

TOWARDS RETAIL PRIVATE LABEL SUCCESS

February 2002

Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of the impact of the arrival of the German supermarket chain Aldi in Australia, and answering the question: “Will selling groceries over the internet ever work?”



The lead researcher on this report was Tim Morris, one of the founding partners of Coriolis Research. Tim graduated from Cornell University in New York with a degree in Agricultural Economics, with a specialisation in Food Industry Management. Tim has worked for a number of international retailers and manufacturers, including Nestlé, Dreyer’s Ice Cream, Kraft/General Foods, Safeway and Woolworths New Zealand. Before helping to found Coriolis Research, Tim was a consultant for Swander Pace and Company in San Francisco, where he worked on management consulting and acquisition projects for clients including Danone, Heinz, Bestfoods and ConAgra.



The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*



CORIOLISRESEARCH

PO BOX 10 202, Mt. Eden, Auckland 1030, New Zealand
Tel: +64 9 623 1848; Fax: +64 9 353 1515; email: info@coriolisresearch.com
www.coriolisresearch.com

“Private brands separate the quick from the dead.”

Mark Husson, Analyst, JP Morgan

Table of Contents	3
Document Overview	4
I. The Role of Retail Consolidation	5
II. Successful Strategies	12
III. Superior Results	24
Appendix: Case Studies	
- Tesco	45
- Safeway (US)	57
- Loblaw	75

Successful supermarket retailers have strong private label programs

- I. Growing retail consolidation and growing private label are intimately linked**

- II. The most successful retailers have more sophisticated private label branding strategies**

- III. Retailers with a strong value-added private label strategy are stronger competitors and produce better financial results**

I. Growing retail consolidation and growing private label are intimately linked

Ia. Retail concentration drives private label growth

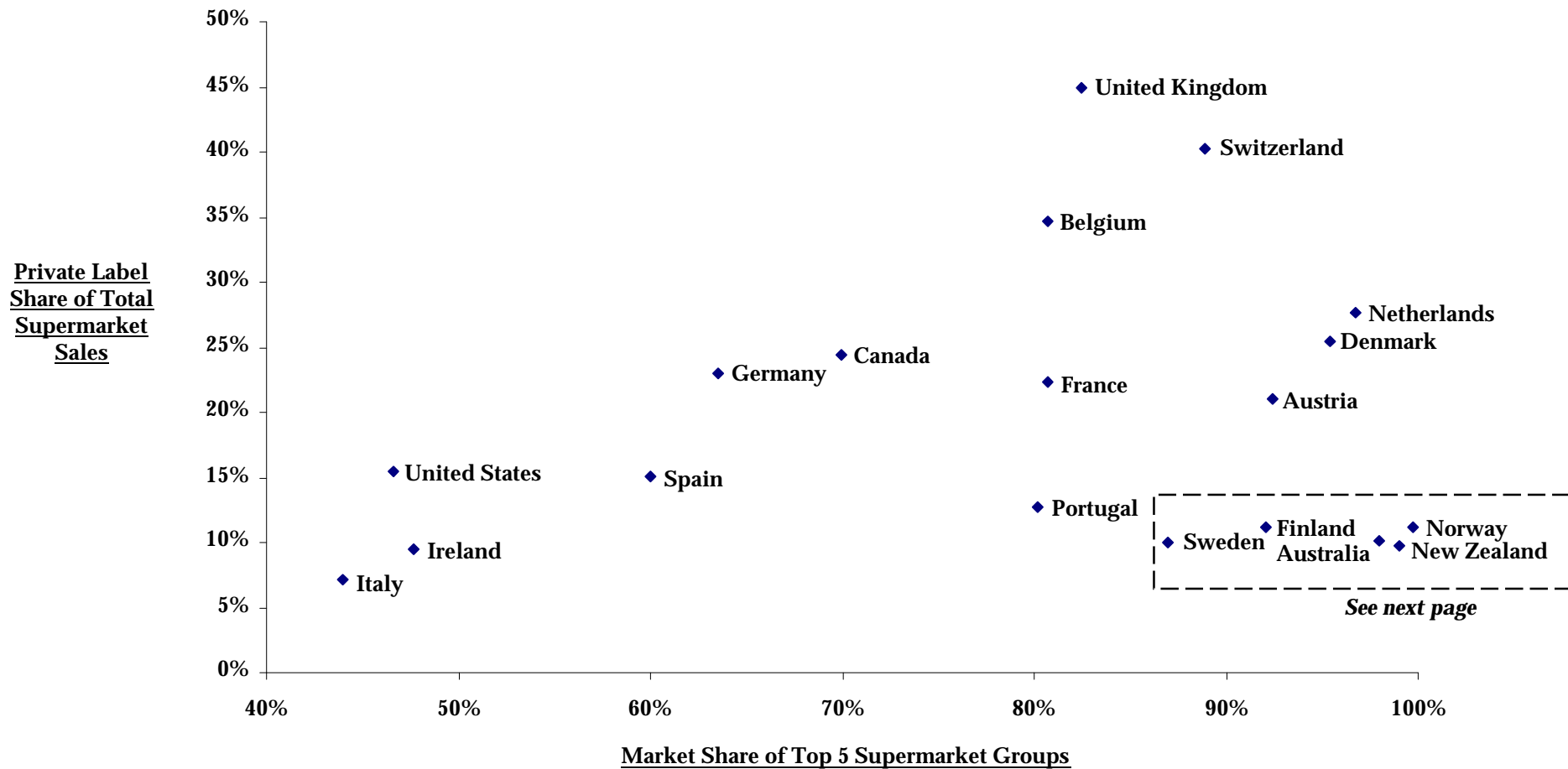
- Generally, retail concentration leads to greater private label penetration
- The countries that are the exception to this rule, other than Australia, have very strong wholesale and independent sectors
- As the United Kingdom demonstrates, this is a gradual, long-term process with private label penetration trailing consolidation

