

Consumer & Retail Practice

Building distinctive European powerhouse brands

Innovative private brands that meet changing consumer requirements will be a distinctive component of success in the grocery world of tomorrow.

by Marek Karabon, François Videlaïne, Tobias Wachinger, and Stefano Zerbi



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Private brands, or store brands, have been winning over European consumers for more than 15 years, and their popularity is unlikely to wane. In fact, we are currently witnessing the start of a fourth wave of private-brand growth, propelled by a different type of product and an increased focus on meeting changing consumer preferences and habits.

Private brands have become a principal resource for grocery players that want to offer the distinctive, differentiated experience that consumers are looking for. Retailers that are getting private brands right are achieving higher overall customer satisfaction and higher growth in market share.

To create a winning private-brand strategy, grocery players will have to adjust their approach to own-product assortment to put consumers front and center. This mindset shift then needs to be embedded within a holistic reimagining of the grocery's business and operating model. In our experience, incremental changes are not enough, especially given the step-up in capabilities required by the next wave of more sophisticated products. Successful private-brand retailers need a critical level of competency across consumer-led brand strategy, new-product development, category management, and end-to-end execution.

During this next wave of private-brand expansion and consolidation, a variety of strategies will continue to emerge. Private brands will be one of several key strategies for some grocers; for others, they will be at the core. In all cases, private brands will be part of the secret formula of successful grocers.

Private brands have significant market share and are poised to grow further

The popularity of private brands has been firmly established; in 2020, for example, private brands made up more than 40 percent of total sales in top European markets. Penetration varies significantly, however, and there is some evidence that market

growth has been stagnating in some countries since around 2015 (Exhibit 1).

We did not see significant shifts toward private brands during the crisis year of 2020. The trend line varied across markets—sales increased by up to one percentage point in Portugal, Spain, and Sweden but fell by a similar amount in Belgium, the Netherlands, Switzerland, and the United Kingdom—but the overall picture was one of stagnation. This stagnation was partly an issue of demand, perhaps because some shoppers changed their primary grocer, but there were also supply issues: some retailers increased their focus on name brands during the crisis, and the supply chains of some private brands were less resilient. These supply issues have now been resolved, so we should not forecast future sales based on 2020 figures. Instead, the steady rate of private-brand sales during the crisis demonstrates that consumers see these products as not just a “nice to have” but as an important, enduring element of their consumption baskets.

In fact, our research suggests that the ongoing financial pressures of the economic crisis have increased the popularity of private brands, which typically offer lower prices for the same quality as name brands. In our January 2021 European Consumer Research Survey, 19 percent of respondents said they intended to purchase more private-brand products in 2021 than they did in 2020.¹ Respondents to the US edition of the survey said the top reason they intended to buy more private brands was because these brands offer equal quality for less money.²

