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RETAILER & MANUFACTURER MARKET UPDATE

Store Brands Cut Into Big Food

Kraft, Conagra take a sales hit as retailers stock more of their own private-label products

By Micah Maidenberg and Jaewon Kang
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Store-branded products from cheese to canned tomatoes are eating away at sales for big food companies.

Such private-label items have been around for decades. But retailers are now making more of them as they compete to keep grocery prices low, working to develop increasingly sophisticated products under their house lines and adding space for them in stores. Some retail executives say coming up with their own brands is also a way to draw in younger customers who aren't interested in older brands.

That is another blow to big food makers [struggling to preserve sales of decades-old condiments](#), meals and other packaged foods. Store brands' advance is putting pressure on giant food manufacturers that rely on big retailers to stock their products, further squeezing them as they struggle to keep up with shifting consumer tastes.

"I feel like it's the same quality," Dawn Montgomery, a 35-year-old Decatur, Ga., resident, said of store-brand products such as pasta that she has bought from [Amazon.com](#) Inc. unit Whole Foods.

[Kroger](#) Co., the largest U.S. supermarket chain, has almost doubled the number of products it sells under its own brands since 2005. [Walmart](#) Inc., the biggest domestic food seller, has invested in improving the quality of its store brands. Rival grocer Albertsons Cos. said it introduced over 1,100 private-label items in its 2018 fiscal year and that sales of those store brands made up about one-quarter of sales in its latest quarter, up from 23% in fiscal 2017.

Retail sales of private-label foods and beverages have notched faster year-over-year gains than branded items for three consecutive fiscal years, according to data from market-research firm Nielsen. During the year ended June 15, retail sales for store brands rose 2.8%, half a percentage point higher than the growth rate for name brands.



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Retailers have been building out capacity to offer various store-brand products in addition to hiring manufacturers to make items for them. Walmart opened its own dairy plant, while [Costco Wholesale](#) Corp. is developing a poultry-processing facility. Kroger operated 37 food-production plants as of February, according to its annual report.

Store brands offer higher margins. Retailers can promote them as comparable to products from major manufacturers, but don't have to invest in expensive marketing campaigns.

[Kraft Heinz](#) Co. cut prices on cheese during the second half of last year to stay competitive with store brands, finance chief David Knopf said in February.

[Conagra Brands](#) Inc. in June posted weaker sales for its latest quarter after it raised prices for Hunt's canned tomatoes to reflect higher costs for steel cans. Store brands didn't follow with a similar increase. "What we did not anticipate is that private label would stay flat and, in some instances, actually decrease price," Conagra Chief Executive Sean Connolly told investors.

[J.M. Smucker](#) Co. lowered prices on Jif peanut butter earlier this year because of pressure from store brands, other rivals and lower peanut prices, a spokesman said.

Geoff Tanner, senior vice president for growth and consumer engagement at Orrville, Ohio-based Smucker, said in an interview that traditional food makers must invest in keeping their brands relevant to consumers.

"If you do that, you can thrive. If you don't do that, you'll be in trouble," he said.

Some executives acknowledge their products languished as they reduced costs in recent years.

[Campbell Soup](#) Co. Chief Executive Mark Clouse said in June that the company hadn't spent enough in its meals-and-beverage division, exposing its soups to competition from private-label products and new brands.



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Workers and customers check out a display at a Whole Foods Market 365 store in the Fort Greene neighborhood of Brooklyn, N.Y., in January; the 365 stores specialize in selling Whole Foods' store brands. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

“Private label of the past was to copy the national brands,” said Juan De Paoli, senior vice president of private brands at the services business of Ahold Delhaize USA, parent of the Food Lion and Stop & Shop grocery chains. Now, he said, Ahold and other retailers are thinking more ambitiously about the store brands they put on their shelves.

Amberly Clowe, a 35-year-old children’s book author, has tried the salsa, coffee, bacon and Angus beef cuts among the private-label products Texas-based grocer H-E-B LP has introduced in recent years.



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Unicorn Swirl ice cream from Kroger Co.'s Kroger Best brand, on a shelf in Columbia, S.C., in June. PHOTO: LEAH MILLIS/REUTERS

“They are significantly cheaper than other brands and keep churning out products,” Ms. Clowe said.

At Kroger stores, shoppers have their pick of store-branded products such as pork-belly bites and pink ice cream sold in a tub with a unicorn on it. The company said its stores on average stocked 15,000 private-label food items and other products during its most recent fiscal year, compared with 11,000 in 2012 and 8,000 in 2005.

Kroger's store brands generated some \$22 billion in sales last year, or about 18% of the company's total, up from \$15 billion of sales in 2011.

Gil Phipps, Kroger's vice president of branding, marketing and private brands, said the grocer wants to change the perception of such products from “knockoffs to knockouts.”

“It's about offering customers what they can't get anywhere else,” Mr. Phipps said.



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