WHO WILL WIN THE BATTLE OF THE SHELF? BRANDED OR PRIVATE LABEL PRODUCTS?

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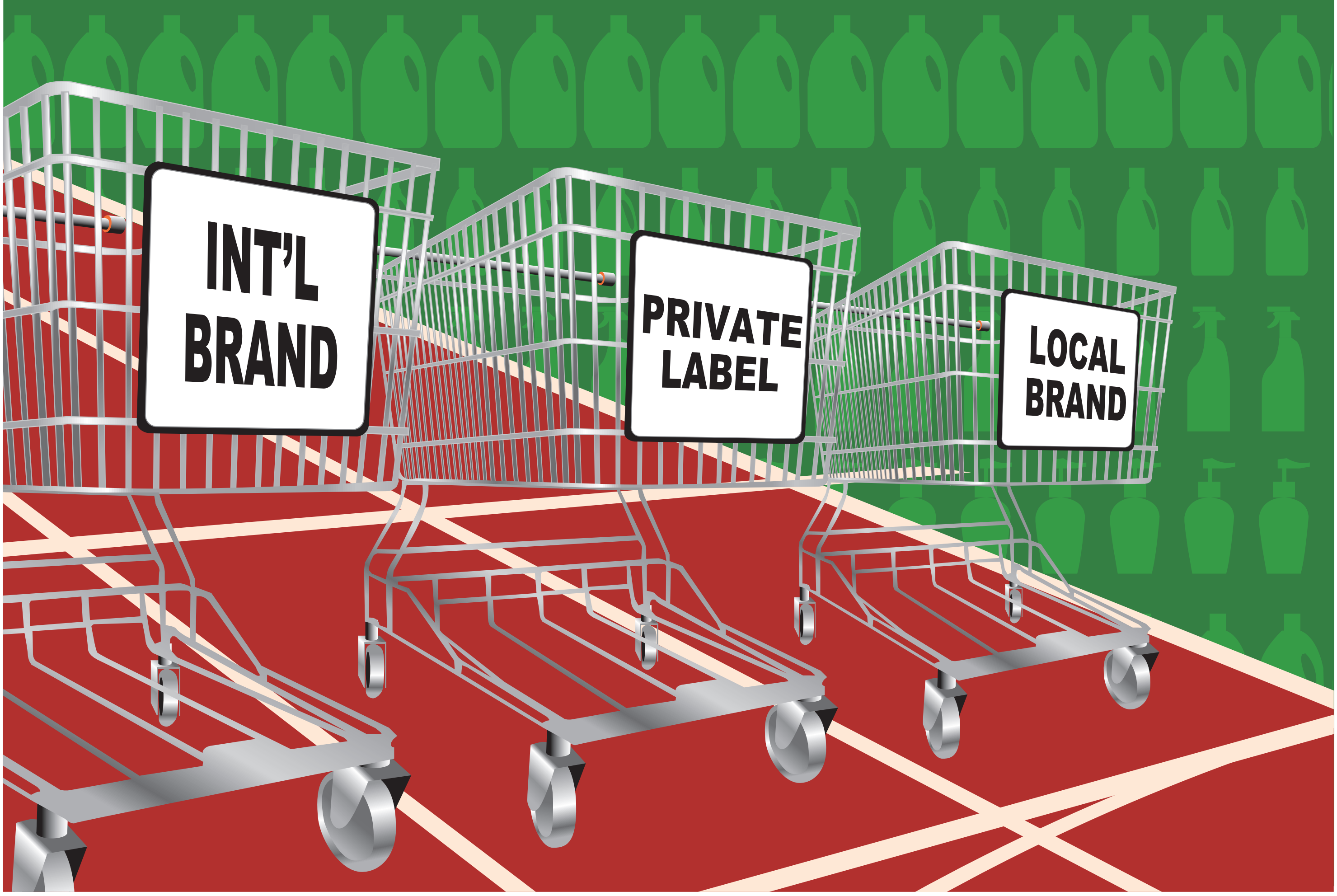


Just ask nielsen

Who Will Win The Battle Of The Shelf In China? Branded or Private Label Products? Just Ask Nielsen.

