

Nielsen featured insights

Unveiling the public demand for private label





How private labels can sustain their growth even after the transitory economic phase

Consumer behavior has changed in the pandemic marketplace because of economic instability, job losses, reduced income, less discretionary budgets and supply disruption.

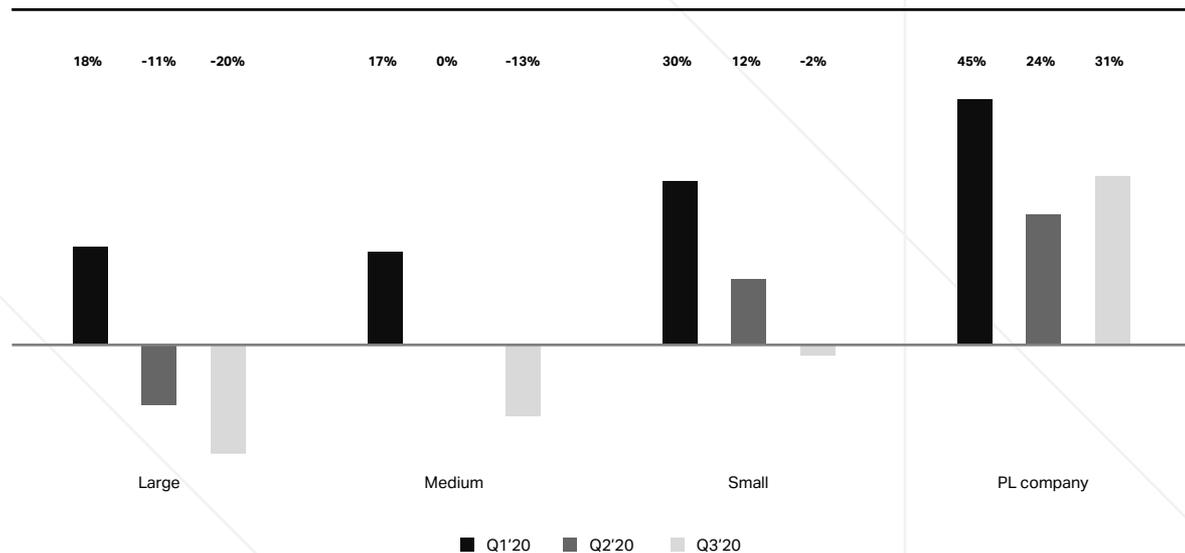
Shoppers are now more conscious of their health and the quality of the products they consume.

COVID-19 has altered what consumers think and do. People are loading their pantries, going out less frequently, and therefore, cooking and consuming more at home. These developments have changed food consumption patterns and consequently shaken the FMCG landscape up. In parallel, large national brands had been encumbered by broken supply chains, which led to distribution gaps during the lockdown period in March this year. In India, this paved the way for private labels, or brands owned and sold by modern trade (MT) retailers in their own retail outlets, to capture consumer attention and market share because they had better supply chain controls through local suppliers and are sold at competitive prices.

Private-label products, owned by stores with their own loyal customer base, promise to deliver on the quality and hygiene concerns of consumers, in addition to being reasonably priced.

According to Nielsen's shopper trend report 2019, 50% of Indian consumers say that the quality of private-label products is improving.

Private labels continued to grow while other manufacturers fell behind



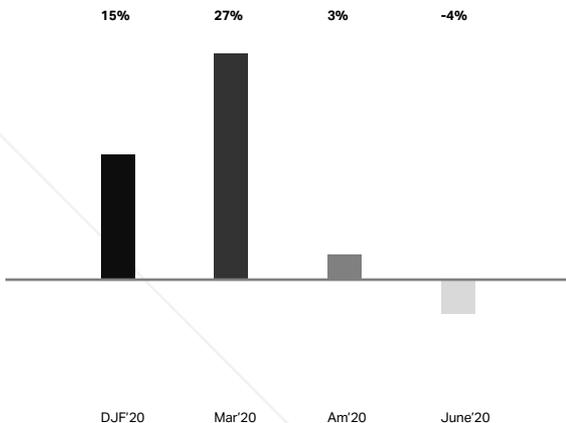
Total Trade: Large>600 crores || Medium: 100-600 crores || Small: <100 crores

Private labels sustained their growth through quarters in 2020, while the growth of other large and small manufacturers declined in second-quarter 2020.

