

An Overview of Private Label in Australia

**Presentation to the
Monash Food Executive program
October 2005**

PROFILE OF AUSTRALASIAN PRIVATE LABEL PROGRAMS

Australian supermarket retailers trail global leaders in private label development

Retailer	# of Sku	Current Share	Announced target for marketshare	Announced target for number of sku
Woolworths	900	9%	?	+800
Coles	2,200	12%	30% or 40%	3,000
Bi-Lo	1,200	18%	30%	2,700
Metcash	n/a	9%	25%	?

WOOLWORTHS LIMITED

WOOLWORTHS GROUP STRUCTURE

Woolworths Group operates a range of retail businesses – this report focuses on the private label activities of the supermarket business

Woolworths corporate structure and sales
(A\$B, FY 2005)



WOOLWORTHS - PHASE I - GENERIC BRAND AND STORE BRAND

For a long period, Woolworths had a limited range of generics under the “Home Brand” and a few Woolworths store brands in perishables

Woolworths private label architecture until December 2000



Tier 1



Tier 2

EXAMPLES: HOME BRAND LABEL

Woolworths 'Home Brand' label is a classic generic scheme in the style of the original Carrefour "Produits Libres"

Version 1



Version 2



EXAMPLES: WOOLWORTHS STORE BRAND

The 'Woolworths' brand is only used on a few items in its perishables categories



EXAMPLES: WOOLWORTHS STORE BRAND

The 'Woolworths' store brand is strong in packaged salads



WOOLWORTHS - STAGE II - PSEUDO-BRANDS

In response to the arrival of Aldi, Woolworths launched a range of 160+ controlled label products under a eleven pseudo-brands

Woolworths Pseudo-Brands program
(Dec 2000)

Pseudo-Brand	Categories
2 Cool	Longlife juices/drinks, carbonated soft drinks, cordials/drink bases, water/non-alcoholic drinks
Ark	Pet food
Asaka	Biscuits
Avora	First aid, papergoods, toiletries
Bowman's	Biscuits, breakfast foods, jams/spreads, snacks, beverages, chilled juice/drinks, longlife juice/drinks
Café Lane	Beverages
Clarisse	Toiletries
Echo Valley	Chilled spreads/fats, self service delicatessen, chilled cheese, ice cream
Hillendale	Canned fruit/desserts, frozen poultry, frozen vegetables, prepared foods, canned fish, canned vegetables, frozen fish, frozen meals
Marketta	Cooking oils, canned vegetables, condiments, pasta/rice
Starmark	Cleansing products, paper goods



EXAMPLES: QUALITY/VALUE PSEUDO-BRANDS

The pseudo-brands were linked into a family by the Quality/Value star, but had no attachment to the Woolworths name



RESPONSE TO ALDI

The pseudo-brand range was a direct response to the arrival of Aldi in Australia

- **“The lines were developed to fill a void in Woolworth’s private label offer as well as in response to the entry of the German discounter Aldi into the Australian market... They are eyeballed up against the Aldi products in the stores around the Aldi area. So, although they are dearer in other stores, in the stores that are competing with Aldi, they are the same price as the Aldi products.”** *Bernie Brookes, GM Buying and Marketing, Woolworths AU, January 2001*
- **“Woolworths has been quietly rolling out a range of premium private label grocery products in a strategy aimed at countering one of Aldi’s major strengths in its early days of launch in Australia. Aldi, the Germany-based deep discount grocer, which has just opened stores in Sydney, operates on price and a limited range of predominantly private label products. The Woolworths range, which, similar to Aldi, carries different brands in different categories, is being stocked in all stores, not just those within firing range of the Aldi opposition... It is positioned in price above Woolworths’ Home Brand generic range and below the national brands, although, last week, some of the promoted national brand specials were cheaper than the Woolworths “control brand.”** *Foodweek, February 2001*
- **“It’s not a premium private label, but rather a ‘control brand.’ There is a bit of a difference there which is important to us - a private label would carry the Woolworths name. This is more of a tactical brand. It gives us flexibility. We can pull it any time we want. We have had brands like this for many years, including the Little Wishes baby products range, Naytura health range and the Chevron electrical products range. This is an extension of that. It has 160 SKUs across 45 categories, and that is as far as we plan to go.”** *Bernie Brookes, GM Supermarket Buying and Marketing, Woolworths AU, February 2001*

A BRIEF EXPERIMENT

After poor consumer response, Woolworths pulled back from its pseudo-brands program

