

But retailers & manufacturers see operational challenges



Overview

PLMA's new 2024 study -- "European Retailers & Manufacturers Talk About the Future: What will the private label landscape look like over the next five years?" -- focuses on factors contributing to the growth of private label throughout Europe; the outlook for retailer and supplier companies operating in the private label space; the evolving relationship between manufacturers and retailers; and the state of product innovation and development, among other topics.

"In the survey there was strong overall agreement on the state of the industry and the prospects that lay ahead. Most importantly, the growth of private label in Europe will continue over the next five years," said Peggy Davies, PLMA President. "Given the fact that private label share in Europe is already the highest globally, with 39% of the total grocery market value, the response among the industry professionals offers great optimism for all private label players."

"Within the context of such positive prospects for private label in Europe, the five year outlook for their own companies is also overwhelmingly positive. The vast majority of retailers and manufacturers see a bright future for their own business. And companies are preparing for the positive sentiment towards private label. Nearly all have set aspirational private label growth targets for the coming years," added Davies.

But there are also challenges ahead. In the opinion of private label manufacturers and retailers, the most pertinent problems are operational in nature. For example, issues with raw materials and the supply chain, being able to offer consistent quality and finding skilled personnel could get in the way of the companies' expected growth forecast. Declining and greying populations as well as the pandemic have been leading to labour and skills shortages, which are expected to remain a short and long term challenge. Geopolitical unrest and climate change are putting pressure on the supply chain and on the consistent quality of raw materials and ingredients. Some of these risks are now managed by retailers by contracting with multiple private label suppliers for the same products.

While all stakeholders -- retailers, consumers, NGOs, private label manufacturers, A-brand manufacturers, the EU and governments -- have moderate to high interest in driving sustainability, most respondents say that the main driving force of sustainability is the EU. While on the one hand, regulations set by the EU might create some level playing field for all parties within the Union, on the other hand, manufacturers comment that complying with all of the regulations make it hard for smaller companies to survive for lack of funds or staff. The second biggest driver of sustainability is the consumer, according to both retailers and manufacturers. This could provide good opportunities for private label initiatives, since private labels are typically quick to respond to consumer demand.

Finally, both retailers and manufacturers see the retailer-private label supplier relationship as having evolved from a transactional, price-oriented relationship into a more strategic one. Today's complex environmental, sustainable, societal requirements have led retailers and private label manufacturers to invest in the relationship with each other to build value and profitability. Collaboration and working together on innovation and other processes will help achieve goals for both businesses' success.

Demographics of the survey

The participants in the multinational PLMA survey were varied and widespread. The total of 1,017 respondents from 865 companies across 37 countries included 744 manufacturer companies, nearly a quarter of PLMA's European membership. They accounted for 863 of the individual respondents. Among the 121 retailers represented in the survey there were 154 individual executives who completed the questionnaire. Manufacturers from 34 European countries were involved as were retailers from 29 European countries.

1017 respondents from 865
companies across 37 countries

The categories in which manufacturer respondents said they conduct their business are a broad assortment of both food and non-food products. The most cited section overall was Shelf stable food, which is supplied by 42% in the survey, followed by Frozen food, Refrigerated and Fresh food, each about 14%. Personal care (11%), Household cleaning products (10%) and Toiletries and cosmetics (8%) were the most common non-food categories supplied by respondents. The retailers operate a variety of stores, including supermarkets, hypermarkets, discounters, convenience stores, drugstores, specialty chains and online only channels.

There were about 30 questions in all, most with multiple parts. The survey was conducted online in English, French, German, Italian and Spanish, and fielded for PLMA by Surveylab in June-August, 2024. PLMA commissioned the study to gain insights that will enhance the organization of the annual World of Private Label Trade Show, which in May conducted its largest event ever, as well as other association programmes that promote expanded opportunities for all players in the European private label industry.

Highlights of findings

1. Outlook is very bright for companies over the next five years

In overwhelming numbers, both manufacturer and retailer executives in the survey offered a very positive outlook for their own companies going forward.

