

Anchin Food & Beverage Industry News

Information and Insights for Food and Beverage Industry Executives

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More Consumers Look for the Private Label

By Greg Wank, CPA

Over the last several years, private-label or “store brand” products have come of age. Once associated with cut-rate, generic substitutes, private label goods today are considered by many consumers to be equal or superior in quality to their national brand counterparts.

For manufacturers and retailers in the food and beverage industry, this phenomenon can be an opportunity or a threat, depending on your circumstances. Either way, the recent growth and success of private-label products demands a reevaluation of your product and marketing strategies.

What’s Behind the Private Label Trend?

For retailers, private label products offer many benefits. Unlike the national brands, which can be purchased almost anywhere, store brands allow a retailer to build consumer loyalty and differentiate themselves from the competition. They also enable retailers to earn higher profit margins while offering customers significantly lower prices. This is possible because private labels avoid the so-called “marketing tax,” the often substantial advertising and promotional costs that national brand manufacturers pass on to consumers.

These benefits have always been available, of course, so why the recent surge in store brand popularity? The answer is found in changing consumer perceptions, which can be attributed to several factors. For one thing, the packaging of private-label products has become more sophisticated and appealing; the days of the nondescript “white label” are long gone. Also, stricter labeling requirements for food and drug ingredients make it easier for consumers to make informed comparisons between store brands and national brands.

As a result, an increasing number of consumers recognize that store brands allow them to save money without sacrificing quality or safety. In a 2005 global study of supermarkets, for example, AC-Nielsen found that 69 percent of consumers believe that private label products are “an extremely good value for the money” and 62 percent consider their quality to be “at least as good as the big brands.”

More recently, research by IBM indicated that around 75 percent of consumers in the U.S. and the U.K. see no benefits to buying branded food products, and a majority of those surveyed believe

that store brands offer comparable quality and safety.

Wider acceptance of store brands is also benefiting private label manufacturers, who have seen their sales surge in recent years. One potential advantage of private label manufacturing is anonymity. If a particular store brand suffers damage to its reputation, for whatever reason, the manufacturer may be insulated from harm to some extent.

What Does This Mean for Your Business?

For retailers, private labels represent an enormous opportunity. According to a recent study by management consultancy McKinsey & Company, there’s a potential for \$55 billion in annual supermarket sales to shift from national brands to store brands in all categories if retailers pursue this strategy more aggressively. McKinsey found, however, that the “bulk of retailers” are lagging behind.

Retailers that explore this opportunity should consider how it fits into their overall merchandising and marketing strategies, as well as the potential impact on their relationships with suppliers. But in today’s increasingly competitive marketplace, the private-label

alternative is certainly food for thought.

For many manufacturers of branded goods, the private-label phenomenon represents a real threat that must be addressed. Some manufacturers have responded by entering the private-label market themselves, but this strategy won't work for everyone. Manufacturers with excess capacity may be able to take advantage of economies of scale and other efficiencies by producing private-label goods. On the other hand, sales of private-label products may

“cannibalize” sales of their own branded products. To determine whether entering the private-label market is right for you, you need to weigh the potential costs and benefits.

Perhaps the most effective way to defend branded products against the private-label threat is to focus on innovation. By continually improving your products, differentiating them from the lower-priced alternatives, and demonstrating the difference through aggressive marketing, you can maintain a competitive edge. Some national

brand manufacturers have successfully differentiated their products, for example, by emphasizing their health benefits, their organic ingredients, or their environmentally friendly production methods.

Act Now

Sales of private-label products will continue to grow as more retailers recognize the opportunity to boost margins while reducing prices. All food and beverage companies should assess the potential impact of private labels on their businesses and adjust their strategies accordingly. ●

Mark Your Calendar: May 8, 2008

Anchin's State of the Food and Beverage Industry event will be held at 8 a.m. Thursday, May 8, at The Harvard Club, 35 West 44th Street (between Fifth and Sixth Avenues).

This annual event includes an overview of Anchin's proprietary food and beverage survey, the only survey that takes the pulse of this vibrant industry in the metropolitan New York area, as well as a panel of three giants in the industry.

Panelists at this year's event, which will be moderated by Greg David, editor, Crain's New York Business, include: Henry Beyer,

CEO and President, Beyer Farms/Tuscan Dairy; Simon Jacobs, CEO and President, Hale & Hearty Soups, LLC; and Jacques Torres, CEO and President, Jacques Torres Chocolate. Their insights into the growth of their business will follow a presentation by Greg Wank, CPA, chair of Anchin's Food and Beverage Services Team.



Jacques Torres, CEO and President, Jacques Torres Chocolate

“We anticipate an insightful, energetic event,” Wank said, “driven by the survey findings and our out-

standing panelists. This truly is a must event for firm owners, CEOs, CFOs, and other executives who want to vigorously compete in today's challenging food and beverage industry.”

New to this year's event is the involvement of Greg David, editor of Crain's, as moderator, and Sovereign Bank, event co-sponsor.

The cost of this program is \$50 per person. Seating is limited, so we urge you to register as soon as possible. To register, contact Tamara Lowe at 212.840.3456 or by email at info@anchin.com. ●

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