- **“Woolworths has conceded defeat in its effort to compete with German giant Aldi on generic branding. In late 2000, Woolworths introduced six or seven company-owned ranges in “controlled brands” to compete with the Aldi supermarket chain, which primarily stocks its own brands... Profitable Bowmans and Ark lines would be retained, but those that had not yielded the desired volume would be ‘exited on a slow basis.’” *Foodweek, Oct 2002***
- **“Long term, I think it demonstrates that while we’re good at retailing, we’re not particularly good at marketing brands and that’s not our core proposition. We’d rather use the supplier brand and have Home Brand there as a generic offering... Home Brand will be our sole offering in long-life food because we believe there are enough brands and manufacturers around already.” *Bernie Brookes, GM Buying and Marketing, Woolworths AU, October 2002***

NO PLANS FOR A WOOLWORTHS BRAND

For years Woolworths denied any interest in launching a Woolworths store brand in grocery

- ***“We have no plans to introduce a Woolworths private brand or a ‘fair dinkum’ private label.”*** *Bernie Brookes, GM Supermarket Buying and Marketing, Woolworths, February 2001*
- ***“We don’t have any plans to venture into a Woolworths brand. Rather, our plan at the moment is to increase the quality of the Home Brand product and the continuation of its 765 lines.”*** *Bernie Brookes, GM Buying and Marketing, Woolworths AU, October 2002*

PLANS FOR A WOOLWORTHS BRAND

Recently Woolworths announced plans for a premium Woolworths brand in grocery

- **“We feel that the cycle we are in, it’s the right time to do it. Overseas, there’s quite a big move in this direction and we think it’s a trend that can deliver to Woolworths significant cost and gross profit benefits going forward.”** *Roger Corbett, Chief Executive, Woolworths Limited, August 2004*
- **“Woolworths will escalate the battle against rival Coles Myer by launching its own brand of premium labels to drive profit growth, putting further pressure on suppliers already battling for shelf space as both retailers cut back slow-selling product lines... Both retailers are facing criticism from food and liquor suppliers about their determination to reduce the number of slow-selling lines on their shelves to reduce costs, while seeking to generate higher sales through promoting their home brands.”** *AFR, August 2004*
- **“Woolworths, until now, has adopted a totally different strategy [than Coles]. It carries the low tier Homebrand and there are no tiers above. Woolworths has not revealed how many notches up it will go with its new premium label. By using the word premium, it would indicate a big jump up of two or three notches to the equivalent, or ahead of, the Coles brand. However, using the words, premium home brand, as it did this week, would be a bit like saying Franklins is going to launch a premium No Frills.”** *Foodweek, August 2004*

WOOLWORTHS SELECT
Woolworths has started to roll-out the Select range



INITIALLY LIMITED RANGE

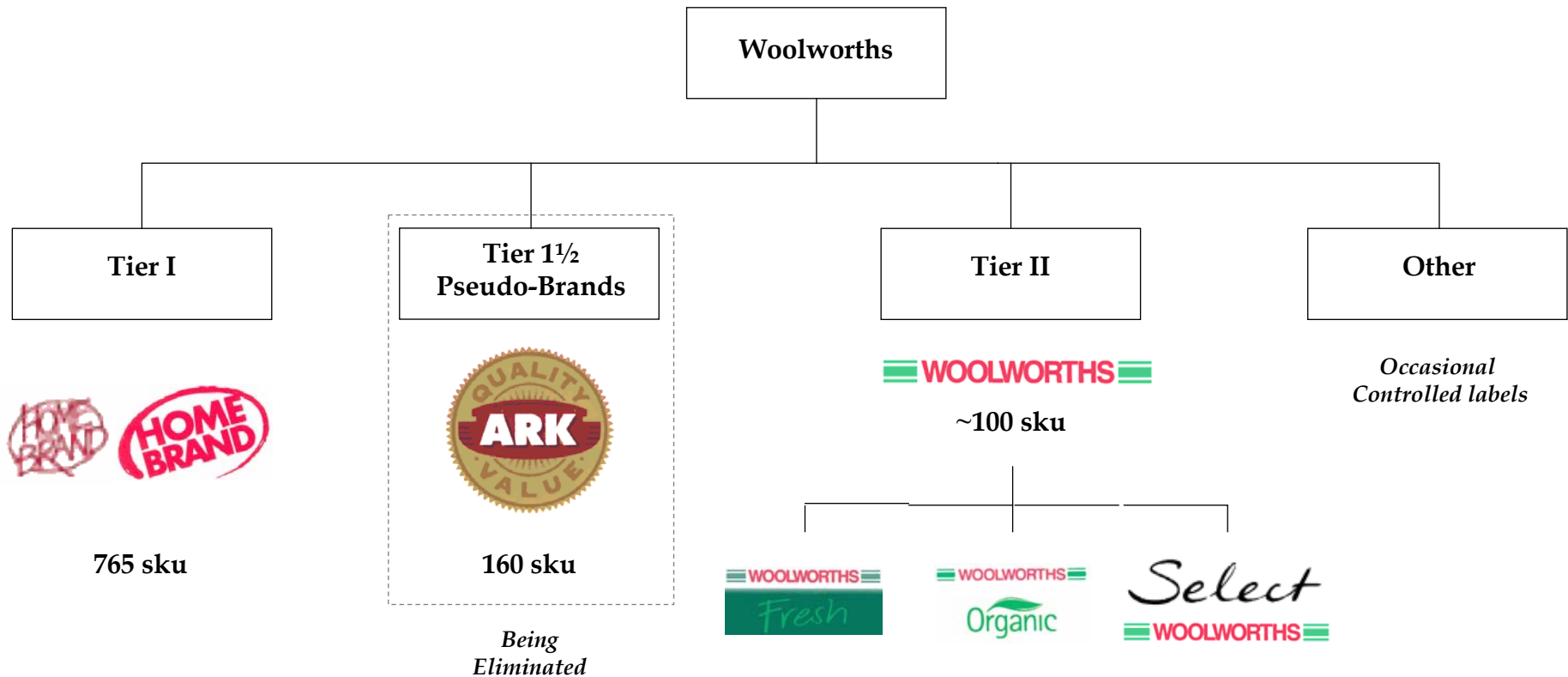
To date, Woolworths has taken a limited and cautious approach in its rollout, initially announced the range would feature a limited range of 200 premium skus, later raised to 800