Ib. The profitability that private label generates, in turn, drives more consolidation

- The chains with strong private label programs have generally been the most successful consolidators
- Analysis shows that a strong private label program can double profits for the leaders, giving them the resources to make acquisitions
- Increasing value-added private label is one of the few means of getting sales and profit growth in a highly concentrated market

Generally, retail concentration leads to greater private label penetration

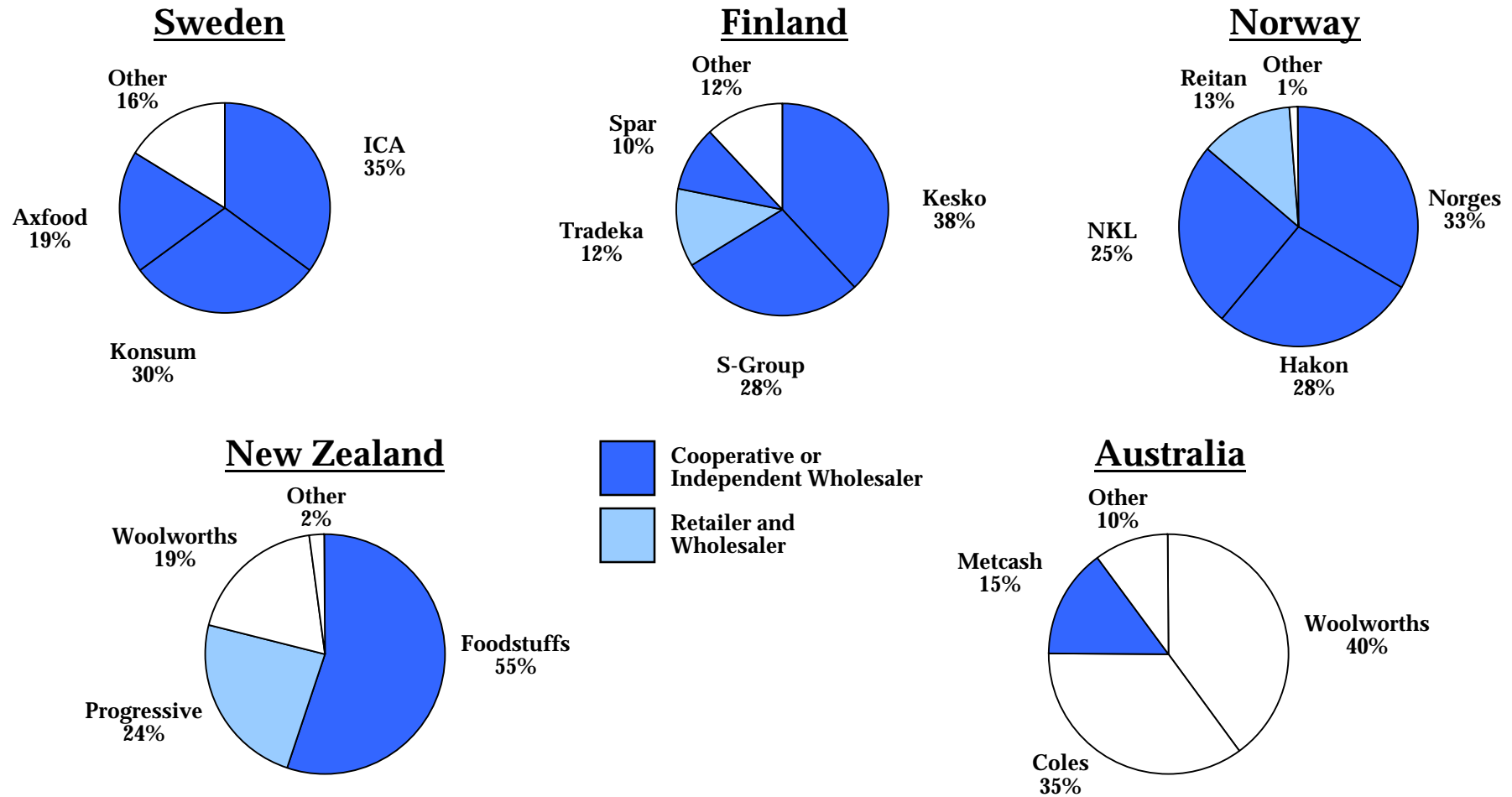
RETAIL CONCENTRATION VS. PRIVATE LABEL PENETRATION
 (Percent of supermarket sales; 2000¹)