We are witnessing the start of a fourth wave of private brands

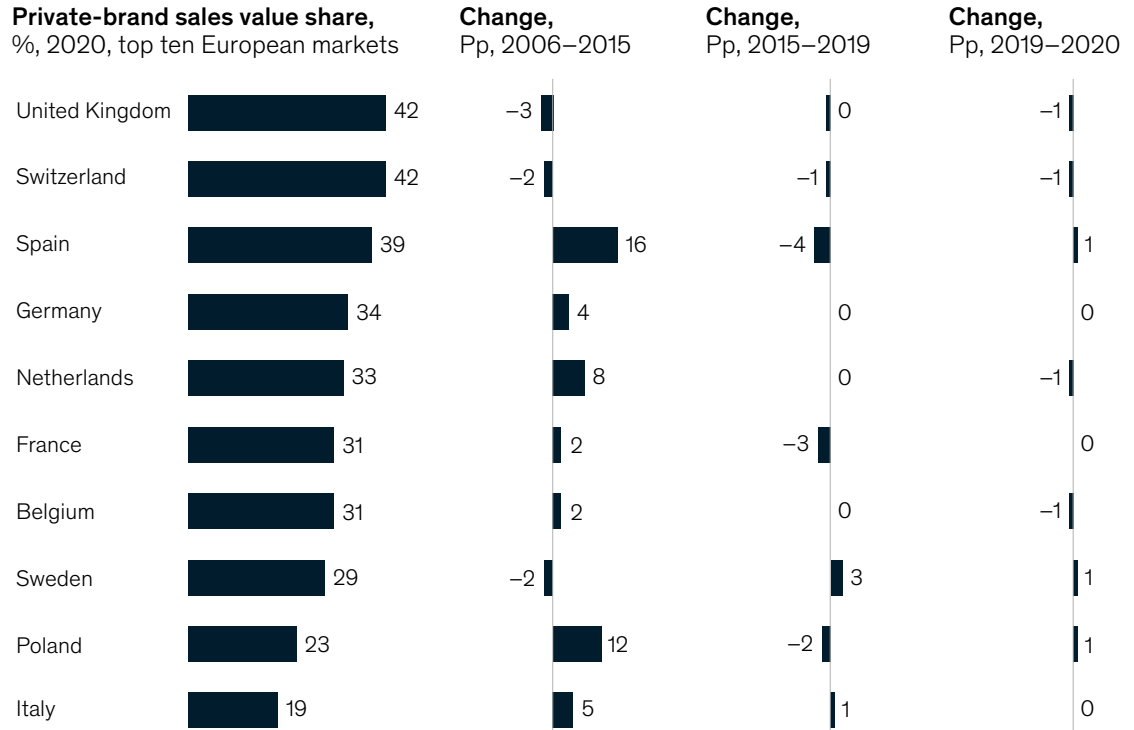
The first wave of private brands was primarily driven by price differentiation, and consumers still think—correctly—that private brands can offer lower prices for the same quality. Lower costs for marketing and branding, together with

¹ We surveyed 4,970 respondents in five European markets (France, Germany, Italy, Spain, and the United Kingdom) in January 2021 as part of *Disruption and uncertainty: The state of grocery retail 2021: Europe*. For more, see Claus Gerckens, Franck Laizet, Daniel Läubli, Jean-Albert Nyssens, and Eugen Zgraggen, “The path forward for European grocery retailers,” March 25, 2021, McKinsey.com.

² Bill Aull, Anuja Desikan Perkins, Sajal Kohli, and Eric Marohn, “The state of grocery in North America,” June 8, 2021, McKinsey.com.

Exhibit 1

European private-brand markets have plateaued in recent years even though penetration still differs greatly across countries.



Source: Private Label Manufacturers Association

higher sales volumes per SKU driven by narrower assortments, can drive economies of scale for private brands. In addition, the focus on value across both manufacturing and retailing often leads to savings around product design, simplified formulas, key ingredients, and reduced packaging complexity. A strong private-brand strategy can therefore both lower prices for consumers and raise margins for retailers.

Private brands have long been more than just a price game, however; the second wave focused on portfolio management, with products expanding to meet a broader set of customer needs, including organic, premium, and “free from” ranges.

Some European markets are now in the third wave, which is propelled by quality differentiation;

third-wave private-brand ranges generally offer strong branding (including marketing and packaging), an innovative assortment, and a refined brand architecture.

As outlined above, this third wave of private-brand development has been affected by unforeseen market dynamics as a result of the COVID-19 crisis, but our research suggests that the future looks bright for private brands. Based on our *State of grocery retail 2021* report,³ we identified four key shifts that will shape the grocery industry in the coming years: online becoming core, the return of restaurants, value returning to top priority, and lifestyle considerations (such as health, sustainability, and convenience) driving food demand. The final two will have a particular impact on private brands.

³ “The path forward for European grocery retailers,” March 25, 2021.

As a result, retailers are now in a position to drive a fourth private-brand wave based on addressing changing consumer expectations in innovative ways. While innovation in the third wave was propelled by retailers—with the goal of increasing competitiveness against A-brands—consumers will drive the fourth wave. The focus will therefore shift from store shelves to consumers' tables. This shift will give retailers the opportunity to renew their existing private-brand portfolios and to develop new product ranges targeted at emerging consumption opportunities, such as healthy, ready-to-eat options for people working from home.