- "We're just creeping them into the marketplace, getting our supply lines in place, making sure the products are right, going through some of the teething problems. When we've got it up and running and feel confident and we've got enough range, then we'll market it as Woolworths Select, making statements about the value and quality." *Roger Corbett, CEO, Woolworths Limited, June 2005*
- "Chief Executive Roger Corbett said Woolworths... would introduce about 200 Woolworths-branded premium product lines in its supermarkets in the next six to twelve months." *AFR, August 2004*
- "The company already uses the Woolworths name on a range of fresh products such as meat and salad, and plans to expand into dry food and health and beauty products. The move into premium home brands follows Coles Myer's rollout of its Coles, Savings, Persona, Reliance and Farmland labels." *AFR, August 2004*
- "Woolworths quietly began rolling out its new Woolworths Select brand six weeks ago. This premium alternative to the company's longstanding budget Homebrand now has 20 products - largely canned vegetables - on the shelves. A Woolworths spokeswoman said Woolworths Select would have up to 800 products on the shelves within the next 18 months. "We are still committed to offering a choice of branded and home-branded goods . . . but we don't expect our house brands to generate anywhere near 30 per cent of the market," she said. Woolworths is planning an advertising and marketing campaign in October and November to back up the roll-out." *The Age, June 2005*

WOOLWORTHS PRIVATE LABEL ARCHITECTURE

Woolworths current private label architecture features a tier one generic, a dwindling range of pseudo-brands and an emerging tier two store brand with multiple sub-brands

Woolworths private label architecture



WOOLWORTHS PRIVATE LABEL STRUCTURE

Woolworths private label program is currently very limited by international standards

Woolworths private label architecture
(late 2005)

	# of sku	Label	# of sku	Notes
Home Brand	765	Home Brand	765	Tier I generic
Quality/Value	160+*	Ark Bowman's Marketta Others	160+*	Range of pseudo-brands launched in response to Aldi; being phased out
Woolworths	50	Fresh	50	Existing use of Woolworths brand in perishables categories such as dairy and produce
		Select	20	Initial rollout in progress; target 800sku
		TOTAL	~900+	



COLES MYER STRUCTURE

Coles Myer incorporates a range of retail businesses, many of which have private label; this report focuses only on the supermarket component (Coles and Bi-Lo)

Coles Myer corporate structure and sales
(A\$B, FY 2005)



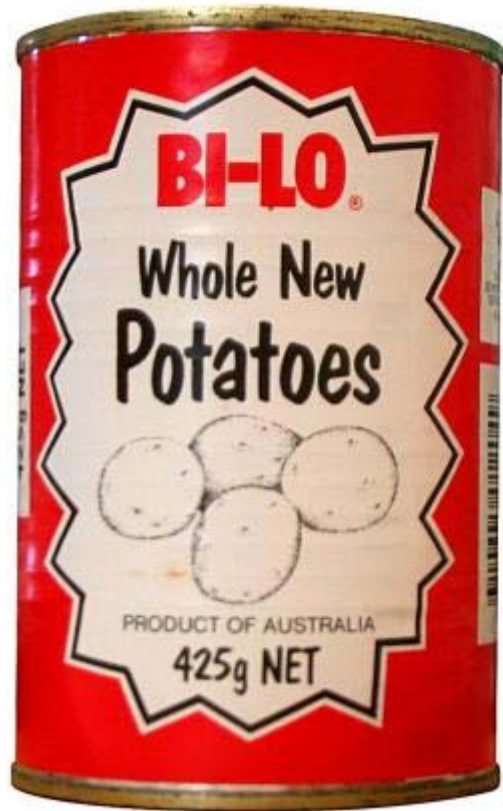
BI-LO - STAGE I - STORE BRAND
Bi-Lo has long had a basic store brand