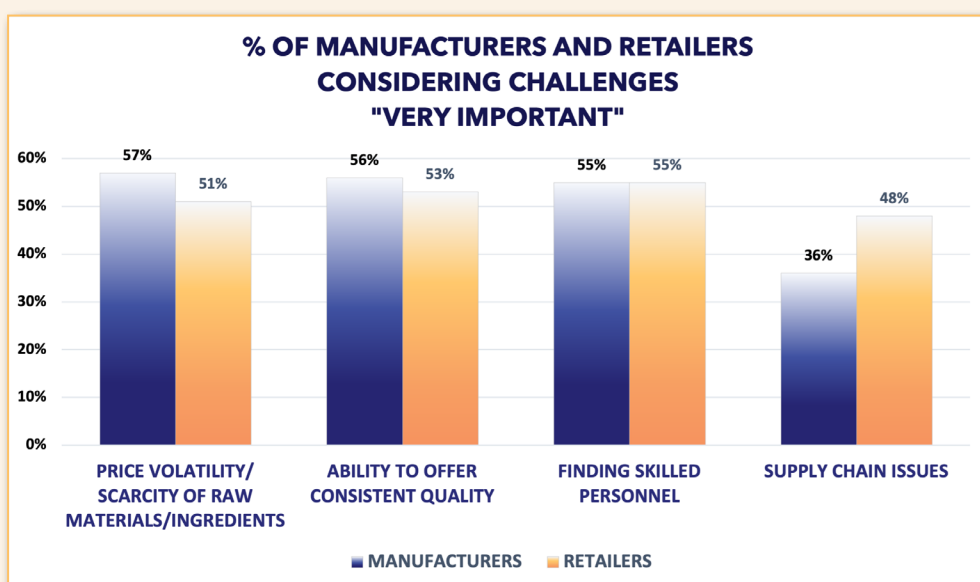
Fully 88% of manufacturers and 86% of retailers in the survey expressed a positive or very positive outlook for their company for the next five years. Only a negligible 1% of manufacturers said that they had a negative view of the five-year prospects for their company; 7% of retailers also had a negative view.

Day to day operational issues, not competitive ones, pose the biggest challenges for member manufacturers.

When asked to assess their company's challenges going forward, the leading issue cited by manufacturers in the survey was "Price volatility/scarcity of raw materials/ingredients," which was deemed 'very important' by 57%. Next in line considered as 'very important' was "Ability to offer consistent quality," at 56%, then "Finding skilled personnel," at 55%. Fourth is "Supply chain issues," which 36% of manufacturers see as troublesome.

The retailers were in accord with manufacturers on choosing the most important operational issues.

The issues cited by manufacturers are also the four most important issues for retailers, but they ranked them slightly differently, with 55% pointing to "Finding skilled personnel," followed by "Ability to offer constant quality" at 53%, then "Price volatility/scarcity of raw materials/ingredients" at 51% and "Supply chain issues" at 48%. A number of other issues the survey put to the respondents -- such as the Consolidation of retailers, Retailer alliances, Competition from other channels or from other continents, and others -- were viewed as less important by both groups.



Most manufacturers have a foot in both camps: They make private label and their own brands.

Nearly all private label manufacturers in the survey said they also produce their own manufacturer brands. Nine of 10, or 86%, reported that in addition to supplying private label products to retailers their company also markets products that carry their own manufacturer brand or A-brand. As for the ratio of private label vs. their own brands they produce, it varies widely. Of those that make both classes of products, 21% make more than 80% private label while 20% or less is a manufacturer brand; 24% make 61-80% private label; 23% make 41-60% private label; 21% make 21-40% private label and 12% make 20% or less private label and 80% or more of their own manufacturer brand.

There was sizable disagreement between the groups on the future importance of online grocery sales.

Looking ahead, private label manufacturers deemed online grocery sales to be much less important than retailers did. Overall, manufacturers did not see online grocery sales as a major theme for the next five years, as only 42% found them (very) important, and 25% consider them not important (at all). A third of the manufacturers (33%) find virtual channels neither important nor unimportant. On the other side of the partnership, nearly two-thirds (64%) of retail respondents said they believe that online sales will be (very) important for their company in the coming five years; only 17% believe they will not be important (at all).