Private brands can help grocers craft a truly distinctive experience, increasing customer loyalty and driving sales

Grocers looking to improve their consumer offerings have a relatively limited set of levers they can pull. While we often find room for improvement in standard metrics such as pricing and loyalty programs, the 1 to 3 percent improvement that is generally possible in these areas is not sufficient to fundamentally change the game and fend off competition from e-commerce and discount channels.

Private brands—along with omnichannel services and a distinctive, broader consumer experience—provide a key opportunity for grocers to offer something truly unique. Grocers have started to rise to the challenge by producing high-quality, distinctive own-brand products, such as the health-focused YOU brand at Migros, the premium products of Tesco Finest, and Carrefour's sustainability-focused Act for Food program. These private brands cover a broad spectrum of quality levels—as defined by their ingredients, recipes, and dietary and nutrition standards—and therefore expand the coverage of customer needs. Higher-quality private brands have been particularly successful over the past few years, especially those aimed at health-conscious customers.

Grocers also have considerable flexibility in branding and marketing private brands and incorporating them into overall assortments.

Some private brands are marketed under an umbrella brand that carries the retailer's name, such as Tesco, or offers store-wide products, such as the President's Choice label at Loblaw's in Canada. Others belong to category-specific brands—which tend to be exclusive and mimic the approach of consumer-packaged-goods (CPG) players—such as Lidl's Pikok brand of meat products in Poland or Aldi's Choceur chocolates. In our experience, category-specific brands have been particularly successful. They are now being rolled out in many supermarkets, including Tesco.

Furthermore, private brands are well placed to benefit from consumers' increasing focus on authenticity, sustainability, and provenance. In recent years, small brands have benefited from this trend. A-brands are increasingly using their branding strength to emphasize their authenticity and sustainability, but historically they have struggled to claim they are local—though some are starting to invest in local companies and brands. Private brands may be better positioned to appeal to consumers around provenance and can therefore cater to all three of these preferences; they can respond in a more agile manner to what consumers want, including bringing more local suppliers to the shelves. For example, Monoprix recently expanded its Bio! line and rebranded it as Bio Origines. In addition to being organic, these brands now also guarantee French or fair-trade sourcing, respect for animal welfare, and sustainable packaging.⁴ The combination of these two forces—private brands catering to consumer preferences for local goods and A-brands emphasizing authenticity and sustainability in their branding—may have narrowed the playing field for smaller brands.

The increased autonomy offered by private brands also enables retailers to meet consumer demands tied to rising nutrition standards. Carrefour Spain recently reformulated 380 of its own-brand products, removing 512 tons of sugar and decreasing levels of saturated fats and salt. Blind tastings with more than 13,000 consumers ensured that the changes also improved the taste of these products.⁵

⁴ "Monoprix Bio Origines," Monoprix, June 28, 2021, [monoprix.fr](https://www.monoprix.fr).

⁵ "Carrefour is lowering the price of over 1,000 items," March 17, 2021, [carrefour.com](https://www.carrefour.com).

These advantages, together with the increasingly innovative nature of private brands, have had an impact. Our research indicates that quality of own-brand offering is among the top five drivers of customer loyalty across Europe (Exhibit 2).

Our research also shows that retailers that are succeeding with private brands are achieving higher overall customer satisfaction and higher market-share growth (Exhibit 3).

In a previous article,⁶ we described how to diagnose the performance of existing private brands. The remainder of this article will focus on how to implement a transformation.

To win with private brands, retailers need to master four capabilities

Seizing the opportunities in private brands requires both a shift in mindset and a transformation of

⁶ Steven Begley and Angus McQuat, "Turning private labels into powerhouse brands," October 30, 2020, McKinsey.com.

Exhibit 2

Own-brand product quality ranks among the top drivers of loyalty.