Tier 1

EXAMPLES: BI-LO STORE BRAND

The Bi-Lo store brand featured basic packaging design and labels under a uniform or “American-style” design architecture



BI-LO - STAGE I^{1/2} - UPGRADED STORE BRAND

Bi-Lo then upgraded its private label program in response to the arrival of Aldi

The logo for BI-LO, featuring the letters 'BI-LO' in a bold, red, sans-serif font. A small red triangle is positioned between the 'I' and 'L'.

Tier 1

GOOD RESULTS

Bi-Lo achieved success with its upgraded and expanded private label range

- ***“We’re very pleased with the performance of BI-LO’s expanded private label range.” Alan Williams, Chief Operating Officer Food and Liquor, Coles Myer, October 2001***

COLES - PHASE I - TWO TIER ARCHITECTURE: GENERIC AND GROUP

At the time of the merger with Myer, Coles supermarket had a two-tier private label architecture of a non-name generic and a group brand

Coles private label architecture in the mid-1980's

Tier 1

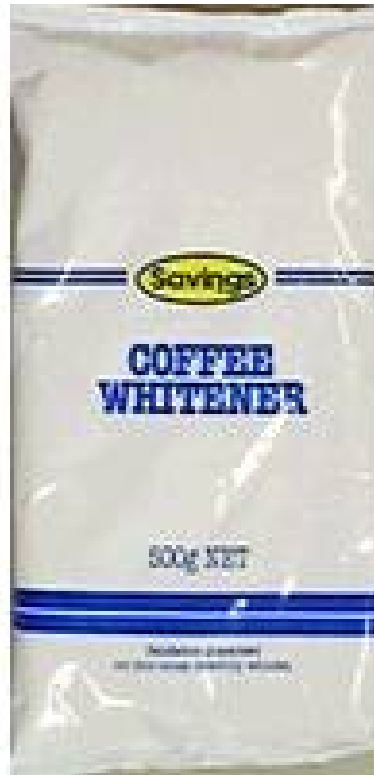


Tier 2



EXAMPLES: SAVINGS LABEL

Coles then replaced its pure generic brand with the Savings generic label



VERTICAL INTEGRATION - SANDHURST DAIRIES

From 1987 to 1991, Coles owned Sandhurst Dairies and Charlton Feedlot which supplied stores in some areas with milk and beef



COLES - PHASE II - TWO TIER ARCHITECTURE (v2): GENERIC AND STORE

In the late 1990's Coles began to replace the Farmland group brand with the Coles store brand

Coles private label architecture in 1999



Tier 1



Tier 2

EXAMPLES: COLES STORE BRAND

Coles launched a range of well designed and attractive Coles branded products using a mixed or “UK-style” packaging scheme



COLES - STAGE III - LAUNCH OF PSEUDO-BRANDS

Coles then revived Farmland and launched a number of new pseudo-brands in response to the arrival of Aldi in Australia

Coles Pseudo-Brands program
(2002)

	Pseudo-Brand	Categories
	Farmland	Food and grocery
	Persona	Health and beauty, toiletries
	Reliance	Household, cleaning
	Candy Lane	Confectionery
	Banquet/Purr	Pet food

