach to be the plastic issue is comprehensive, collective, and resourceful”

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SELECTED SUSTAINABILITY EXAMPLES IN PRIVATE BRANDS



Adjustments to current portfolio

Migros is using its private label M-industry to develop plant-based product portfolio under the **dedicated brand V-Love**

The **plant-based concept concerns** the entire value chain incl. procurement and cultivation of raw materials, corporate production, consumption, and recycling

Migros' subsidiary **Elsa acquired** in 2019 the Dutch producer of **vegan food solutions, SoFine Foods**

MIGROS

“We [...] look into the question of how we can preserve the limited life resources for the generations of today and tomorrow. So, it is a question of the air we breathe, the water we drink, the soil we stand on, and of empty or full plates”

Walter Huber, former head of M-industry

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SELECTED SUSTAINABILITY EXAMPLES IN PRIVATE BRANDS



Strategic partnerships



Since its foundation, Alnatura follows the guiding philosophy of doing something meaningful for people and the planet

Launch of Alnatura Bio 7 Initiative highlights the values and production methods of organic farming

To meet these values and production methods, Bio 7 focuses also on **strategic partnerships with organic farmers, organic processors, organic associations and retailers**

“The Alnatura Bio 7 Initiatives demonstrates what we stand for – organic food, based on holistic philosophy, which encompasses the values and production methods of organic farming”

Company website

Thank you!



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