Drivers of shopper loyalty in grocery retail, 10 European countries



In Spain and Italy, private-brand product quality is the third-ranked driver of brand loyalty.

Spain

- 1 Is located closest to me
- 2 Offers good value for money
- 3 Own-brand quality is good

Italy

- 1 Is located closest to me
- 2 Overall product quality is good
- 3 Own-brand quality is good

Source: McKinsey Customer Growth Analytics Survey, January 2021, n = 9,892 respondents. Scope: France, Germany, Italy, the Netherlands, Poland, Russia, Spain, Sweden, Switzerland, and the United Kingdom.

Exhibit 3

Top private-brand players have a higher promoter score and better market share evolution than peers.

	Europe top five average		Germany		United Kingdom		Spain		France		Italy	
	MS ¹ , %	PS ² , %	MS	PS	MS	PS	MS	PS	MS	PS	MS	PS
Top two players in terms of private-brand appreciation	+0.5pp	27.8	+1.5	35.3	+0.7	25.6	+1.4	29.5	−0.9	24.0	+0.2	24.4
Midfielders in terms of private-brand appreciation	+0.1pp	19.9	−0.1	27.4	−0.3	16.2	−1.2	19.1	+0.1	12.5	+2.2	24.2
Bottom two players in terms of private-brand appreciation	0.0pp	12.7	0.0	8.7	−0.4	17.7	−0.2	12.0	+0.1	7.8	+0.5	17.4

¹ Market share change. Market share evolution in pp, 2016–2020.

² Promoter score. Share of shoppers willing to recommend the grocer to a friend (answers 9–10 on a scale from 0 to 10).

Source: IGD; McKinsey Customer Growth Analytics Survey, January 2021. n = 4970 respondents scoring 43 players

existing capabilities. Historically, grocery players have developed product assortments by matching offers from CPGs with the demand from shoppers—people who actually go to grocery stores to buy goods. However, grocers need to understand not only *what* shoppers purchase but also for *whom* they buy it. Going forward, players will need to widen the scope of their assortment strategies to also serve consumers who do not come to their shops: the partners, parents, children, and pets of current shoppers.

This does not mean that shoppers and suppliers are no longer important. Shoppers make the final decision, and grocery players should temper consumer research through the lens of those who actually visit their shops. Suppliers are the ones that will ultimately fulfill consumer needs. Consumers,

however, should be front and center to allow grocers to capture the full spectrum of client needs.

This mindset shift will not be enough, however. Grocers will also need to conduct a thorough overhaul of the private-brand operating model and the capabilities that underpin it. For 40 years, the core business for grocery players was to buy products and put them on shelves. During the first wave of private-brand success, grocers focused on developing basic capabilities in understanding consumer trends, branding, and marketing. But this was just step one. Today, creating a winning value proposition that combines CPG knowledge with retail-distribution excellence requires grocers to perform well across 16 building blocks that cover four key capabilities (Exhibit 4).

Exhibit 4

Solving private-brand complexity requires retailers to address a set of critical questions and redefine its PB business model.

Private-brand (PB) building blocks



A. Consumer-led brand strategy

When grocery players recognize the potential of private brands, their first question generally involves the percentage of SKUs and derived sales they should aim for. That question is understandable—

but it's the wrong place to start. Instead, companies should start by identifying an assortment that would enhance overall banner positioning and address evolving consumer expectations. The relative share of private brands they end up with will depend on

the answer to this question. There are three broad grocer archetypes:

1. Driven by A-brands but with strong collections of private brands: Consumers of brands such as E.Leclerc and Monoprix want quality products, often seeking a number of national brands by default. In response, Monoprix developed a small number of premium private brands and invested in attractive packaging to ensure that these brands stand out on the shelves and appeal to consumers. Private brands account for a small percentage of Monoprix's total offerings, but they are a high priority. E.Leclerc has a similar strategy; although the company offers a broad range of Marque Repère private-brand products, its value proposition and messaging focus around A-brands.