The countries that are the exception to this rule, other than Australia, have very strong wholesale and independent sectors*

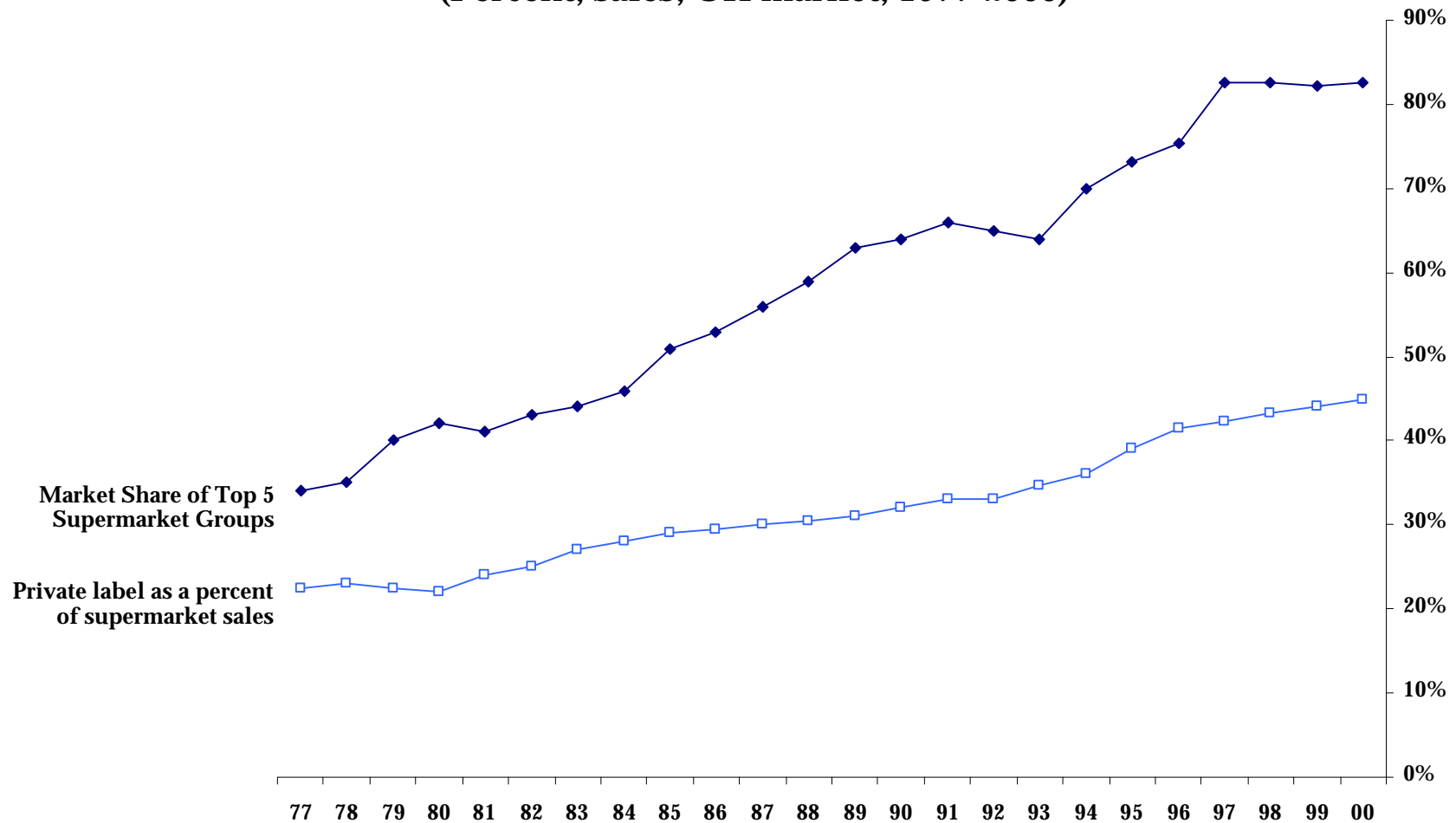
SUPERMARKET MARKET SHARE BY SELECT COUNTRY

(% supermarket sales; 2000)



As the United Kingdom demonstrates, this is a gradual, long-term process with private label penetration trailing consolidation

GROWING RETAIL CONCENTRATION & THE GROWTH OF PRIVATE LABEL
(Percent; sales; UK market; 1977-2000)



The chains with strong private label programs have generally been the most successful consolidators

WHY STRONG PRIVATE LABEL LEADS TO CONSOLIDATION

	Explanation
More Profitable	Gross Margins Private Label 35% Branded 25%
Add-value to acquisitions	Able to consolidate & add value to other chains [US examples] Kroger (25%) buys Fred Meyer (17%) Albertsons (27%) buys American Stores (17%) Safeway (30%) buys Vons (13%) Dominicks (11%) Randalls (13%)
Lower Prices	Able to offer lower per unit prices on branded & private label Offer the consumer a lower total basket price Offer lower prices versus competition

Analysis shows that a strong private label program can double profits for the leaders, giving them the resources to make acquisitions

THE EFFECT OF PRIVATE LABEL ON PROFITABILITY: A SIMPLE MODEL

(Two hypothetical \$30B supermarket groups)

	Weak Private Label		Strong Private Label	
	%	\$B	%	\$B
Sales	100%	\$30.00	100%	\$30.00
% of sales...				
- Private label	5%	\$1.50	30%	\$9.00
- Branded	95%	\$28.50	70%	\$21.00
Gross Margin on...				
- Private label	35%	\$0.525	35%	\$3.15
- Branded	25%	\$7.125	25%	\$5.25
		\$7.650		\$8.40
% of sales operating expenses	23%	(\$6.90)	23%	(\$6.90)
Operating profit	2.5%	\$0.75	5.0%	\$1.50