EXAMPLES: COLES PSEUDO-BRANDS

Coles pseudo-brands were an imitation of Aldi's packaging style and range



EXAMPLES: COLES PSEUDO-BRANDS - PETFOOD

Coles also developed two pseudo-brands for pet-food

Banquet



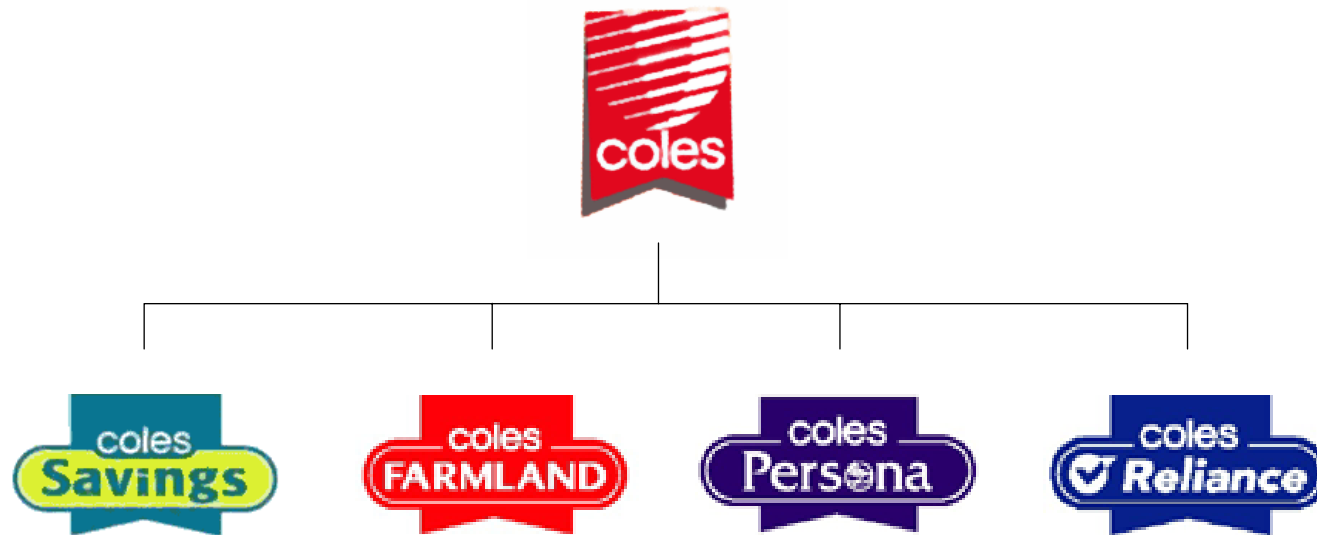
Purr



COLES - STAGE IV - ENDORSED PSEUDO-BRANDS

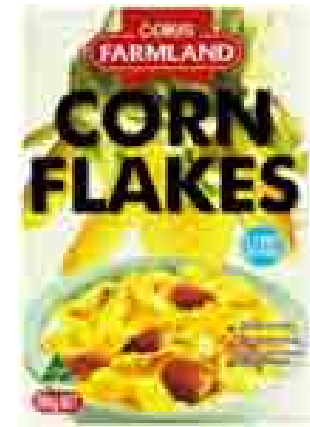
Coles then endorsed its range of pseudo brands with the Coles store brand

Coles endorsed Pseudo-Brands program
(2001)



EXAMPLES: COLES ENDORSED PSEUDO-BRANDS

Coles endorsed pseudo-brands attempt to give consumers' comfort in their purchase decision through the presence of the Coles name



EXAMPLES: COLES ENDORSED PSEUDO-BRANDS

Coles carried the Coles Reliance pseudo-brand into general merchandise, a strange move for a company that owns a wide range of controlled labels through Kmart, Target and Myer



COLES - STAGE V - SUB-BRANDS - COLES ORGANIC SUB-BRAND

Coles then developed a Coles Organic range, which it later upgraded/updated

Version 1



Version 2



COLES - STAGE V - SUB-BRANDS - COLES WORLD FLAVOURS SUB-BRAND

Coles launched its Coles World Flavours sub-brand



CAIN AND THE NEXT PHASE

The arrival of Steven Cain from the UK triggered a renewed push for private label

- **"House brands, by and large, are a great way of delivering value to customers."** *Steven Cain, MD Food and Liquor, June 2003*
- **"Mr Cain used to work for the UK's Asda supermarket chain, where he oversaw an aggressive push into private labels."** *Sydney Morning Herald, September 2004*
- **"Coles is already heavily involved in overseas expertise since appointing Steven Cain. Cain came to Coles last year from Asda in the UK to head up the food, liquor and fuel division. So Coles is looking to the UK experience."** *Foodweek, August 2004*
- **"Looking ahead, food and liquor sales growth will be driven by great value and innovative offers across the network, including expansion of fresh food to increase customer frequency and basket size and continuing development of house brands."** *John Fletcher, CEO, Coles Myer, August 2004*
- **"Coles Myer is trying to achieve better synergies between the liquor unit and supermarket by basing their managements in the same office in the Melbourne suburb Tooronga. Coles Myer's head of food and liquor operations, Steven Cain, recruited from Britain last year, is expected to make further changes to the \$17-billion division. Cain is expanding fresh food offerings in supermarkets and the number of house-brand products in supermarkets and liquor stores."** *BRW, July 2004*