2. Balanced offers mixing national and private brands: Tesco and other grocers aim to offer something for everyone, and they try to stay on top of consumer trends and changing consumption patterns. Their strategy therefore includes a broad and deep private-brand assortment across the whole range, as well as specialized subbrands; Tesco's Free From product line, for example, caters to the growing number of consumers with dietary restrictions.

3. Private brands at the core, with A-brands treated as complements: Lidl, Aldi, and Mercadona, for example, offer savvy consumers innovative, high-quality items that they cannot get elsewhere—often at a low price. A full assortment of private brands is therefore essential, though A-brands may also be used selectively to encourage traffic.

Grocers should use their banner strategy to identify the categories in which they want to develop a truly distinctive offering and those where they are content to simply keep pace with the market. The resulting prioritization will not only determine the number of private-brand SKUs but also have knock-on effects on other building blocks, including brand architecture and innovation agenda.

B. New-product development

As we have seen, reactive product development—in which grocers aim only to produce cheaper versions of A-brands—will not be enough to capture the value at stake. Best-practice grocers now actively identify unmet consumer needs and then employ agile product-development processes to meet those needs as quickly as possible. In our experience, these grocers can get products from idea to shelf (in pilot stores) in about three to four months, which is significantly faster than many CPG players can. In the first four months of 2021, private brands represented an average of 31 percent of new food products launched across Europe, including 50 percent of new food products in the United Kingdom.⁷

Mercadona has excelled at new-product development over the past few decades. The company maintains a constant dialogue with customers in an effort to identify and meet consumer needs: 180 in-store monitors across Spain collect requests and suggestions, and the company has 12 laboratories where it conducts market research. Products are then codeveloped with suppliers, which means that supplier selection is a critical factor; best-in-class suppliers have advanced innovation capabilities, often developed through manufacturing partnerships with A-brands. Overall, Mercadona has put agile methodologies at the center of its new-product-development processes, enabling the company to rapidly leverage customer insights and to test new products on a weekly basis. This combination of agility, creativity, and receptiveness to customer demands—often referred to as an “innovation garage” mindset—has fueled success for Mercadona over the past decade. The company's private brands are regularly ranked among the most innovative products; in 2019, for example, two products from Mercadona's “Hacendado” line were among the top ten “Best Innovations in FMCG.”⁸

At the same time, grocers will need to constantly monitor product performance to avoid proliferation

⁷ Tailored analysis from Global New Products Database, McKinsey.com.

⁸ “Radar de la Innovación 2019,” September, 2020, [kantarworldpanel.com](https://www.kantarworldpanel.com).

of SKUs and the ensuing erosion of purchasing and operational efficiencies. Products that perform below a certain threshold should be removed or relaunched. Regular and rigorous reassessments of the overall private-brand portfolio will give grocers a competitive advantage against CPGs, which often strive for a growing portfolio of brands and products and may therefore be reluctant to weed out lower performers.

C. Category management

The category-management principles that govern name brands also apply to private brands, but additional elements need to be considered as well. In particular, turning private brands into powerhouse brands requires grocers to fine-tune the five Ps: product, pricing, promotion, placement, and publicity.

- *Product:* Grocers will need to use consumer research to develop a detailed understanding of where they lag the competition in terms of range or quality. It is also vital to understand the ways in which private brands complement, or substitute for, both one another and preexisting brands. Grocers should analyze their transaction data to understand which SKUs are duplicative or cannibalizing trade from other SKUs. These insights can then inform decisions to delist underperforming private brands or to shift volumes from A-brands to more profitable private brands.
- *Pricing:* Private-brand pricing will need to take into account the prices of both A-brands within the grocer's assortment and equivalent products at other grocers.
- *Promotion:* Promotions are less common for private-brand products because, in principle, these products lack supplier funding. However, building transparency into the results of past promotions can help grocers identify items for which targeted promotions may encourage store traffic or increase basket size.

- *Placement and publicity:* Finally, grocers must elevate the prominence and visual appeal of private brands, both within stores and through advertising and communication.