64% of retailers see online as (very) important for the future, while 42% of manufacturers share that opinion

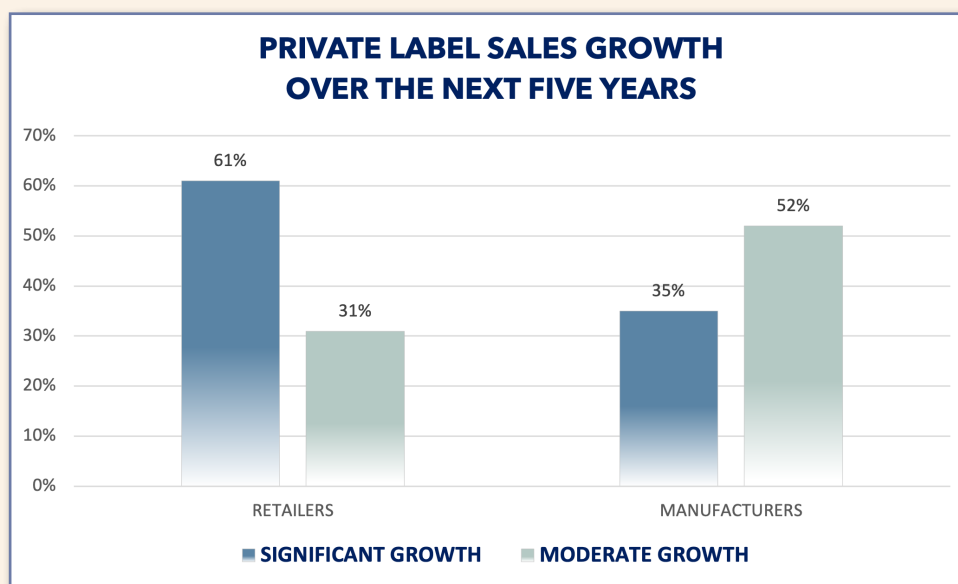
Private label programmes are said to be widely supported throughout European retailer companies.

When asked about the amount of private label support company-wide they receive, from headquarters management to the store floor, 58% of the European retailer executives report that there is a good deal of support while another 31% describe the support as moderate.

2. Nearly all respondents are very optimistic on the growth of private label

There is very positive shared optimism for private label sales growth in Europe.

In strong numbers, the potential for private label expansion received a strong endorsement in the survey by both groups. Some 87% of private label manufacturers believe that private label sales will grow in the next five years. A third, 35%, even thinks the growth will be significant, while half, 52%, think it will be a moderate growth. Only a nominal 1% believe such sales will moderately decrease. Retailers were even more optimistic. Nearly all, 92%, think private label sales will grow, of which 61% predict significant growth and 31% moderate growth. A meagre 1% of retailers think private label sales will decline.

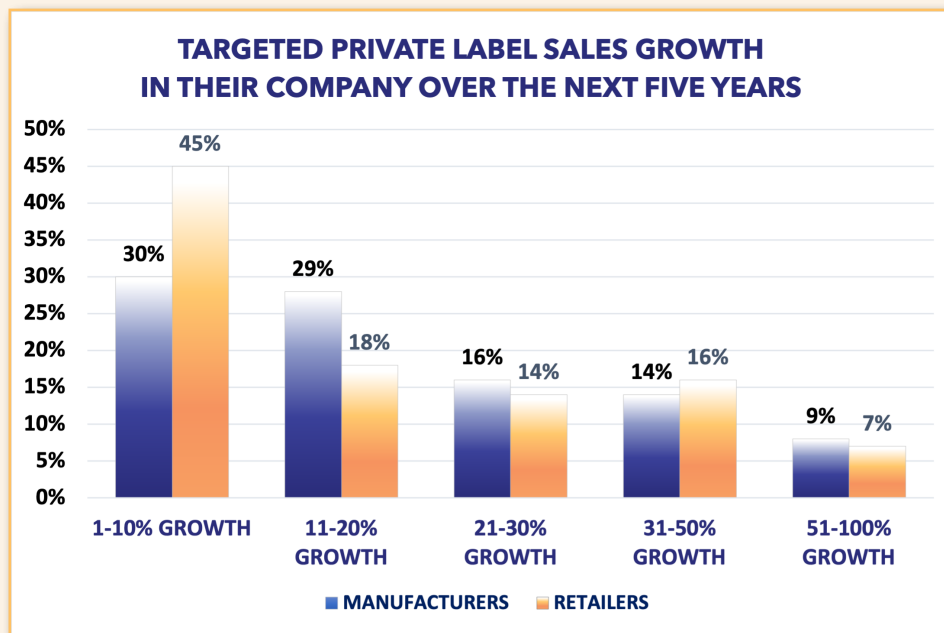


European private label manufacturers have set ambitious targets for their sales.

