Retail

US retailers trump Warren Buffett with push into own brands

Kraft Heinz's $15bn writedown highlights pressure on some well-known consumer labels

Walmart is investing in its own private label brands as they increase in popularity among cost-conscious US consumers © Reuters

Alistair Gray in New York and Shannon Bond in San Francisco MARCH 17, 2019

The balance of power is shifting between the biggest US retailers and their main suppliers.

New industry data show retailers such as Walmart, Costco and Target are boosting sales of their own products almost four times faster than famous American brands, winning over consumers with high quality goods at low prices.

Sales of so-called private label food and drink, toiletries and other consumer goods rose 4.3 per cent in US stores in the final three months of 2018, according to Nielsen. In contrast, sales of the 20 biggest brands eked out only a 1.2 per cent increase.

The rising popularity of private label is shaking old certainties about the value of established brands. Kraft Heinz, the Warren Buffett-backed consumer staples group behind HP Sauce and Philadelphia Cream Cheese, took a $15bn writedown last month, reflecting gloomier prospects for some of its best known products.

"You have to deliver something that is superior," said Stefan Descheemaeker, chief executive of

Nomad Foods, the company behind Birds Eye and Findus. "If you don't, then at some stage the question arises: why do you need brands?"

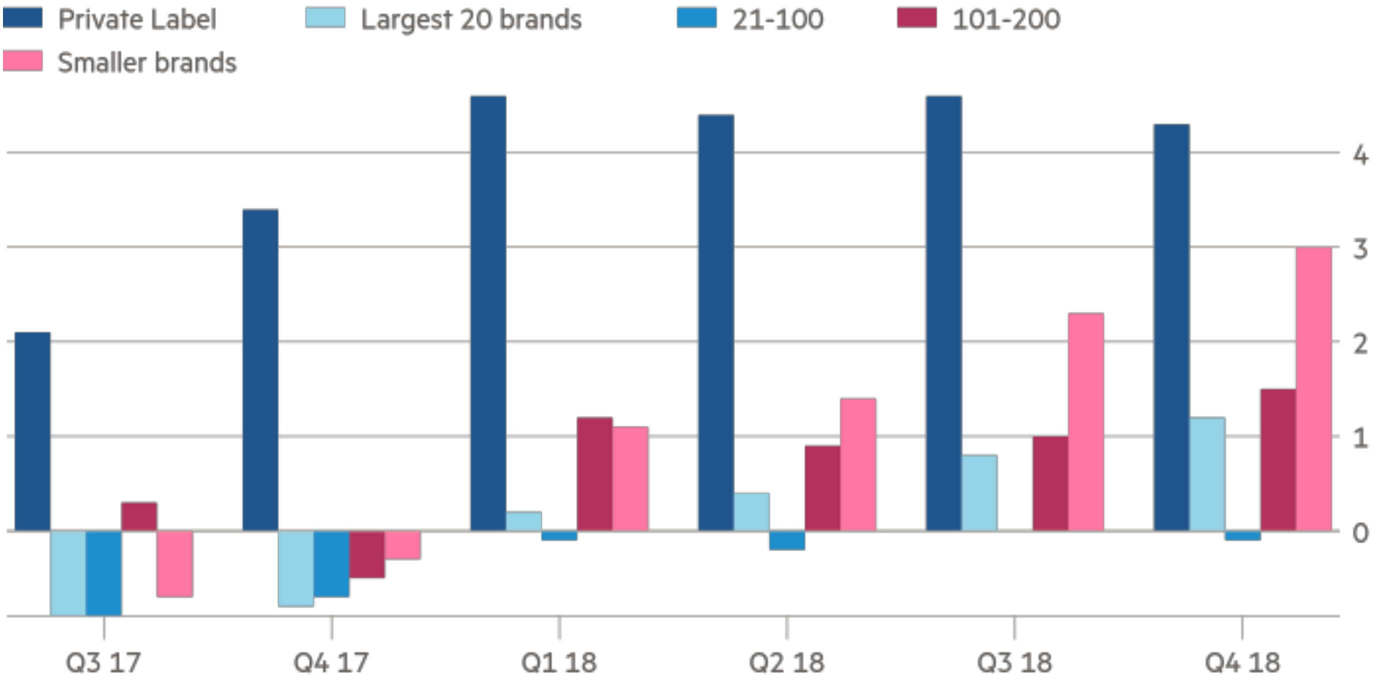
Executives at several of the biggest US retailers divulged more detail on how they were building up their own brands in products from milk to underwear as they presented earnings reports in recent weeks.