The rising contribution of MT in India's FMCG market

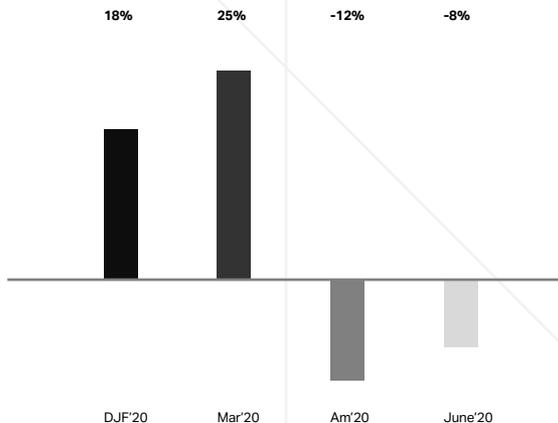
MT-top 8 metros

contr% in DJF'20	54%
contr% in Q2'20	55%



MT-rest of urban

contr% in DJF'20	46%
contr% in Q2'20	43%

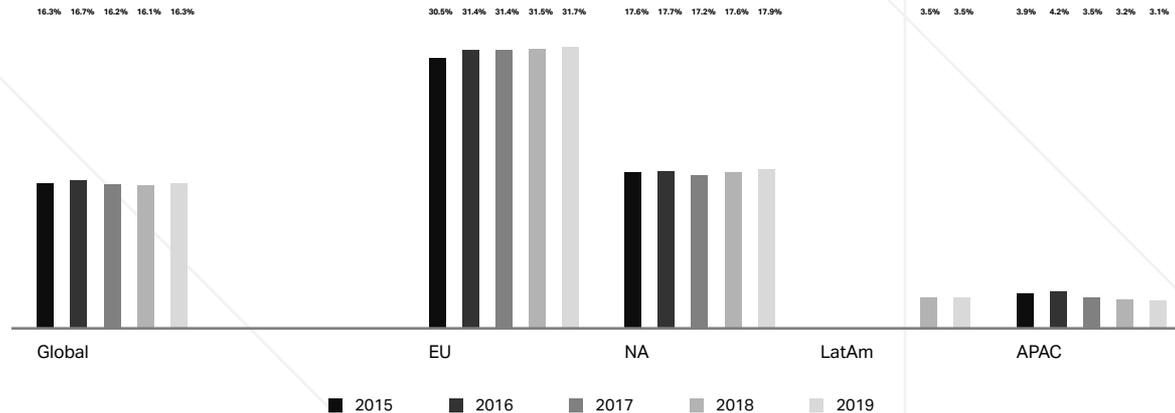


The share of MT in the India market (FMCG+ beverages) has doubled from 4.9% to 10.8% in the last 10 years. In the top eight metros, the contribution of MT toward all of FMCG is 55%, while the corresponding figure for the rest of the urban market is 43%. This growth and acceptance of the MT format will result in corresponding growth for private labels as well.

The global perspective on private labels and the India opportunity

In global retail, private labels accounted for 16.3% of FMCG in 2019, up 0.2% from 2018. In contrast, the share of private labels in India stands at less than 1%, indicating the potential for retailers to grow that segment.