THIRTY PERCENT IN THREE YEARS
Coles then announced a target of 30% by 2007

House brands as heroes

Lowest price

Best quality

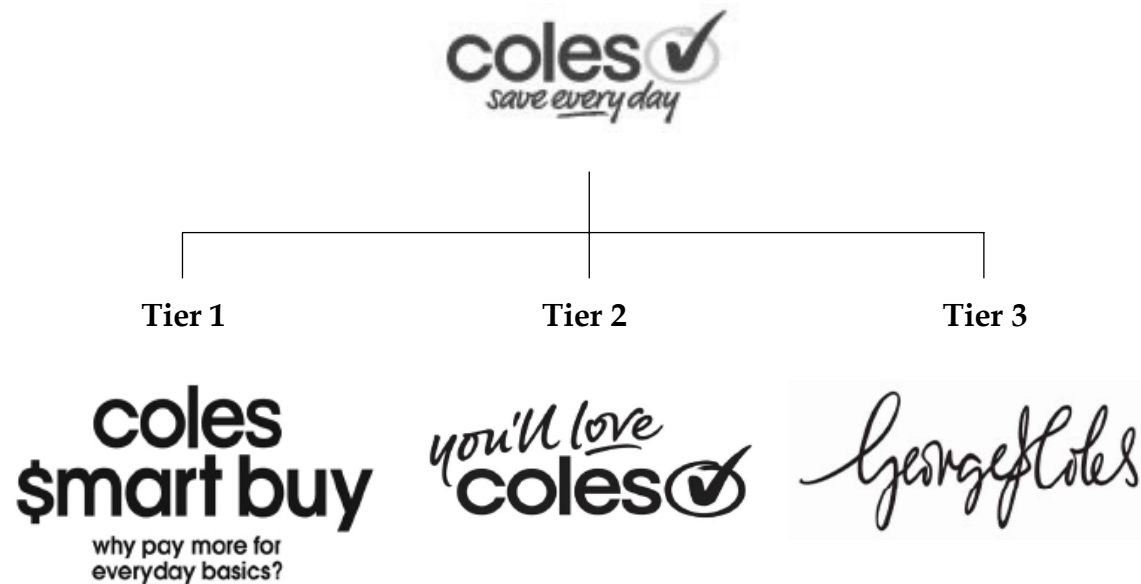


Share of sales ▲ to 30% by FY07

COLES - STAGE VI - NEW THREE TIER ARCHITECTURE

Coles then scrapped all of its existing private label architecture and launched a totally new three tier system developed by a U.K. design firm and modeled on Tesco

Coles private label architecture in 2005



COLES - STAGE VI - NEW THREE TIER ARCHITECTURE

Package design is used as a key creator of relative quality and value



COLES - STAGE VI - THREE TIER STRATEGY

Coles expects this three tier strategy to achieve 30% in three years

- **"House brands will more than double their share of overall sales, from 13% to 30% by 2007, as in the US and Britain."**
John Fletcher, CEO, Coles Myer, September 2004
- **"Coles Myer is targeting 30 per cent of Bi-Lo and Coles supermarket sales from private labels by fiscal 2007. It is hoping the development of a three-tiered and more sophisticated offering of "good, better and best" products in a range of packaging will overcome the Australian shopper's suspicion of private labels. It has established a team of executives, headed by former Bi-Lo managing director Peter Merritt and guided by group managing director for food, liquor and fuel, Steven Cain."** *Sydney Morning Herald, September 2004*
- **"Sources said it was keen to expand the talent and staff numbers for the buying teams that would develop house brands for Coles and Bi-Lo. The retailer is expected to unveil three tiers of house brands before Christmas and has said previously that it wants up to 40 per cent of sales to be house brand products compared with 10 to 15 per cent now. To bridge the difference, Coles Myer will have to negotiate new deals and new product lines with existing suppliers who also supply national brands under their own labels."** *The Age, August 2004*
- **"Cain wants to lift house brands in the Coles supermarket chain from 9% to 16% by mid-2006. The Bi-Lo chain will increase house brands from 15% to 30% over the same period, and Liquorland is expected to increase its house brands from 20% to 40%. It is unclear whether this will work on alcohol, especially wine. Strong brands are selling cheaply due to the wine surplus."** *BRW, July 2004*

COLES - STAGE VI - SUPPLIER SUPPORT

Coles claims it has received strong supplier interest in supporting its new program

- **“The housebrand team launched a range of innovative and high quality products, with a strong emphasis on quality. More than 90 products in our *coles \$mart buys* and *you’ll love coles* tiers are now on-shelf and the customer response has been positive and in line with our expectations. A strong level of interest has been expressed in our housebrands’ strategy by the supplier community, many of whom want to partner with us in building quality and great value offers for customers. Negotiations are continuing with suppliers to develop long-term sustainable supply to support the investment in our product range. The focus of the rollout in FY2006 will continue to be on the *you’ll love coles* brand to build trust and loyalty before launching our premium *George J Coles* brand tier.”** *Coles Myer 2005 profit result release*

COLES - STAGE VI - RANGE GROWTH

This massive growth will entail a corresponding increase in range and consequently shelf-space, which will impact existing brands

- **“Coles’ house brand ranges currently represent 5% of the total range of between 30,000 and 40,000 products in stores. The company wants to increase house brands in Coles supermarkets to around 15% and in Bi Li stores to 30% of total ranges.” *Foodweek, September 2004***
- **“Coles Myer’s strategy... calls for the number of house-brand products to grow from 2000 to more than 3000 in Coles stores and from 1200 to 2700 in Bi-Lo outlets by mid-2006.” *AFR, August 2004***

COMBINING COLES AND BI-LO?