Kroger said it had introduced 1,022 own brand items to its supermarket shelves in 2018. While the grocer's overall results disappointed Wall Street, the performance of its own brands impressed: sales of its Simple Truth line of products, which range from lip balm to popcorn, rose 15 per cent in 2018.

Rodney McMullen, chairman and chief executive, said the rationale for Kroger's expansion was simple. "We make more profit than we do selling the national brands."

Retailers' own brands take off

US private label v traditional brand sales, % change year-on-year



Fast-moving consumer goods bricks and mortar sales
Source: Nielsen
© FT

Brian Cornell, chairman and chief executive of Target, said the big box retailer's efforts to develop its own brands had been so aggressive that the team responsible had completed "three or four years of work in about 18 months".

The popularity of its house brands, which include Archer Farms food, Smartly staples and Opalhouse home decor, was a main reason why the chain was avoiding the gloom in the wider retail sector, he added. Target this month posted a 5 per cent rise in like-for-like sales for 2018, its biggest annual increase since 2005.

"It's certainly been a big part of our market share gains," said Mr Cornell.

Target's expansion has been particularly ambitious, and the chief executive added that it was likely to slow in the months ahead.

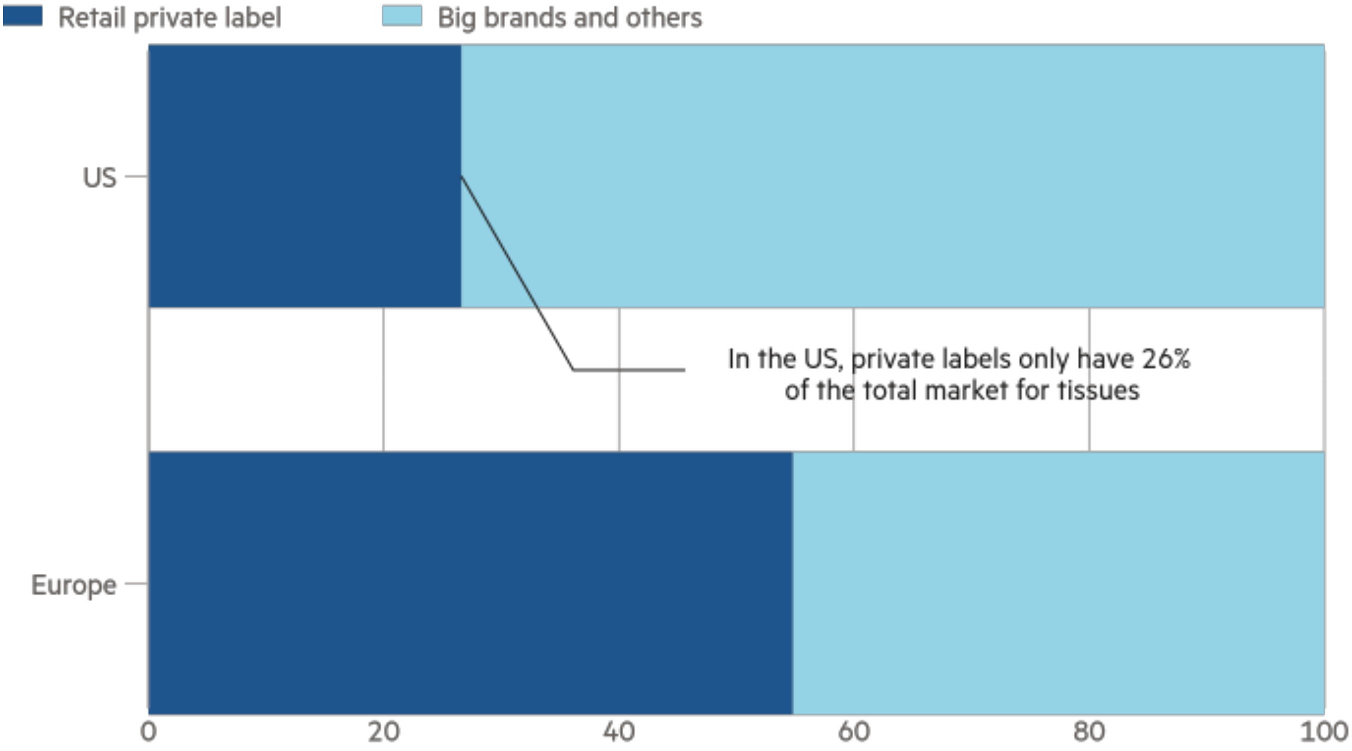
But the big worry for Kraft Heinz and rivals, such as Campbell Soup and General Mills, is that the wider retail industry is only getting started. "It's going to keep getting bigger," Mr Buffett said in a recent CNBC interview.

