

Private Label Foods Surge: Continuing or Abating?

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I would like to begin my remarks today by pointing out to you that private label offers a way for the small to medium size food manufacturing company to survive in today's very competitive grocery industry. With slotting allowances going through the ceiling, with heavy front-end marketing moneys being offered, with free distribution of product being offered, and with heavy advertising budgets of the national brands, it has become very difficult for a small to medium size food manufacturer to compete with their own brands. I would like to point out to you today a case study of one small flour milling company which I have worked for since graduating from LSU and how private label let this small company survive and grow.

History of Gilster-Mary Lee

1. Founded 1895
2. Don Welge joined company in 1957
3. Started in baking mixes in 1958
4. Started packing TOPCO private label in 1959
5. Merged into Martha White in 1961
6. Bought Trenton Milling company in 1962
7. Started pouch mixes in 1963
8. Bought DUFF in 1965
9. Bought PY O MY Kitchen Arts Foods in 1968
10. Started Mary Lee Packaging in 1969
11. Formed Gilster-Mary Lee in 1971
12. Gained CONAGRA private label cake mix business in 1974
13. General Foods private label cake business 1975; Installed first pasta line for private label Mac & Cheese in 1975

14. Opened Wilson, Arkansas plant in 1978; Started RTS Frosting in Denver in 1978
15. Bought B & R Plastics in 1983; Started RTE Cereal in 1983
16. Bought P L Business from Wilkens Rogers in 1985; Bought Basic American private label potato business; Bought sugar plant; Started in P L Microwave Popcorn
17. In 1988 bought PARTY PAC
18. In 1989 expanded RTE Cereal; We moved Party Pac to McBride in 1988; Started packing pasta at sugar plant in 1989
19. Bought KO Pack in 1990
20. Built DC in 1991
21. Built corrugated Sheet Plant in 1991
22. Fought flood of 1993
23. Rebuilt plants in 1994
24. Opened shredded wheat plant in 1995
25. In 1996 expanded pasta plant

Gilster-Mary Lee Today

- A. Main Categories: private label baking mixes, dinner mixes, pasta, cereal, microwave popcorn, potatoes, and drink mixes, including hot cocoa, chocolate drink, and chocolate syrup
- B. Twelve plants
- C. 3,000 employees
- D. 215 Tractors and 600 Trailers

Private Label Today

- A. Private label continues to improve in quality
Can now be a career because of continuity of business
Must be equal to the brand in quality for first labels

- B. Types of private label
 - 1. First label
 - 2. Second label
 - 3. Upscale
 - C. Market penetration in the 15% range and even higher in food service
 - D. The rise of in-house brokers
 - 1. Advantages to manufacturer
 - 2. Disadvantages to manufacturer
 - 3. Advantages to customers
 - 4. Disadvantages to customers
 - E. Private label in different food store formats
 - 1. Convenience stores
 - 2. Independent supermarkets
 - 3. Supermarket chains
 - 4. Box stores
 - 5. Supercenters
 - F. Innovation in private label
 - 1. Gilster-Mary Lee examples
 - (A) RTS Frosting
 - (B) Microwave Popcorn
 - (C) Deluxe Shells & Cheddar
 - (D) Bite Size Shredded Wheat
 - 2. Private label market share today

The tables on the following page are from PLMA's 1996 private label yearbook.
 - G. The future of private label
 - 1. Gradual growth

Most economical way for the consumer to buy food

National brands have strength to not let private label grow rapidly
 - 2. Continued emphasis on quality of product

Quality of packaging
 - 3. Customers will look for private label vendors with multiple product lines in order to improve turnover of inventory
 - 4. Continued pressure on private label suppliers for quality, service, and prices
 - 5. Profit margin for private label products will remain under intense pressure
 - 6. Because of small margins and uncertainty of profit margins, private label better adapted to small and medium size privately held companies than to publicly listed firms
 - 7. In closing, I would like to again emphasize that the opportunity to survive in today's competitive marketplace lies in private label for many small to medium size food manufacturing firms.

By forming a partnership with the retailer and wholesaler, the small to medium size food manufacturer has a much better chance of surviving.
 - 8. I also believe that private label will continue to grow as consumers realize that it is equal in quality to the leading national brands and is simply a way to eliminate extra marketing expenses.
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Table 1. Private Label Dollar Volume: Today vs. A Year-Ago

	Today	Year-Ago	Change
Regular Private Label	\$ 31.2 Billion	\$ 30.2 Billion	+3.5%
Generics	311.0 Million	361.5 Million	-14.0%
Total Private Label	31.6 Billion	30.5 Billion	+3.3%
Total Brands	177.7 Billion	174.1 Billion	+2.1%

Source: IRI/PLMA

Table 2. Private Label Unit Volume: Today vs. A Year-Ago

	Today	Year-Ago	Change
Regular Private Label	25.1 Billion	25.1 Billion	-0.1%
Generics	252.7 Million	303.7 Million	-16.8%
Total Private Label	25.3 Billion	25.4 Billion	-0.3%
Total Brands	103.2 Billion	104.0 Billion	-0.8%

Source: IRI/PLMA

Table 3. Private Label Dollar Market Share: Today vs. A Year-Ago

	Today	Year-Ago	Change
Regular Private Label	14.9%	14.8%	+0.1 pts
Generics	0.1%	0.2%	-0.1 pts
Total Private Label	15.1%	14.9%	+0.2 pts
Total Brands	84.9%	85.1%	-0.2 pts

Source: IRI/PLMA

Table 4. Private Label Unit Market Share: Today vs. A Year-Ago

	Today	Year-Ago	Change
Regular Private Label	19.5%	19.4%	+0.1 pts
Generics	0.2%	0.2%	±0.0 pts
Total Private Label	19.7%	19.6%	+0.1 pts
Total Brands	80.3%	80.4%	-0.1 pts

Source: IRI/PLMA

Table 5. Five Year Market Share Trend in Dollars and Units

	Dollars	Units
1991	13.6%	18.1%
1992	14.6%	19.4%
1993	14.9%	19.7%
1994	14.9%	19.4%
1995	14.9%	19.5%

Source: IRI/PLMA