An effective private-brand transformation can reset the value proposition of an entire category. In early 2016, for example, Tesco introduced Farm Brands—seven new private-label brands in fresh categories. At the same time, Tesco discontinued its lower-quality Everyday Value product range and reset the prices of a number of mid-tier private-brand products. Tesco developed its new Farm Brands to compete with popular ranges offered by discounters such as Aldi and Lidl. Like the discounters' products, Farm Brands offered the same quality at the same price, and used branding, such as Boswell Farms, that did not refer directly to Tesco itself. Thanks to this attractive proposition, which was supported by marketing and prominent in-store placement, Farm Brand products were in 64 percent of shopper's baskets by the second quarter of 2017.

Tesco has since expanded the concept to other categories. Today, the company offers more than 400 SKUs under the Exclusively at Tesco theme through brands such as Stockwell & Co. Undertaking a comprehensive review of its private brands gave Tesco the flexibility to reset its offerings across entire categories and reestablish its overall price position.

D. End-to-end execution

Delivering the strategy—getting the right products on shelves at the right times—requires a coordinated approach across all relevant teams and stakeholders, as well as efficient end-to-end execution. This will require several important shifts in existing relationships and processes.

First, grocers will have to change the way they view their private-brand suppliers. The relationship should not be transactional or focused simply on securing the necessary products at the lowest prices. Instead, best-practice grocers develop

Successful transformations go aisle by aisle

In our experience, private-brand transformations are most effective and most sustainable when they go aisle by aisle.

To decide where to start, retailers should classify categories by evolution of consumer expectations and the strength of existing A-brand offerings (exhibit). End-game categories, such as carbonated beverages and spreads, have a single dominant A-brand and stable expectations. At the other end of the spectrum, moving categories—such as baby food, cookies, and ready-to-eat meals—occupy a fragmented landscape with shifting consumer expectations.

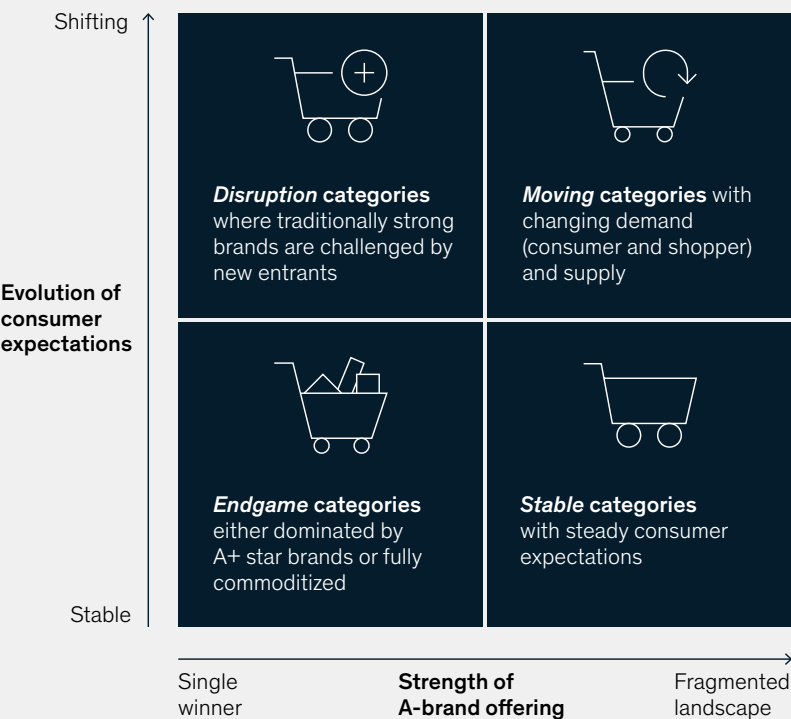
Grocery players might naturally look to moving categories first because these offer a prime opportunity to capture the next consumer generation. These rapidly shifting categories include products connected to health and well-being, such as plant-based food and dairy, fresh and ultra-fresh (for example, ready-to-eat products), healthy beverages, over-the-counter medications, and dietary supplements.