Private labels have grown unsteadily over the past years



* LATAM got backstated from 2018 only

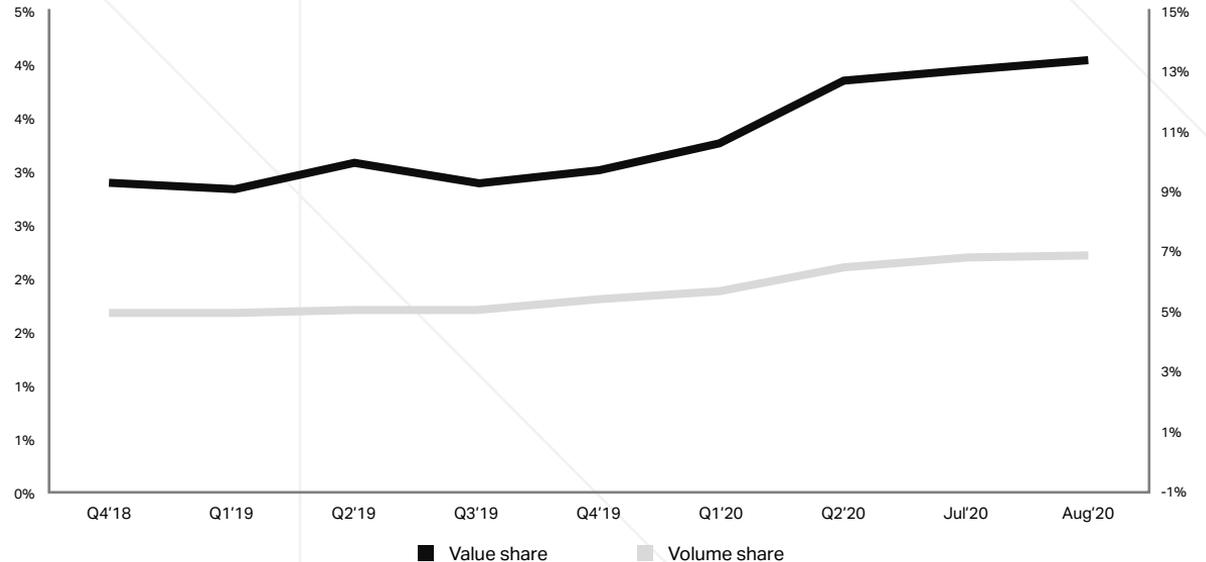


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Of the 102 FMCG categories tracked by Nielsen, 65 have private labels. In those FMCG categories where private labels are present, the share of private labels in MT is 2.84%, and growing at 3.4%. However, private labels as a category, is growing at 21% according to MAT August 2020 figures. Changed consumer behavior, brought on by the initial unavailability of popular national brands as a result of the pandemic, has resulted in the market share of private labels increasing from 3.5% in March to 4% in August of 2020. In addition to MT, private labels have also witnessed traction in the e-commerce space in India where the share has increased from an already high 10.7% to 12.1% between January and March of 2020, for those categories in which private labels were present.

For now, the disruption in manufacturing and the supply chain of national brands has induced the trial and purchase of private labels. So volume rather than value has spurred the growth in consumption. However, these trials are setting the groundwork for a more permanent adoption of private labels if consumers have good experiences.

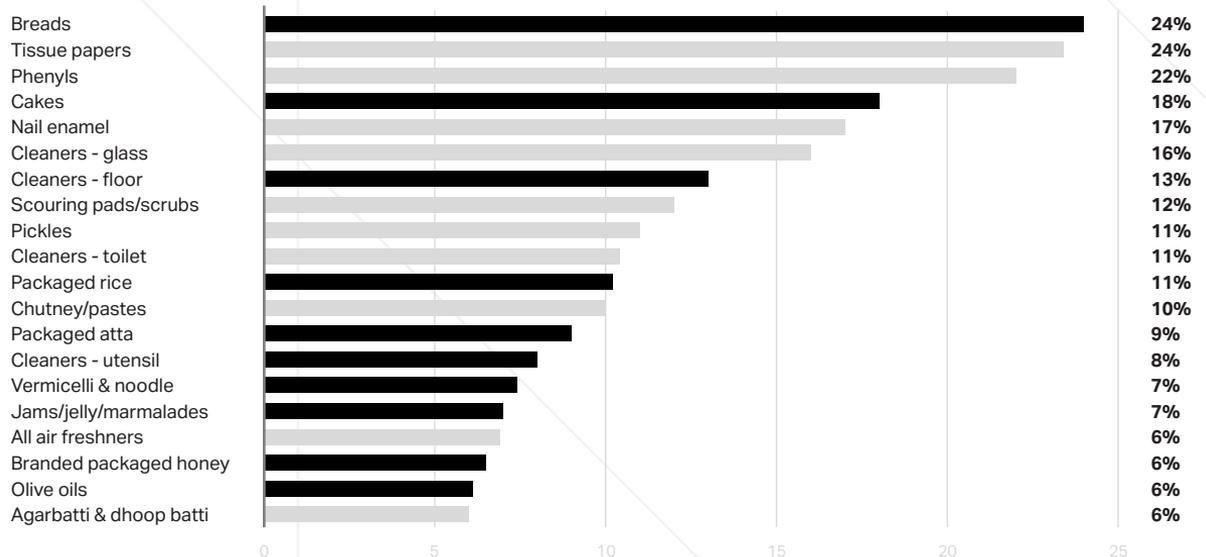
Private labels have grown on the back of volume rather than value



Departments and categories that are leading the growth of private labels in times of crisis

Food categories comprise 70% of private labels as opposed to 30% for non-foods. However, the top 10 private labels categories are dominantly non-food, with the exception of breads and cakes. However, COVID-19 has pushed consumers to buy private labels in food categories - indicating that foods may well dominate private labels in the near future. Given this outlook, retailers should consider investing in the expansion of private labels in the food segment.

