The Private Label Dilemma

Dual Tracking – Walking the Tightrope

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Rabobank

The world’s food and agribusiness bank

Focused on global food and agribusiness (“F&A”)
- Over 100 years of banking history rooted in F&A sector
- 1,300 public and private F&A corporate clients globally
- Proprietary, best-in-class Food and Agribusiness Research (“FAR”)
- Expertise in providing banking services to farmers, food processors and traders
- Leading Food & Agribusiness lender

Strong worldwide network
- Presence in 45 countries
- 59,000 employees globally

One of the world’s safest and most stable banks
- Safest privately owned bank in the world (Global Finance, Aug ‘12)
- 27th-largest bank worldwide by total assets (Global Finance, Aug ‘12)
- US$946.6 billion in assets (December 2011)

Privately held and independent
- Founded in 1898 and headquartered in Utrecht, The Netherlands
- Organized as a cooperative
Global network, local F&A expertise
Today’s Agenda

1. Introduction

2. Our outlook for private label

3. Successful suppliers’ strategies

4. Dual tracking – the dangerous attraction of private label

5. Conclusions
Private label seen growing to 50% by 2025

11 growth drivers:

- Consumer acceptance
- Food retail consolidation
- Inroad of modern retail
- Growing hard discount
- Hard discount competition
- Need for diversification
- Comprehensive PL strategies
- Raised supply professionalism
- Consolidation A-brands
- Price competition in PL
- Growth online retail

Source: PLMA, Nielsen, Euromonitor, IGD, Rabobank, 2013
Depending on “emotions”

- <10%
  - Cola/beer/spirits
  - Baby/pet food
  - Confectionery
  - (Insecticides)

- >60%
  - Chilled food
  - Spreads
  - Dairy products
  - (Kitchen Towels)

Private label penetration

Marketing
- Functional ingredients
- Health
- Indulgence

Value for money
- Generic
- Fresh supply
  - ‘need-to-have’

Source: Rabobank, 2013
B-brands squeezed out of the market

Source: Euromonitor, Rabobank, 2013
Rise of hybrid consumer is causing ...

Adept or fade away

- The need to distinguish
- Shifting distribution channels
- A different marketing approach: behavioral segmentation
- Brand erosion by perception

Source: Euromonitor, Rabobank, 2013
... snacks shows slightly different pattern

Source: Euromonitor, Rabobank, 2013
Action required!

Perceived value

Niche brands
Premium PL

A-brands

B-brands

Mainstream
Private Label

Relative cost advantage

Source: Rabobank, 2013
The quest for specialisation

Source: Rabobank, 2013
The crisp/chips market 2013

Source: Amadeus, annual reports, Rabobank, 2013
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Picking the right strategy

Source: Rabobank, 2013
Market position determines strategic options

Source: Rabobank, 2013
Successful suppliers’ strategies

- Carve out a niche
- Consumer loyalty
- Headache reduction
- Cost leadership

Source: Rabobank, 2013
The devil is in the detail

OR ≠ AND
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Two distinctly different business models

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<th>Business models side-by-side</th>
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<td><strong>BRANDED</strong></td>
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<td>Key focus:</td>
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<td>Brand image</td>
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<td>Differentiation</td>
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<td>Market potential: 7,000,000,000 consumers</td>
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Rabobank, 2012
Dual tracking does not seem to be paying off

Source: Amadeus, Company data, Bloomberg, Rabobank, 2013
But it is all in the execution

Source: Amadeus, Company data, Bloomberg, Rabobank, 2013
Dual tracking strategies that may work:
I. Category Management

Headache reduction

Value add:

- Maximise shelf returns
- Lower reputational risks (retailer)
- Market entry
- Launch new products

Required:

- Consumer knowledge
- Different price points
Dual tracking strategies that may work:
II. Defensive

Last line of defence

Value add:
- Category control
- Relationship management
- Maintain production volumes

Required:
- Cost leadership
- Capacity constraints industry
- Very strong brand
Dual tracking strategies that may work:

III. Opportunistic

(Down) time = money

Value add:
  • Maintain production utilisation

Required:
  • No objection to P&L volatility
  • Private label not part of budgetting
  • Cost leadership
Dual tracking strategies that may work:
IV. Firewalls

Best of both worlds – in two worlds

Value add:
• Economies of scale in production
• Economies of scale in sourcing
• Broader base for innovation

Required:
• Strict separation sales teams and production
• Integral cost price accounting
• Cost leadership
• Autonomy in recipes
Dual tracking – walking the tightrope
A case of dual tracking losing balance

Source: Bloomberg, Company data, Rabobank, 2013
Risking acceleration of B-brand erosion

Different sets of information flow may skew the information asymmetry between supplier and food retailer.

- Congruence of price
- Congruence of quality
- Congruence of innovation
- Congruence of accounting
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The private label dilemma

1. YOU MAY BE TEMPTED BY OPPORTUNITIES IN PRIVATE LABEL
2. BUT YOU WILL RISK SERIOUSLY UNDERMINING YOUR BRAND
3. IF YOUR PRIVATE LABEL STRATEGY IS NOT EXECUTED TO PERFECTION

And above all

4. DON’T MAKE THE RETAILERS ANY WISER THAN THEY ARE ALREADY
... any questions?