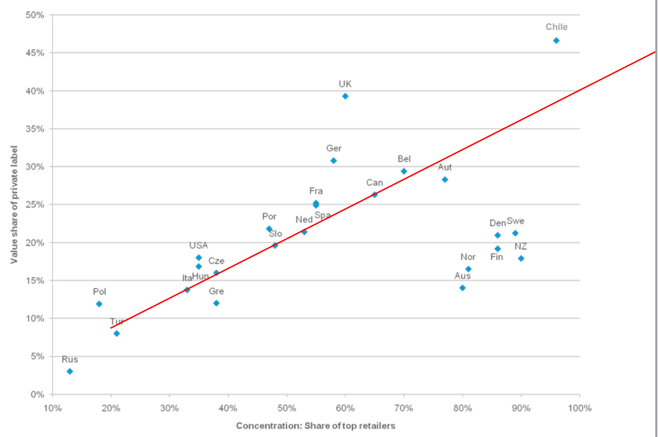
Low price is no longer the only reason for private labels' convincing prevalence. A Nielsen Private Label survey in 38 markets in 2005 revealed that among the respondents, 72 percent from North America, 68 percent from Europe and 70 percent from Asia Pacific, think that private label has the same quality as national brands.

The China market has more than 3.3 million FMCG stores nationwide, according to Nielsen's Retail Census 2008. Modern trade grew four fold over the past six years, achieving an 18 percent increase both in store count and turnover compared to 2007. Nielsen estimates that modern trade will account for 60 percent of total FMCG sales turnover by 2015, from the current 45 percent in 2008. Over the coming decade it is of no surprise that China will migrate to a more developed and concentrated retail environment with a number of retailers expanding their presence.

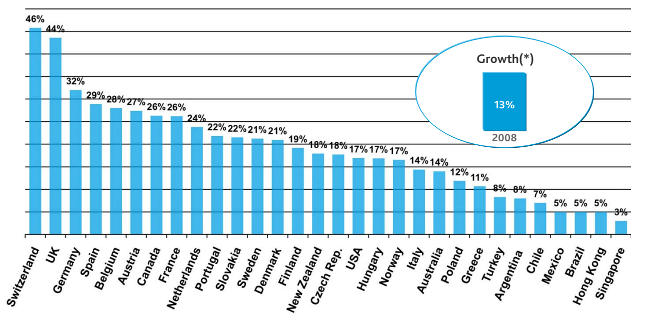
With increasing retailer concentration, one key focus for manufacturers will be the associated bargaining power of channel retailers. Retailers introduce private labels in a category not only to gain profits directly from the private label but also to provide greater choice at a different price range for consumers to purchase from. In China this role has in part been played by the localized brands and the challenge for retailers is to provide trust in their brands to compete against the new private labels.

In developed markets, private labels occupy a noticeable level of market share; Switzerland 46 percent, UK 44 percent, US 17 percent, Australia 14 percent, whereas in Asia it is significantly lower with Hong Kong and Singapore taking the lead with five percent and three percent respectively. The importance of private labels continues to accelerate with a steady global growth of 13 percent in 2008, which has been driven by consumers looking to economize on their expenditure.