The exclusive PLMA International Council survey found that a majority of manufacturers have created ambitious and expansive plans for their private label operations going forward. Almost all (96%) of them predict their company will achieve specific private label sales increase in the coming years. The targeted percentage of the increase ranges from a 1-10% increase (30%), to 11-20% (29%), 21-30% (16%), 31-50% (14%), and 9% think that sales will increase by 51-100%. Two percent of manufacturers even foresee a private label sales increase of more than 100%. Only 1% believe their company's private label sales will decrease over period.

Retailers across Europe are also planning for substantial private label growth in their company.

On the other side of the coin, fully 93% of the retail respondents have targeted significant private label sales growth for their company over the coming five years: 45% of these foresee a growth in sales of 1-10 percent; 18% have the aim of increasing sales by 11-20%; 14% see an increase of 21-30% and 16% between 31-50%. The most optimistic group of retailers, 7%, said they aim to increase their private label sales by no less than 51-100%.



A majority of retailers expect private label expansion in numerous food and non-food categories.

With respect to individual categories, retailers see private label expansion occurring in all food sections, from Frozen food (59%) to Shelf stable food (58%), to Fresh food (53%) and Refrigerated food (50%). There are also high expectations from retailers for growth in Beverages without alcohol: 46% think private label sales will grow in this category. Household cleaning products, Pet food, Personal care, and Household paper products non-food categories are named by 48%, 46%, 44% and 42% respectively, of retailers as likely areas of private label growth. Value added features were seen as drivers of private label food sales going forward. Products that offer special attributes, such as plant-based, sustainable, healthy, extra protein, less plastic, and free-from, were viewed as likely to grow over the next five years by nearly half, 44%, of retailers.

More than a quarter of the surveyed retailers foresee no private label sales decline at all in any product category.

More than a quarter of retailers is very optimistic on private label. Some 28% do not think that there will be a private label sales decline in any supermarket product category. On the other hand, among both retailers and manufacturers, there is substantial agreement that the category most likely to see a private label decline over the next five years is Alcoholic beverages. Although a minority of retailers (16%) project growth for such beverages.

28% of retailers foresee “No”
decline in private label sales in any
product category

There is broad agreement that private label brands are ‘brands in their own right.’

Almost all retailers (94%) find that private label brands are “brands in their own right.” This opinion is supported by 79% of private label suppliers. When asked whether consumers perceive private label brands as brands, two thirds of both retailer and manufacturer respondents (strongly) agree. In a related question, nearly two-thirds of all respondents -- 61% of manufacturers and 65% of retailers -- confirmed that private label is marketed as a brand. More than half of retailers (52%) say the brand equity of a private label is equal to that of a manufacturers’ brand. Forty percent of manufacturers agree. Moreover, nine in 10 (85%) retailers (strongly) agree with the statement that private label quality is better than or equal to that of manufacturers’ brands and 62% of manufacturers concur with that statement.

“Private label brands are brands
in their own right”

But a majority of both groups also believe that private label is a 'follower.'

