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Putting a premium on premium

While opportunities abound for retailers offering products in this segment, they must follow a comprehensive strategy to succeed

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Product Spotlight Fruit-and-grain buns



The fruit and grain buns, available for private labeling, are said to be moist and made with non-GMO grains, whole oats, real fruit, seeds and muesli.



It doesn't get much more premium than selling in-store bakery items filled with Ghirardelli Chocolate to differentiate your supermarket from the competition. That's what several Albertsons supermarkets are doing in northern California, and the store brand sweets are flying off the shelves like ... well ... bakery items filled with Ghirardelli Chocolate, one of the most famous chocolate brands in the world.

"We are telling the story that we have incorporated Ghirardelli Chocolate into our own-brand products, and they are selling very well," says Geoff White, president of own brands for Boise, Idaho-based Albertsons Cos., which operates 2,230 stores in 33 states under 18 banners.

But Albertsons' premium bakery items, or any of the retailer's premium items for that matter, weren't created in a vacuum. They might not have been created at all if Albertsons didn't offer established and popular mainstream and value tiers to gain consumers' trust in their private brands. If consumers don't buy those products, who's to say they will buy a retailer's premium products?

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Also, if a product or line is labeled as “premium,” then it had better be premium. As Warren Buffett once said, “Your premium brand had better be delivering something special or it’s not going to get the business.”

White describes premium “as an elevated experience with high-quality food.” He believes Albertsons’ store brand bakery items with Ghirardelli Chocolate offer just that.

It’s also essential that premium products have a good story to tell, including where they originated and who created them. For Albertsons, that story was telling consumers that it was baking its own sweets made with chocolate from a local company that just happens to be revered around the world.

As with Albertsons’ sweets and any retailer’s premium products — they need to be promoted for their quality and value, which equates to a retailer making a commitment to support the products and their attributes. And even established premium lines have to be tinkered with to keep up with food trends and consumers’ ever-changing demands. Yesterday’s hot category for premium products might not be tomorrow’s hot category.

‘A must-have line’

With the economy in decent shape and consumer confidence recently hitting a 17-year high, it’s a great time for all retailers — including discounters — to think premium when it comes to private brands. For consumers, trading up to premium private-branded food and drink products requires a relatively small increase in spend, making it an easier decision for consumers to do so when they have a little more money in their pockets.

That said, Mark McKeown, client insights principal for IRI, believes retailers shouldn’t let a good or bad economy dictate whether they should launch a premium line or add products to a premium line.

“I don’t think it’s a choice of whether or not it’s a good time,” McKeown says. “I think a premium line is a must-have line as opposed to retailers wondering if they should have it or not.”

When done right, having a premium line equates to differentiation, just what retailers are aiming to do with private brands these days.

“In order for retailers to continue to provide a point of difference in a highly competitive market with significant consolidation, I think emphasizing their brands and having a portfolio of brands that meet different needs for different consumers is a must,” McKeown says. “So premium is a natural extension of what we have been seeing from retailers where they started off with value lines and then added mainstream lines.”

But if a retailer’s national brand equivalent mainstream tier isn’t delivering the right value equation in terms of quality and price, then that retailer probably shouldn’t implement a premium tier, says Joe Cook, the senior director of analytics at Daymon.

“The consumer won’t give permission to jump to a premium brand or any other differentiated brand for that matter,” Cook adds.

Before Albertsons launched its two premium brands — O Organics and Open Nature — it made sure its mainstream store brands were in good standing with its customers.

“If you don’t have consumers’ everyday shopping needs in every category with [mainstream products], which always offer a value, you’re not going to build much trust in your premium line,” White says.

O Organics was launched in 2005 to make a variety of certified organic products available to more people at a better value. Open Nature, launched in 2011, features



Store Brands —
June 2017



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May 2017



Private Label
International —
Spring 2017

meats, breads, snacks, ice cream and other free-from products that contain no artificial flavors, colors or preservatives.

“While both of these segments are quickly becoming mainstream, they are still considered premium,” White says. “We can offer a huge assortment of both brands at a great value.”

White says many consumers think higher prices when they hear the word “premium.” So he notes that it’s “incredibly important” to link value with premium products. Products that are “over-premiumized” and don’t offer value could flounder.

“Consumers look to us to have high-quality products but at a price they can afford,” White says.

Keeping premium relevant

Premium products and lines can be viewed by consumers as average if not scrutinized. The key is to go back to refine the lines to keep up with trends and consumer needs, McKeown says.