Private label and retailer concentration



Private label value share is growing



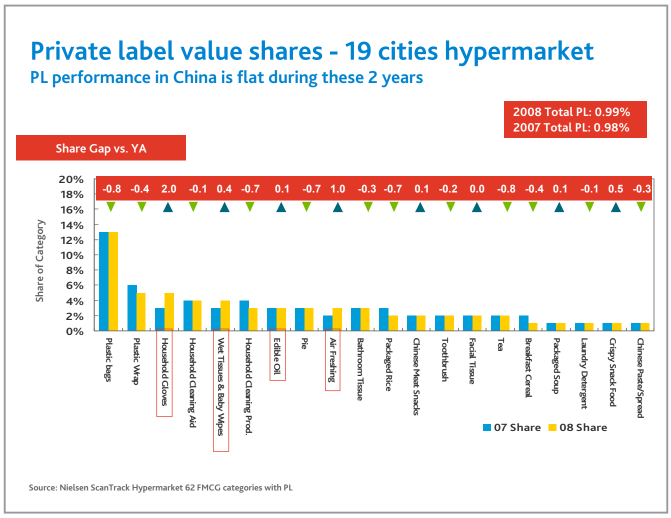
(*): Based upon USA, Canada, UK, Germany, France, Spain & Italy = $330B

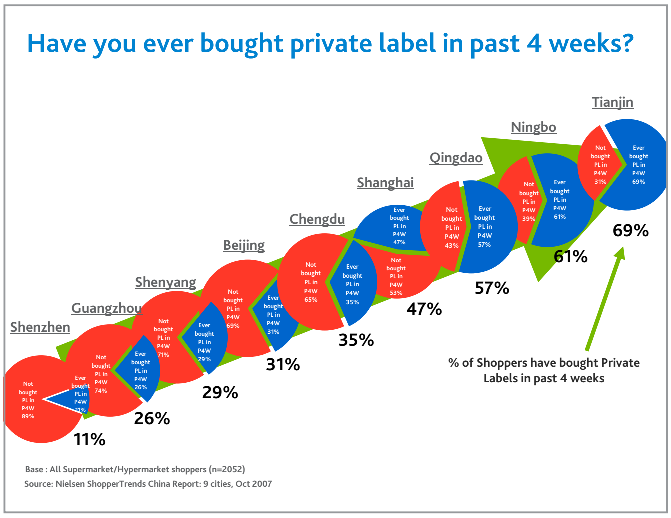
nielsen

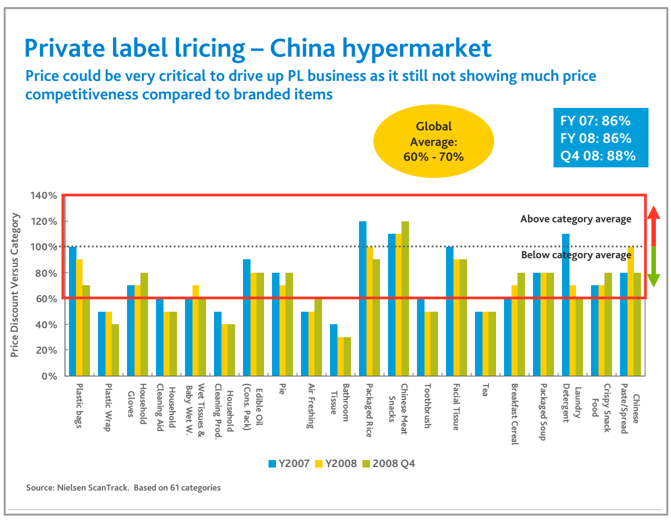
In China, private labels represent a very low consumer acceptance, with only one percent share within all FMCG products and 0.3 percent share within the Personal Care segments in 2008, even though it was introduced over five years ago. Overall, Non-edible products enjoy a higher market share and purchase frequency by consumers than Edibles. This is partly explained by the widespread food safety concerns which are actively promoted by the media after issues such as 'contaminated milk'. Categories topping the list with private labels include Plastic bags/wraps, Household gloves, Household cleaning aids, Wet tissue & baby wipes among others. Private labels account for 3-13 percent value share in these categories. Edible categories are focused on Edible oil, Pie and Packaged rice, where private labels are taking 2-3 percent value share. Different geographic areas also have different acceptance to private label. Shoppers in the North and East tend to purchase private labels more regularly than those in the South.