Increasing value-added private label is one of the few means of getting sales and profit growth in a highly concentrated market

WHY CONSOLIDATION LEADS TO STRONG PRIVATE LABEL

	Explanation
Imitation	Retailers in Canada imitated the success of Loblaw's Retailers in the UK imitated the success of Sainsbury's Retailers in the US imitated the success of Safeway
Implicit collusion is easier	Squeeze out smaller manufacturers Squeeze out tertiary brands Squeeze out smaller retailers
Top-line growth is hard	Real sales growth is hard in a consolidated retail environment Private label boosts the bottom line without sales growth
Non-price competition	Fewer new stores being built - more non-price competition Private label can be used to create a point of difference Unique private label can attract and retain customers

II. The most successful retailers have more sophisticated private label branding strategies

IIa. There is one key divisions between private label branding strategies: the use of numerous quasi-brands or the use of a uniform store or group brand

- Quasi-brands, invented controlled labels with no store association, work most successfully in a limited assortment environment to create the illusion of selection**
- Store brands, where all private label carries the name of the store, have been very successful at driving high levels of private label penetration in supermarkets**
- Group brands, where all private label carries a common non-store name, are most commonly used by retailers with more than one store fascia**

IIb. Through trial and error, most major supermarket chains appear to be evolving toward a two-tier, value added private label strategy

IIa. There is one key divisions between private label branding strategies: the use of numerous quasi-brands or the use of a uniform store or group brand