For instance, the lines may have been launched when baby boomers were the biggest buying group and now must be updated to accommodate millennials, today’s largest buying group. Soon, they may have to be updated again for Generation Z consumers.

“Retailers must look at what the brand stood for when it was launched and decide what they want it to stand for with future generations,” McKeown says.

White says his private brands team is fully immersed in consumer insights and emerging trends as they pertain to premium products.

“It’s a constant evolution of innovation based on consumer trends,” White adds.

While Albertsons is located in Boise, White and his team are located in the San Francisco area, where food trends are more prominent.

“The Bay area is incredibly forward-thinking, has a really interesting food culture and is always on the cutting edge of innovation,” White says.

Premium can also mean different things to different retailers, Cook states. It could be a culinary line featuring chef endorsements and recipes or a black label line focused on elevating flavors and sourcing. It can be something more whimsical focused on compelling flavors or a small batch focused on regional or specialty flavors.

It’s up to retailers to figure out what premium means to them in accordance to region, demographics, flavor trends and consumer needs, among other things.

“There is definitely a process to follow to determine the strategic fit of a premium brand in your portfolio,” Cook adds. “But when you do it right, you can build a differentiated program. And if you build a successful differentiated program, our research shows that shopper loyalty will be on average six points higher and your private brand shares will be on average eight points higher.”

According to “The Premiumization of Private Label,” a recent report from Bellevue, Wash.-based Hartman Group, bottled water, pretzels, olive oil, prepared salads, honey and chilled pizza are the “growth engines” for store brands and offer opportunity in the premium segment.

“Private label sales in these categories are continuing to excel and dominate due to the power of store brands in the fresh perimeter and private label’s uncanny ability to excel in culturally younger categories/segments where historical habits related to brand preference are quite young and less stable at the individual label,” the report states.

Retailers have a good opportunity to retain share and premiumize offerings in the fresh perimeter growth categories where brands are neither dominant nor relied on,

the report states.

“The premium customer is heavily slanted toward fresh,” White says. “If you’re not in the premium game around the perimeter of the store, you will probably never be considered premium.”

A story to tell

On the back of its Pitmaster Seasoned Pulled Pork package, a new product that is part of Sam’s Club’s recent renovation of its Members’ Mark line, there is a story about the product: “Texas is known for legendary barbeque and our family-owned smokehouse deep in the Pinewoods of East Texas has perfected this heritage for generations,” the story reads. “Made from tender pork shoulder meat, we barbeque the authentic way: low and slow; immersed in smoke from smoldering hardwoods for hours.”

The story is enough to garner consumers’ attention for the product, if not get their mouths watering. An attractive display featuring the product inside Sam’s Club pushes the premium tag even more.

“[A story about] where a product came from, who it came it from and how it was developed is very important,” White says.

McKeown agrees and advises retailers to not just tell the stories in stores and on packages but to utilize their websites and social media as well.

“It’s not just what you do in-store, it’s what you do outside the store that is just as important,” he adds. “You have to have the products, and educate your customers as to what the brand stands for and how it’s going to help them live their lifestyle.”

Joseph Welsh, a grocery consultant based in El Paso, Texas, says another way to get a premium product or line noticed is to champion a cause and offer a percentage of the profits on the sales of the premium product or line to the cause.

“Premium products have higher margins so retailers can do more of this,” Welsh says. “There is no shortage of activists these days. Everybody has a cause or issue that they support. Doing this would drive sales and solidify long-term brand loyalty.”

Whether telling a story or taking up a cause, it all comes down to commitment, McKeown stresses.

“When you launch premium products, are you committed to having the right packaging and the right price value?” McKeown asks. “And, more importantly, how are you going to merchandise the products in your store?”

A retailer can’t just put its private brand premium crackers side-by-side with four other national cracker brands, McKeown says. The premium product needs to stand out on its own on a block or an end cap.

“The greater challenge for the retailer is communicating the product to consumers without price promotions,” McKeown says. “The dollars aren’t there from the supplier community to create the awareness like with national brands. So that puts the burden on the retailer to commit to creating initial awareness, trial and repeat purchase.”

No shortage of products

Welsh expects the research and development pipeline for premium products to be full in coming years.

“There are more kids majoring in food science today than ever before,” he says. “With respect to new ideas and product creation, there is not going to be a shortage of that. And as the country continues to diversify in the long-term, American consumers are going to be introduced to more and more foods from around the world.”