Most consumer goods categories are already occupied by a number of low-price brands, where quality will be the critical winning factor on top of 'low-priced'. A Nielsen shopper survey in 2009 shows only 17 percent of shoppers in China think that private brands enjoy equal quality as national brands, and almost 60 percent of respondents consider purchasing private brands because it was 'less expensive compared to manufacturer brands' or 'better value for money'. Obviously there is a need for private label to improve on perceived quality and safety before it can take a larger percentage of the market.

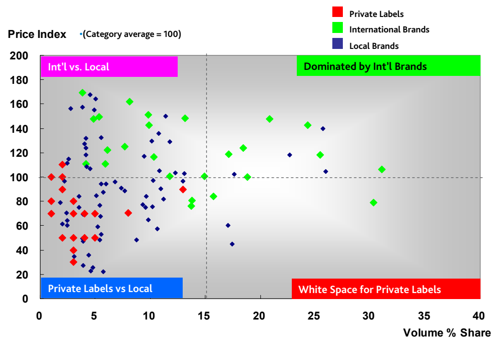
However, are private labels in the China market truly providing low price? According to a study of 61 FMCG product categories, private labels in the China market only offer 15 percent lower price to shoppers in the hypermarket channel, and there is a decreasing trend by end quarter of 2008. Compared to global private labels with 30-40 percent lower price than the national brands, China still leaves a considerable white space for private labels to fill and to grow.







Competition with price positioning



Note: Above data is from 20 categories whose Private labels' volume share >=1%. They include: Plastic bags, Plastic Wrap, Household Gloves, Household Cleaning Aid, Wet Tissues & Baby Wipes, Household, Cleaning Prod. ,Edible Oil, Pie, Air Freshing, Bathroom Tissue, Packaged Rice, Chinese Meat Snacks, Toothbrush, Facial Tissue, Tea, Breakfast, Cereal, Packaged Soup, Laundry Detergent, Crispy Snack Food, Chinese Paste/Spread

Source: Nielsen 18 Cities Hypermarket ScanTrack. 2008. Top 5 national brands and total Private labels of each category

Implications to FMCG national brand manufacturers

The private label segment is expected to grow, driven by the ongoing, incredible growth of the modern trade and the continued emergence of major regional or national retail chains. Current bad economic times also provide a good financial impetus to private labels. There has been a fundamental shift in consumer spending patterns, as restraint becomes the new mantra. The age of thrift is here, PepsiCo Chairman & CEO Indra Nooyi said*.

In Watsons, private labels contribute up to 25 percent of annual revenue, at 20-30 percent lower price than the categories. Two years prior, Wal-Mart announced their plan to grow the sales importance of its private label brands from 2.5 percent to 20 percent in five years*.

It is no doubt that national brand manufacturers should build strength continuously to compete with private labels before they take off:

- True innovations with clear points of differentiation and competitive advantage will be in a prime position to win.
- A good variety of premium and low tier product portfolios is crucial to satisfy the wide range of consumers in China today. With this, national brand manufacturers will also be careful not to lose out the vision on the super premium segments which is currently small but gaining prominence.
- Assess market, down to specific retailer level. Understand the role of the category leader for each retailer and how important private labels are to that mix. Drive top quality analytics, an area where retailers are growing in sophistication.
- Work with retailers to establish a business model that sustains profit margins for the channel.
- Support retailers' penetration to lower tier markets and lead the strongest elements of 'first moment of truth' in new stores.

Reference & Source:

* Nielsen Global CIES 2009 Presentation

* 2009 Nielsen Global Consumer Insights, Private Label Development in Tough Economic Times (2009-05)

* Nielsen ShopperTrends – China 2009 and 2007

* http://www.hnchain.com/News/NewsView.asp?NewsID=103947&page=1

* http://www.oemtimes.com/School/news/7097/NewsDetail.html

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