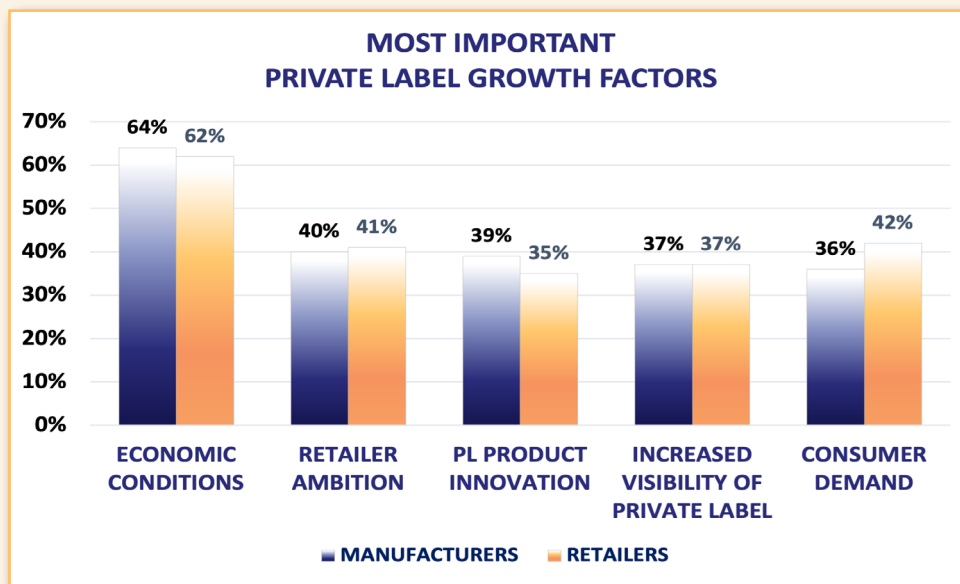
For a different perspective, 68% of manufacturers and 59% of retailers say private label is a brand "follower." And half of manufacturers agree that private label is just a less expensive alternative for the A-brands, an opinion shared by almost half of retailers. At the same time, both parties confirm that private label reflects a retailer's DNA. Fully 82% of retailers and 67% of manufacturers (strongly) agree with the statement that private label reflects who a retailer is, its DNA.

The existence of a ceiling on private label market share in individual European countries draws different views.

Feelings are mixed about whether or not there is a maximum private label share in a given national market. Some 37% of both parties say no, there is no maximum; 25% of manufacturers and 31% of retailers say, yes, there is a maximum to what share private label can achieve in a country. Of those respondents who said yes, the prevalent maximum share that was suggested was 50%, followed by 60%. The bar is high already. According to PLMA, 52-week sales of private label in Europe as of July 2024 were 354.5 billion €, an all-time record. Private label made up 39% of the total grocery market value. Private label turnover increased by 6% (20b€). In the same period, manufacturers' brands sales grew by 4%. Europe currently has eleven national markets with private label market share above 30% and six surpassing 40%. The collective private label share in Europe's three largest markets -- Germany, the United Kingdom, and France -- is 40%.

'Economic conditions' are deemed the most important factor in determining future private label growth.

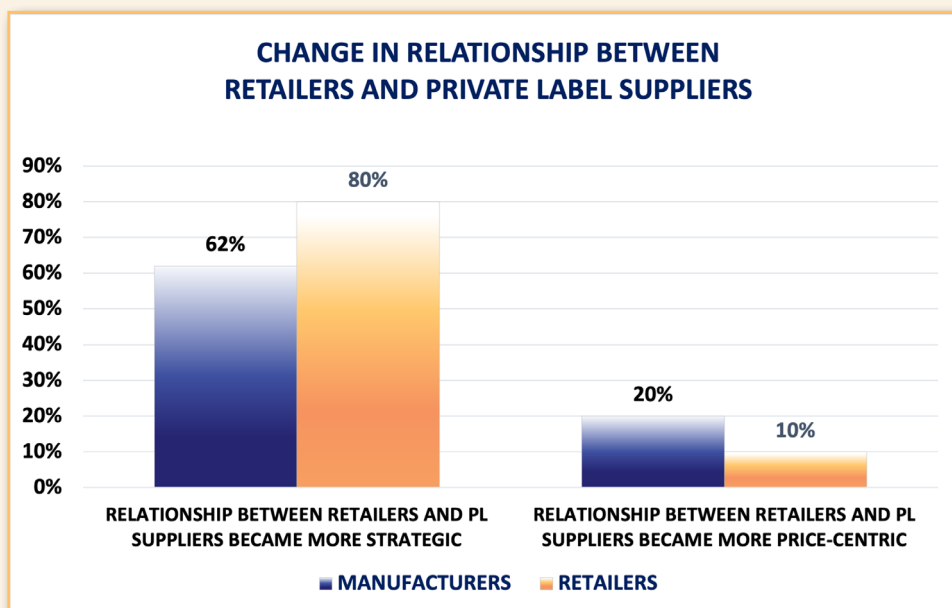
Not surprisingly, for private label manufacturers and retailers alike, the most important factor for private label growth is "Economic conditions" (64% and 62%). The rest of the top five growth drivers came in about the same for manufacturers and retailers. For manufacturers, they are Retailer ambition (40%), Private label product innovation (39%), Increased visibility of private label (37%) and Consumer demand (36%). For retailers, the sequence is Consumer demand (42%), Retailer ambition (41%), Increased visibility of private label (37%) and Private label product innovation (35%). For both groups, Competition from neighbouring countries, Supply chain development, and Weak manufacturers' brands are the three factors that are considered the "least important" factors for private label growth.