It may be more difficult to gain market share in end-game categories. No category is out of bounds for private brands, though each will require different tactics. In end-game categories, for

example, private brands should play selectively but can overcome consumer brand preferences and disrupt incumbents if they offer great prices for exceptional quality. In stable categories, lower prices with no compromise on quality—or better quality at the same price—are likely to be a winning value proposition.

Exhibit

To target effective and sustainable private-brand transformation, consider four categories.



longer-term partnerships, especially in crucial categories. These partnerships often include co-innovation and co-investment elements. This is another area where Mercadona has been particularly successful; the company's long-term agreements with suppliers encourage broad collaboration across quality control, new-product development, packaging innovation, production efficiency, and other areas.⁹

Some retailers even manufacture at least a portion of their own private-brand products. Swiss supermarket chain Migros, for example, directs about half of its purchasing spend to its internal manufacturing branch, M-Industry. Morrisons is now the second-largest fresh-food manufacturer in the United Kingdom,¹⁰ and Intermarché even owns 22 fishing vessels.¹¹ Other players are also starting to make incremental moves into this space; Lidl opened a chocolate factory in Germany in 2010,¹² for example, and Asda acquired two UK meat-manufacturing firms in 2016.¹³

Second, supply chains should be reoriented to maximize the availability of private brands, rather than treating these products as second class relative to branded goods. Grocer logistics should deliver the same service levels across national and private brands. Within stores, private brands need to be highly visible to reinforce the uniqueness and desirability of the grocer's assortment.

Finally, grocers will need to update their organizational capabilities. There are many ways to organize private brands, but in our experience, most winning grocers have a centralized, well-staffed private-brands team that is empowered to work closely with category managers.

Getting started on next-generation private brands

The complexity involved in getting next-wave private brands right—and the thousands of private-brand SKUs that most grocery players possess—means that the shift to private brands is a multiyear journey. But retailers can start to see results more quickly by taking two actions.

First, they can rebalance their existing assortments. The COVID-19 crisis has led to more financial pressures for more people, but quality expectations around food continue to rise. Around 26 percent of consumers in Europe want to spend less money on food in 2021, while asking retailers to do more to support sustainability and better health.¹⁴ Grocers should respond by relaunching their entry-level brands and products with more attractive packaging and at a higher quality, reducing their undifferentiated mid-price products, and expanding value-added and premium products.

⁹ *Annual report 2020*, Mercadona, April 20, 2021, info.mercadona.es.

¹⁰ "Manufacturing locations, Morrisons, June 28, 2021, morrisons.jobs.

¹¹ "Seafood business line," Mousquetaires, June 28, 2021, mousquetaires.com.

¹² "Lidl to operate own chocolate factory," Kantar Retail IQ, October 1, 2010, kantartetaliq.com.

¹³ Alice Foster, "Asda buys meat suppliers outright," *Food Manufacture*, January 8, 2016, foodmanufacture.co.uk.

¹⁴ "The path forward for European grocery retailers," March 25, 2021.

Around 26 percent of consumers in Europe want to spend less money on food in 2021.

Second, by selecting certain categories for an initial private-brand transformation, retailers can learn as they go, make quick wins, and generate momentum (see sidebar, “Successful transformations go aisle by aisle”).

an enormous amount of value on the table. Major private-brand investments have traditionally been perceived as risky, but increasingly, the major risk for grocers is being left behind. Players that get this lever right will develop a true source of distinction that will attract and retain consumers, offering a long-term competitive advantage.

The incoming generation of private brands is high-end and innovative and could be a major draw for consumers. Grocery players that do not take private brands seriously are therefore leaving

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The authors wish to thank Pierre-François Bacquet, Raphael Buck, Claus Gerckens, Bartosz Jesse, Udo Kopka, Dymfke Kuijpers, Franck Laizet, Daniel Läubli, Angus McOuat, Jessica Moulton, and Eugen Zraggen for their contributions to this article.

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