



► Stores are wooing value-conscious shoppers with more private brands

► "Retailers are taking a lot more sophisticated approach to store brand innovation"

Like many U.S. grocery chains, **Safeway** wanted to improve its private-label offerings during the economic slump, when consumers were eager for brands that offered better value. So three years ago it poached veteran marketer Diane Dietz from **Procter & Gamble** and named her chief marketing officer. Since joining Safeway, Dietz has been digging into P&G's bag of branding tricks. In June, to promote the introduction of Safeway's Open Nature line of antibiotic-free meat, she had a 305-foot-long picnic table (a Guinness World Record) constructed in San Francisco's Marina District, where celebrity chef Tyler Florence of Food Network fame helped prepare a meal for several hundred people. The resulting buzz was a publicity bonanza for the house line.

Store brands have come a long way from their copycat days, when they confined themselves mostly to yellow boxes of faux Cheerios and black-and-white cans labeled "beans." Back then, grocers were loath to anger the **Kraft**

Foods and **PepsiCos** of the world by pushing their own labels too hard. Now, with deal-hunting shoppers increasingly brand-disloyal, Safeway, **Kroger**, and **Supervalu**—which together account for 40 percent of U.S. retail food sales, according to Citibank analyst Deborah Weinswig—are increasingly willing to devote more shelf space to their own merchandise. As of mid-November, store brands accounted for 31.4 percent of the 14,400 new food and beverage items introduced in the U.S. this year, according to market researcher Packaged Facts, based on data from Data-monitor's Product Launch Analytics. That's double the share logged in 2010 and up from just 8.7 percent in 2009.

To fuel sales of their in-house lines,

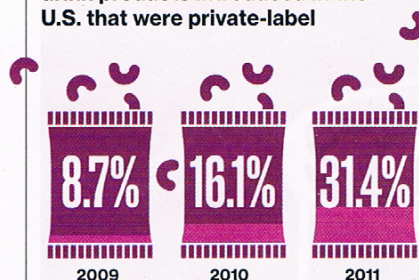
Retailers are recruiting veteran marketers to help out-innovate traditional packaged goods companies

retailers are recruiting veteran marketers to help out-innovate traditional packaged goods companies. "Retailers are taking a lot more sophisticated approach to store brand innovation," says Jim Hertel, managing partner at retail consultancy Willard Bishop. "This is five or six years in the making, and we are now seeing the tipping point."

At Safeway, Dietz created brand manager positions—à la P&G—for Open Nature, O Organics, and the grocer's half-dozen other house brands. This year the grocery chain also added a 10,000-square-foot culinary center in California staffed by professional chefs, who hold product tastings each Thursday. (Chief Executive Officer Steve Burd has been known to pop by to sample bacon-wrapped filet mignon appetizers.)

With Safeway's store brand sales growth outpacing that of national brands by a 3-to-1 margin, Dietz has had little problem persuading several P&G and PepsiCo brand managers to join her growing team. Such

Portion of food and nonalcoholic drink products introduced in the U.S. that were private-label



NOTE: FULL YEAR FOR 2009 AND 2010, THROUGH 11/16 FOR 2011; DATA: PACKAGED FACTS, PRODUCT DATA ANALYTICS

managers bring skills “that you don’t get in retail,” says Bill Gillispie, a supermarket veteran who has run store brand programs at Supervalu’s Save-A-Lot chain. “They understand packaging. They understand the cost of goods.”

Former **ConAgra Foods** executive Linda Severin joined Kroger in 2007 and is revamping the chain’s in-house brands, including frozen pizza, a category market researchers consider “up for grabs.” While research showed shoppers open to trying private-label pizzas, more upscale customers weren’t buying Kroger’s house-brand pies. So Severin and her team found new vendors to supply higher-end cheeses, meat, and veggies. In March, Kroger introduced the “Private Selection” line of oval-shaped, thin-crust pies. The pizzas, topped with mozzarella, grape tomatoes, and aged parmesan, are \$5.99, the same as **Nestlé’s** DiGiorno pies—a testament to the store brand’s cachet. Now 60 percent more of Kroger’s higher-end shoppers buy the pizza. “We need to be focused on building brands, not just introducing products,” says Severin. Store brands now account for 27 percent of Kroger’s grocery sales, up from 23 percent in 2003.

Emboldened by success in the fro-

zen food aisle and in pasta, grocers are moving into categories—salty snacks, beer, pet food—they’d previously shunned because the big brands were so entrenched. Safeway’s new Snack Artist cheese curls and potato and tortilla chips, packed in innovative resealable bags, should “take market share from branded people,” CEO Burd said in March. Those “people” include PepsiCo’s \$30 billion Frito-Lay unit. A price advantage helps: A 10 oz. bag of Snack Artist potato chips costs \$2.29. A similar bag of Lays is \$4.79.

Kroger has overhauled the packaging of its Pet Pride brand, based on research showing that although dog owners like to see humans and dogs frolicking on the front of the package, cat owners just want to see a happy feline. While it’s too early to measure any sales lift, Kroger says surveys of pet owners show “purchase intent” has risen 22 percent for the new package.

National brands can’t ignore such changes. One reason: A single percentage point shift in food and beverage sales from branded items to house lines translates into a \$5.5 billion gain in sales for the supermarket chains, says Packaged Facts Publisher David Sprinkle. So analysts say companies such as **Kellogg** and **Campbell Soup** worked to restock their product pipelines in 2011 to make up for paltry innovation in years past.

Still, Sanford C. Bernstein analyst Alexia Howard predicts store brands will grab market share from branded items once again in 2012. That’s because consumers are more receptive than ever to store brands: McKinsey says that three out of four consumers who traded down to private-label products since the recession started have no plans to switch back when conditions improve. And consultants at Deloitte say American shoppers

are loyal to only about a third of the national brands they buy. Susan Viamari, editor in chief at data tracker Symphony-IRI, sums up shoppers’ calculation this way: “Why should I be paying more when I get the satisfaction I need at a 30 percent lower price?” —*Matthew Boyle*

The bottom line Store brands accounted for 31.4 percent of the 14,000 new food and beverage items introduced in the U.S. this year.

Hospitality

In China, Too Much Room at the Inn

► After a building boom, hotel vacancy rates are soaring

► “The question is whether ... demand is going to be big enough”

For its new Andaz boutique hotel in Shanghai’s bar and entertainment district, **Hyatt Hotels** spared no expense: Rooms boast color-adjustable lighting and glowing translucent bathtubs that offer a view of the city’s old French Concession area through floor-to-ceiling windows. There’s even a 23,672-square-foot spa and a water-surrounded glass pavilion for weddings and red carpet events.

The month-old Andaz is one of 19 five-star hotels that have opened in Shanghai in the past five years. Many boast eye-popping luxuries. What they lack is enough guests. The city’s hotel occupancy rate stood at 54.4 percent for the first nine months this year, down from 64.4 percent a year earlier when the city hosted the World Expo, says consultant STR Global. (Hyatt declined to disclose its Andaz occupancy rate.) By comparison, more than 80 percent of rooms were filled in Singapore and Hong Kong. Similar overcapacity is a problem across China, with a national hotel occupancy rate of 61 percent through September, the lowest in Asia, except India, among 15 countries tracked by STR Global.

That’s worrisome for the foreign hotel chains rushing into China, which last year overtook Spain to become the world’s third-most-visited travel destination after France and the U.S., according to United Nations World Tourism Organization data. The number of internationally branded hotel rooms in China

\$5.5b

Amount of added revenue supermarket chains get from a

1%

point shift from brands to private labels