Categories that lead the growth of private labels



Source: MAT May'2020

Evolved hygiene and staples are the categories fuelling the growth of private labels. In particular, vermicelli and noodles, and branded honey have gained the most market share. It is a good time for retailers to rejuvenate their offerings across these categories with healthy, herbal and natural variants, bundled offers and rationalized price points.

The biggest gaining categories in private labels over the last two quarters

Private label - MT banners

PL share - Q1'2020

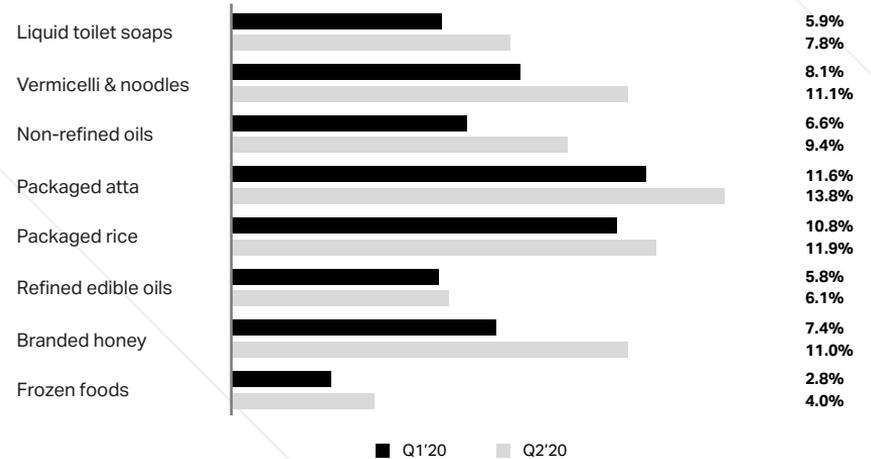
3.5%



PL share - Q2'2020

4.5%

Top performing PL (share)



PL selling price is at 20% lower than average category selling price across all these ctgs

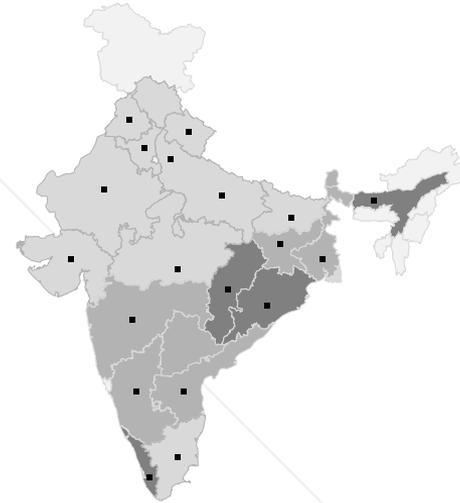
Markets and pricing opportunities for the growth of private labels

Assam, Orissa and Kerala have the highest share of private label sales in India. In Chhattisgarh, the price sales of private labels grew by 37% between MAT November, 2019 and MAT April, 2020, the largest among all states in India. At a macro level, north Indian consumers are more inclined toward national brands, whereas consumers in the west are divided on their preference. The south seems the most receptive to private labels. Trends indicate that the chunk of the opportunity lies in inducing consumers in north India to make the shift to private labels.