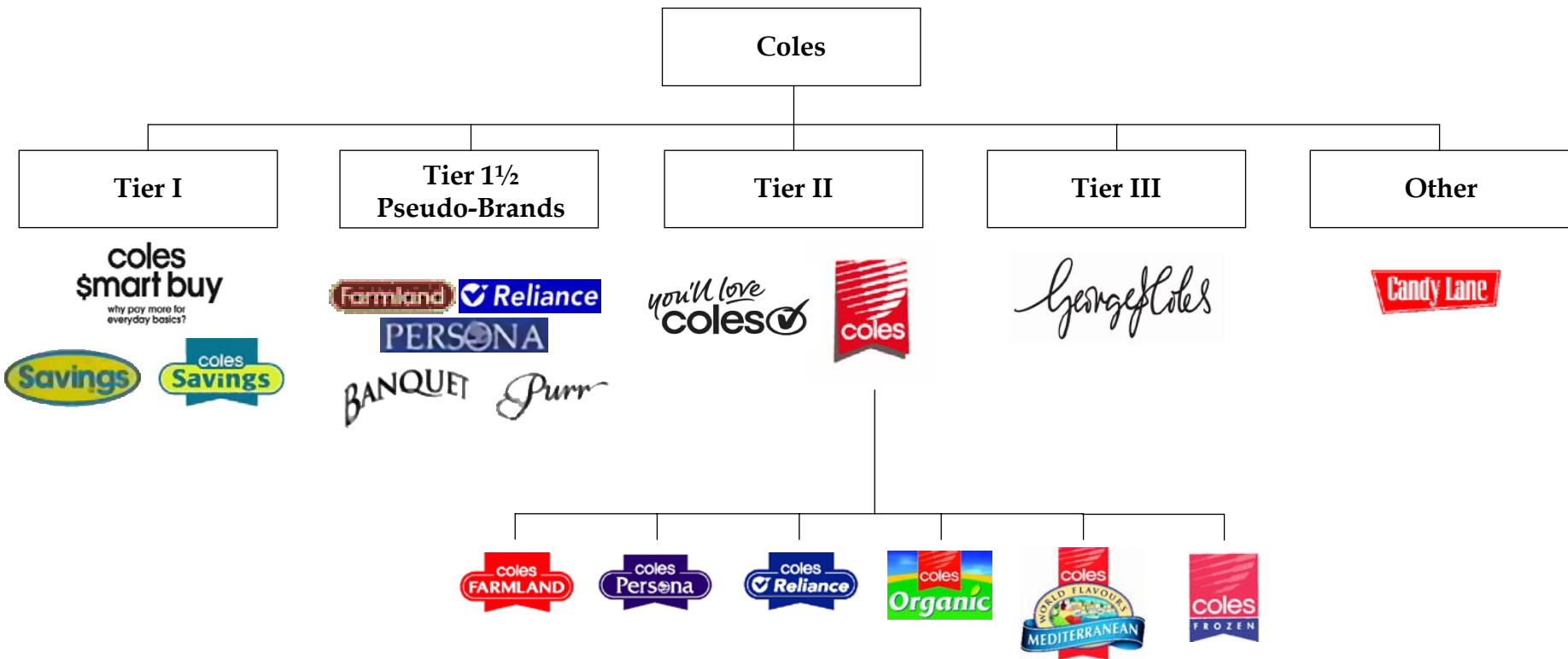
The recent combination of Coles and Bi-Lo backroom functions may also lead to a consolidated private label architecture across both brands

- **“The restructure [of Coles Supermarkets and Bi Lo backroom functions] will enable the company to redirect funds to areas that will drive growth in the business, including house brands, fresh foods and business transformation... The restructure could also give Bi Lo customers access to more products and services, including an improved house brand and fresh food offer.” *Steven Cain, MD Food and Liquor, September 2004***

COLES SUPERMARKET PRIVATE LABEL ARCHITECTURE

The current private label situation in Coles supermarkets is in transition, with multiple brands and messages on the shelf

Current Coles private label range in-store
(late 2005)



COLES PRIVATE LABEL STRUCTURE

Coles currently has about 3,400 private label skus across Coles and Bi-Lo

Coles private label architecture (late 2005)