3. The retailer-supplier relationship is now more 'strategic,' less price-centric

The retailer-private label supplier relationship is now seen as more strategic, with less emphasis put on price.

Today's complex requirements in terms of sustainability, diversity, and transparency, among other factors, has markedly changed the relationship between retailers and private label manufacturers. So much so that a strong majority of both manufacturers (62%) and retailers (80%) feel that the relationship between them has become more strategic, in more specific terms, that it less based on price. A polar opposite view is held by a smaller number. One in five (20%) manufacturers and one in ten (10%) retailers feel the relationship is actually more based on price now than it was before.

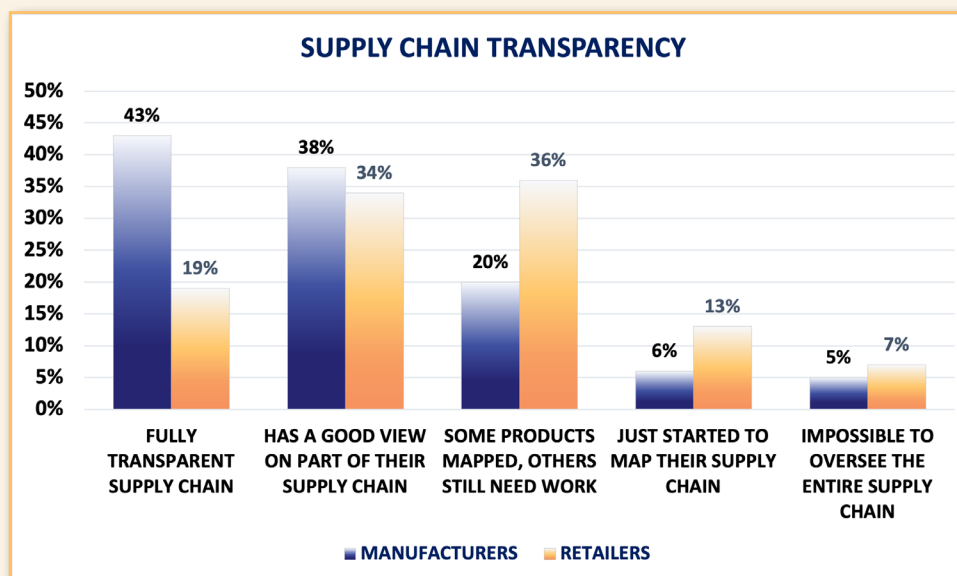


Following the supply chain woes of the past few years, retailers are more inclined to use multiple suppliers for the same product.

Majorities of both groups, 52% of manufacturers and 62% of retailers, report that compared to before the pandemic retailers are currently trying to mitigate their supply chain and other attendant production risks by partnering with multiple private label suppliers for the same product.

Almost all manufacturers have begun mapping their supply chain.

Private label manufacturers are well on the way in the process to map out their supply chain in view of today's requirements regarding meeting CO2 targets, waste reduction, ethical considerations, among others. Some 43% say that their supply chain is fully transparent, from raw materials-ingredients-processors-transport-packaging to retail customer. Another 38% have "a good view" on part of their supply chain. For 20% of manufacturers, the supply chain is a mixed bag, for some products they have it mapped, for others there is still work to do. Only 6% of private label manufacturers have just started to map their supply chain and another 5% believe it is impossible to oversee the entire supply chain of their private label products.