South Indian states lead in the prevalence of private labels

All India: 19 states - may MAT'20

Haryana 2.3% (29.1%)	Uttaranchal 1.8% (137.7%)
Punjab(HP+JK) 2.4% (27.6%)	Delhi 2.4% (44.5%)
Rajasthan 2.2% (9.3%)	Uttar Pradesh 1.8% (53.2%)
Gujarat 2.4% (11.9%)	Assam 6.9% (116.1%)
Maharashtra 3.5% (34.9%)	Bihar 2.4% (56.9%)
Andhra Pradesh 3.2% (6.6%)	Jharkhand 3.4% (40.0%)
Karnataka 3.7% (14.6%)	West Bengal 3.2% (25.4%)
Tamil Nadu 2.7% (17.3%)	Madhya Pradesh 2.9% (46.7%)
Kerala 5.0% (-4.4%)	Chattisgarh 5.0% (102.6%)
Orissa 5.0% (60.1%)	



Legend (PL % cont to category)

- Greater than 4
- Between 3.1 to 4
- Less than 3.1%

All India PL Category Share: 3.1% (23.5%)

Figures in Bracket (PL % SPLY Growth)

Source: Nielsen- RMS- MT MAT 2020



Understanding consumer sentiment

Choosing markets wisely is critical to efficient growth, but the aspect of pricing should be considered in parallel. COVID-19 is far from contained in India, so uncertainty still weighs down on consumer sentiment. Financial concerns are predominant, and 76% of shoppers claim to compare the prices of private labels with leading brands.

Two types of consumers have now emerged—insulated consumers and constrained spenders. The former are likely to revert to their previous lifestyle, though with a focus on caution and saving. The latter are more likely to make drastic changes and cut down several of their indulgences for good.

Interestingly, though private labels are known to be competitively priced, there are a few successful examples to the contrary, like bread, cake and utensil cleaners. These exceptions demonstrate that attributes more than just pricing will drive private labels. MT retailers would do well to work their strategies around the evolved priorities of consumers, including health and safety, alongside price.

Guest perspective - retailer view and sentiments on private labels



Damodar Mall

Chief Executive Officer(CEO) Reliance Retail

We do not approach our store brands as labels at all. We approach them as additional brands that are built by stores just like conventional brands are built with television media. The economic opportunity of stripping down value is far lower than the economic opportunity of increasing consumption. That is the fundamental difference in the way we approach private brands. Most of modern retail leadership in India comes from the FMCG sector background. Their instinct is to increase choice & consumption rather than strip down costs and appeal.



Prrasana Shah

Chief Merchandising Officer(CMO) Reliance Retail

Our approach towards retailer own brands has been to increase variety and choice along with look/feel/sensorial experience instead of offering a poor substitute. We also look to cover significant pack size and price point opportunities not fulfilled by conventional brands. That is a crucial change of perspective which we adopt while pursuing strategies for our private brands.



Kamaldeep Singh

President food & FMCG, future retail limited

The current pandemic has an impact on multiple fronts. There is disruption across the value chain, awareness among customers for quality products, a heightened value-consciousness arising out of tough economic conditions, and also a shift towards packaged products as far as basic commodities are concerned. We believe that in this scenario, own brands have greater predictability for supplies and a shorter lead time to handle fluctuations in demand across time and space.

A sustainable future for private labels

COVID-19 has compelled consumers to turn to private labels, but it will take more than circumstances to ensure that their trials convert to loyalty. MT retailers now need to retain, sustain and grow the consumer base for their private label products. A 3-term sustenance and growth perspective will go the distance in building private labels.

Short term – consumers are venturing out on shopping trips much less frequently, choosing to hoard their pantries instead. In this scenario, retailers need to ensure the availability of their top-selling private labels.

Medium term – growth strategies for private labels need to focus on an assortment of pack sizes including bulk packs, and consider consumer incentives and promotions. Newly acquired customers have to be retained while simultaneously building a broader base. The impetus to support local manufacturing, including the “Vocal for Local” movement, will give private labels a distinct advantage.

Long term – retailers should explore high-involvement categories like skin creams to grow private labels, with offerings at all three levels of mass, popular and premium. Since the outbreak of the pandemic, consumer attention to health, hygiene and natural ingredients has increased significantly, so retailers will need to keep an eye on these consumption trends and others that will follow. Retailers can leverage data from studies of shoppers' transactions, to make more informed decisions on critical aspects of product pricing and promotions.

The current situation is that there is a graded resumption of commercial activity across India, even though COVID-19 infections continue to spread. This has led businesses and consumers to restart purchase activity, but with an entirely different mindset. As consumers demonstrate a preference for private labels in these times, manufacturers need to watch and explore ways to differentiate their offerings through product, price or

packaging. Retailers can leverage the latest data and insights to create winning strategies in line with consumer sentiment. There is a distinct preference for private labels in certain states, and retailers should use them as trial zones.



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