TWO MAIN TYPRES OF PRIVATE LABEL STRATEGIES

	Quasi-Brands	Store or Group Brand
Definition	Retailer uses 50+ different invented brands on private label products	Retailer uses one uniform brand on all private label products
Schematic		
Examples	Aldi Lidl Netto	Sainsbury Albertson's Safeway

Quasi-brands, invented controlled labels with no store association, work most successfully in a limited assortment environment to create the illusion of selection

QUASI-BRAND: STRENGTHS & WEAKNESSES

Strengths	Weaknesses
<ul style="list-style-type: none"> • Create impression of wide product selection and range¹ • Able to replace secondary and tertiary brands with own offering • Shoppers do not associate product defects with store 	<ul style="list-style-type: none"> • Low quality/low price approach does not create shopper loyalty • Shoppers do not directly associate brands with store • No track record of success outside limited assortment environment <ul style="list-style-type: none"> – Cannot drive share over 18-20% – Must be lowest priced item on-shelf to sell – Strategy abandoned by Kroger, Safeway, Carrefour, others – Strategy currently failing at Winn-Dixie

The experience of Kroger and Safeway, as well as numerous other U.S. supermarket groups, suggest that quasi-brands fail in a full range supermarket

QUASI-BRANDS: A FAILED STRATEGY IN THE UNITED STATES¹

	Historical Quasi-Brands			Current Brands
	American Home Avondale Big K Chef's Pride Chip Mates Clover Valley Command Performance Cool Cups Cost Cutter Country Club Country Market Country Oven Del Bueno Deli Chef Drink Aid Embassy Enjoy	Fleece Florida Choice Fresh Catch Fres-Shore General Store Gold Crest Golden Crown Good Time Grilltime Harvest Day Heartland Heritage House Hillcrest Home Pride Jubilee Krogo Kwick Krisp	Mi-T-Fine Nature's Delight Old World Pet Pride Polar Pak Silver Platter Spotlight Springdale Sun Gold Swansoft Tasty Blend Thrift Town Town Creek Village Bakery Wishbone Yubi Numerous others	Private Selection Kroger Various Recently Acquired Store's Store Brands - Ralphs - King Soopers - Fred Meyer - Others F.M.V. (For Maximum Value)
	Ambisense Bandolero Bel-Air Breakfast Gems Brocade Brown Derby Busy Baker Canadian Hill Canadian Pride Canterbury Captain's Choice Casa del Pueblo Castle Crest Chee-Zip Coffeetone Cold Brook Cozy-Legs Cragmont Crown Colony De Luxe	Edwards Evergreen Fidelis Frappe Gardenside Great Escapes Hawthorn Hi Country Highway Keentex Lucerne Maison Blanc Marigold Morning Star Mrs. Wright's Nob Hill Ozark Party Pride Pavlova Piedmont	Pirates Cove Real Roast Satis-fry Scotch Buy Scotch Treat Sea Trader Senorita Snow Star Stanton's Sunny Brook Tartan Royal Tempest Town House Trader Horn Trophy Truly Fine Verdi White Magic Winner's Cup Numerous others	Safeway Select + Sub-Brands Safeway + Sub-Brands Various Recently Acquired Store's Store Brands - Vons - Dominick's - Others

Store brands, where all private label carries the name of the store, have been very successful at driving high levels of private label penetration in supermarkets

STORE BRAND: STRENGTHS & WEAKNESSES

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong visual identity • Clear brand message • Association of product with store • Demonstrated track record of success at increasing sales presentation <ul style="list-style-type: none"> – All supermarkets with private label share 40%+ use this strategy¹ – Can drive sales and profits – Able to support higher prices 	<ul style="list-style-type: none"> • Product quality defects reflect on store image • Can reduce appearance of selection and range • Requires significant investment of time, effort and resources over an extended period to succeed <ul style="list-style-type: none"> – Market research – Brand development – Brand management – Brand advertising – In-store support – New product development

Group brands, where all private label carries a common non-store name, are most commonly used by retailers with more than one store fascia