Retailers have made some progress on mapping their supply chain, as well.

For 19% of retailers, the supply chain is fully transparent, from raw materials-ingredients-processors-transport-packaging to the stores. One third (34%) say that they have a good view on part of their supply chain and another third (36%) say that their supply chain assessment is still a work in progress. Only 13% of retailers have just started mapping the chain and 7% report that it is impossible for them to oversee the entire supply chain of their private label products.

Manufacturers have become more transparent to retailers on costs and on the provenance of materials and ingredients.

Compared to three years ago, 39% of member manufacturers say they are now more transparent to retailers regarding costs and 58% are more open regarding the provenance of materials and ingredients. Retailers agree. Nearly half, 47%, say their private label suppliers are more transparent now regarding costs, and 63% say their suppliers are more open on the provenance of materials and ingredients now compared to three years ago. In a related question, half of both manufacturers (48%) and retailers (52%) are of the opinion that retailers are now sourcing more locally, regionally or nationally, in other words, less internationally.

4. Private label innovation is seen as vital to growth

There is broad agreement that private label innovation drives growth.

Nearly nine of 10 respondents -- 86% of manufacturers and 87% of retailers -- agree that private label innovation is (very) important for the company's growth and success. At the same time, a large majority in the survey agree that private label product innovation resonates with shoppers: 73% of manufacturers and 81% of retailers believe private label innovation is (very) important to consumers.

Manufacturers say they have become more proactive when it comes to innovation.

The fact that innovation is a widely accepted driver of success is reflected in the related strategy of private label manufacturers. Almost three quarters, 74%, say that their company has become more proactive in their strategy towards product innovation. And according to the survey, 88% of retailers are open to proactive product innovation proposals on the part of private label suppliers. Digging deeper into that result, nearly half (48%) of retailers "strongly agreed" with the statement that their company was open to proactive private label innovation from private label suppliers.



**Three quarters of manufacturers
have become more proactive in
their innovation strategy**

Opinions vary widely on the role of private label in product innovation; and who should pay for it.

There were evenly split results on innovation. One third of manufacturers believe that private label is a forerunner in innovation, a bit over one third disagrees with that statement, a bit less than one third has a neutral position. A larger segment of the retail respondents, 45%, agree that private label suppliers are forerunners in innovation, and 30% of retailers disagree. However, while the majority (74%) of manufacturers agree that retailers are willing to work with suppliers on private label product innovation, they also contend that retailers won't share in the expenses of innovation. The majority of the retailer respondents (54%) confirm that this is the case. Whereas 41% of retailers indicated that they are willing to work with suppliers and share the expenses on innovation.

A-brand manufacturers are considered by a majority in the survey as the best industry player at introducing product innovation.

Irrespective of who will conduct and pay for product innovation in the retailer-supplier private label relationship, there was agreement on who in the business currently does it best. More than half (53%) of manufacturers and retailers say that they think A-brand manufacturers are doing the "best job" of product innovation. One third of retailers and a quarter of private label manufacturers consider themselves the best performers when it comes to innovation.

The EU is regarded as the main driving force of sustainability.

When asked to choose among industry stakeholders which they believe in reality is the main driving force of sustainability concerns, half the manufacturers said the EU, followed by Consumers (selected by 45%) and the Government (45%). A-brand manufacturers were named by 41% and private label manufacturers by 30%. Among retailers, the EU was likewise chosen as the number one force, by 50%, followed by Consumers (50%) and Retailers 47%. This result suggests that neither suppliers nor retailers see themselves as primary drivers of sustainability. Still, sustainability of product packaging is considered to be very important by half of both manufacturers and retailers.

..."the growth of private label in Europe will continue over the next five years... [this] offers great optimism for all private label players."
Peggy Davies, PLMA President

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A panel of industry experts discussed the principal findings and implications of this study at PLMA's 2024 Private Label Summit, Milan, 29-30 October. The panel was moderated by Edgar Elzerman, Retail Consultant, ECI.