So far, private label products in the US have won over fewer shoppers than they have in Europe, despite the recent rapid growth. In tissues, for instance, retailers' brands have only a 27 per cent share in the US compared with 55 per cent on the other side of the Atlantic, according to Euromonitor International.

"Part of it has to do with America being the heartland of capitalism," said Bob Hoyler, research analyst at Euromonitor. "Going back generations, families had really strong preferences for particular brands."

Brands still hold their own in the US, but not in Europe

% share of tissue market



That began to change after the financial meltdown of 2008, which created millions of newly frugal bargain hunters. Millennials who came of age during the great recession do not have the same attachment to big brands. Television and other mass media, meanwhile, have lost influence, undermining traditional marketing.

Walmart, the world's biggest retailer, is among the companies investing in private label. Additions to its line-up in the past year include its Winemakers Selection of wines and Allswell, an upscale mattress and bedding brand.

"Private label penetration has probably grown more than I thought it would in the US," Brett Biggs, chief financial officer, said at a conference this month. Store brands, he noted, were more popular among younger Americans "than with my generation".

Among the most successful of the own-brands has been Costco's Kirkland, whose products range from peanut butter to pet food. Mr Buffett said Kirkland, introduced in 1992, produced about $39bn in sales last year — more than all the brands combined at Kraft Heinz.

The German discounters Aldi and Lidl, which have transformed European retail, are another danger for the established American brands.

Then there is Amazon, which Mr Buffett highlighted as the big threat.

Recommended

Amazon's portfolio has grown from 86 house brands at the end of 2017 to 137, according to TJI Research. That includes items sold at Whole Foods, the grocery chain it bought in 2017.

The online retailer's Amazon Basics label appears on everything from yoga mats to suitcases to motor oil. Mama Bear nappies, Rivet furniture and Wag pet food are among its scores of other brands.

The increasing popularity of cheaper alternatives undermines the traditional consumer companies' ability to raise prices — a particular problem when input costs rise. When rivals increase prices, said Mr McMullen of Kroger, "they end up giving up market share to our own brands".

Industry executives and analysts said producers of the big brands would need to make investments of their own to stop ceding further ground to retailers.

"Give consumers a reason to care about your brand and your product," said Greg Portell, a lead partner at the consultancy AT Kearney.

Kraft Heinz has been introducing healthier food and drink and its own niche "craft" produce. 3G Capital, the Brazilian investment firm that controls the company along with Mr Buffett, has sought to shake off a reputation for overly aggressive cost-cutting.

While not commenting on 3G specifically, Mr Descheemaeker of Nomad said: "Being lean is fine, but the key question is what you are doing with the savings. Are you going to reinvest behind your brands or just put everything into bottom line?"

"At the end of the day, it's really up to the brands to make the difference."

Get alerts on Retail when a new story is published Get alerts

Experimental feature

Topic Tracker: Retail Add to myFT Hide

0

0 1000

Read next

Topic Tracker measures how much of a topic you have covered and suggests the best articles to keep you one step ahead.

Give Feedback

Latest on Retail

Follow the topics in this article

US & Canadian companies

Retail

Personal & Household Goods

Wal-Mart Stores Inc

Kraft Heinz Co