	# of sku	% of total store sales	Label	# of sku	Notes
Coles	2,100	9%	George J. Coles	+	Being developed for general release 2006
			You'll Love Coles	40+	Currently in rollout
			Coles	450	"As good as" branded positioning
			Coles Organic	50	Successful sub-brand targeted at healthy shoppers
			Coles Farmland Coles Persona Coles Reliance	1,500	"Everyday low price" range targeted launched in response to Aldi; being phased out
			Coles \$mart Buy	40+	Currently in rollout
			Coles Savings	130	Tier I price fighter range
Bi-Lo	1,200	18%	Bi-Lo	1,200	
			TOTAL	~3,400	

OVERVIEW - SECOND TIER RETAILERS

METCASH - OVERVIEW

The IGA and Black & Gold brands achieve about 9% market, but this is targeted to rise to 25% over the next few years

- "Just over nine per cent - about \$364 million - of Metcash's entire sales are its own generic brands but it expects that to rise to 25 per cent over the next few years." *The Age, October, 2004*
- "Metcash is bucking national trends, reporting "staggering growth" of its generic brands, IGA and Black & Gold, sales of which have increased by more than 20%. However, scan data figures show no growth in the generics market nationally across all grocery channels, making the independents' performance even more significant. Metcash says generic sales have exceeded \$325 million on an annualised basis through independent supermarket chains and the customers of Campbell's Cash & Carry. Together, the IGA and Black & Gold brands constitute about 10% of the total sales of independent supermarkets throughout Australia, with Metcash expecting that share to rise to 15% in the next couple of years." *Foodweek, July 2003*
- "Both brands [B&G and IGA] will continue to expand their product ranges in food, cleaning products, clothing and toiletries... We are planning to embark on an aggressive program of promotions, including point of sale merchandising and other 'below the line' activity to stimulate further interest in its generic products... We have found that while the big chains are cutting back their investment in and sales of generic products, our customers are demanding more brands covering a broad spectrum of grocery categories... One of the major factors in the success of our generic brands is the fact that we maintain very high product quality and undertake constant product evaluation to ensure standards are maintained." *Mike Jablonski, Merchandise Director, Metcash Trading, July 2003*

LAUNCHING IGA SUB-BRANDS

Metcash is launching IGA sub-brands, including IGA First, IGA Baker's Best and IGA Way of Life

- **"IGA has further expanded its product line with a range of 16 products under the IGA 'Baker's Best' brand name, which had shown a 65% growth in sales over the last year... The IGA First Label brand of more than 350 products, has shown strong growth." Mike Jablonski, Merchandise Director, Metcash Trading, July 2003**
- **"Independent supermarket supplier Metcash Trading Ltd opened up a new front in the growing battle for generic brand sales, launching a health-focused home brand. The IGA 'Way of Life' range was established to provide nutritional food to consumers who are "weight and nutrition conscious." The range includes gluten-free, lactose-free, yeast-free apricot fruit bars, reduced fat table spread, organic black tea, low-joule fruit cordials, vegetarian eggs and ice cream... Metcash merchandise director Mike Jablonski described the new Way of Life range as the "greatest development in private labels since they were originally launched". IGA launched its label in 1991. Metcash chief executive Andrew Reitzer said Metcash intends to grow the IGA Way of Life range into every possible category in the supermarket. He said hundreds more products were currently being considered." *The Age, October, 2004***
- **"Australian wholesaler Metcash Trading, which supplies independent supermarkets, is launching an own-brand line of health-focused foods. The IGA Way of Life range includes gluten-free, lactose-free, yeast-free apricot fruit bars, reduced fat table spread, organic black tea and low-calorie fruit cordials. Metcash said the aim was to provide nutritional food to those consumers who are "weight and nutrition conscious". Metcash chief executive Andrew Reitzer said the company is considering the launch of many more products under the Way of Life brand and plans to expand the range to include non-food items." *Just Food, October 2004***

COMPLIANCE A CHALLENGE FOR INDEPENDENTS

Achieving a common vision and store compliance is always a challenge for a wholesaler to independents

- “[South Australia’s] Foodland IGA will continue to focus on building sales of manufacturers brands and will aggressively promote them... We are concerned about Metcash Trading's push for a much larger proportion of house brands in independent stores, because Foodland's intention is to continue to market manufacturers brands aggressively. We built our business on manufacturers brands and we believe they offer the best prospects for long term growth in our stores.” *Mark McLauchlan, CEO, Foodland IGA, September 2004*

PICK'N PAY/INTERFRANK/FRANKLINS

Franklins continues to offer the No Frills brand it bought/inherited from Dairy Farm

- **“Under an agreement with InterFrank, Pick.n Pay.s operation in Australia, Franklins will continue to sell products under its No Frills icon brand during the sell-down of its stores, although the No Frills business name has been sold to InterFrank... Pick.n Pay is not interested in First Choice or private labels generally, but is impressed with the potential power of the No Frills generic line, which it aims to further develop.” *Foodweek, October 2001***