GROUP BRAND: STRENGTHS & WEAKNESSES

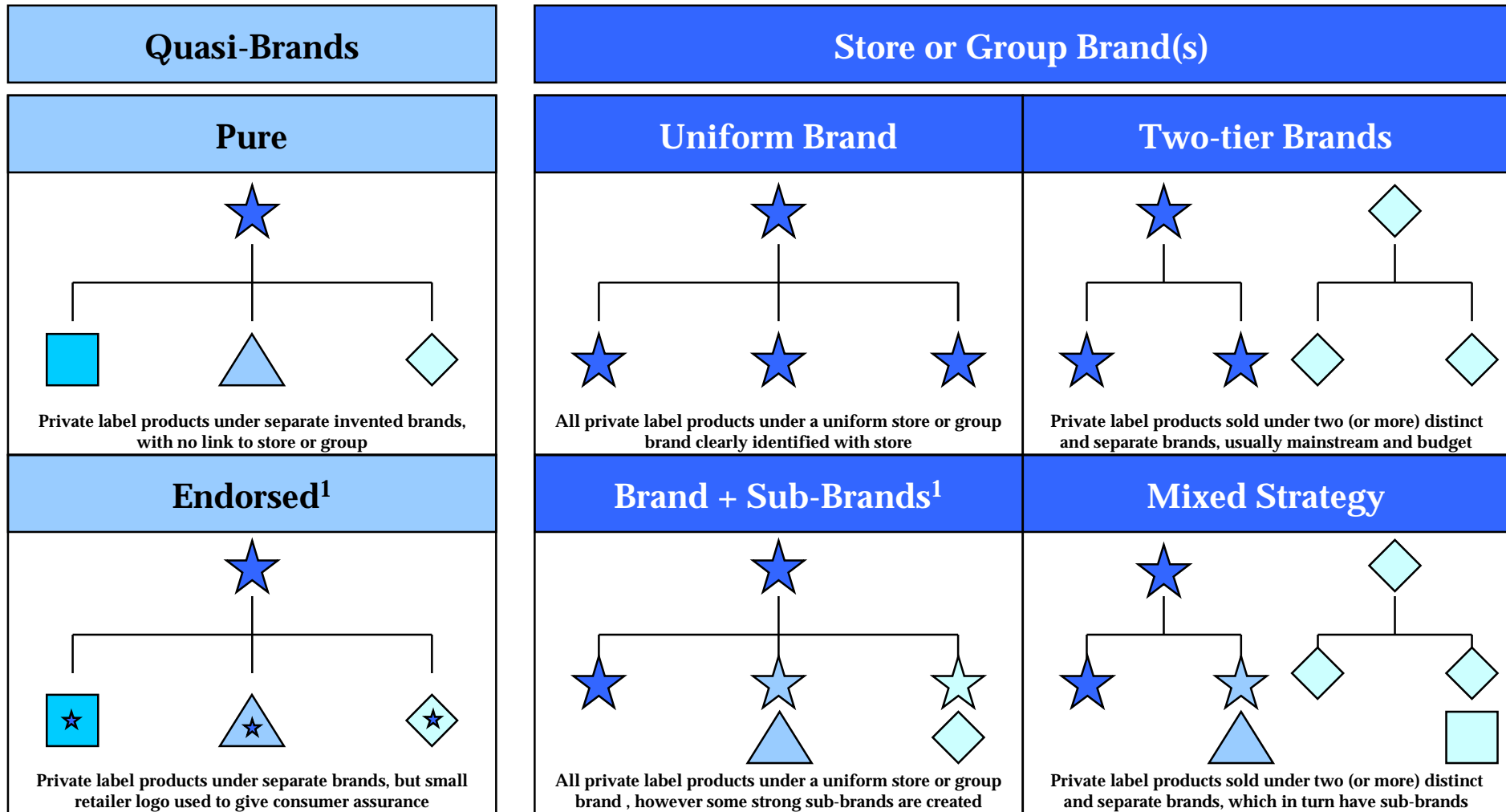
Strengths	Weaknesses
<ul style="list-style-type: none"> • One brand can be used by multiple-fascia retailers and wholesalers across all stores • Spreads product and packaging development costs over larger base • Create group visual identity • Some association of product with store • Track record of increasing private label sales penetration <ul style="list-style-type: none"> – Can drive sales and profits – Able to support higher prices 	<ul style="list-style-type: none"> • Brand is not directly associated with store fascia • Can reduce appearance of selection and range • Requires significant investment of time, effort and resources over an extended period to succeed <ul style="list-style-type: none"> – Market research – Brand development – Brand management – Brand advertising – In-store support – New product development

IIb. Through trial and error, most major supermarket chains appear to be evolving toward a two-tier, value added private label strategy

- Each of the two main strategies, Quasi-Brands and Store or Group Brand, has a number of potential sub-strategies**
- Almost every strategy conceivable is being (or has been) used by some retail group**
- Private label appears to evolve through a number of distinct stages**
- Many leading chains have gone through most stages at one point or another**
- As retailers become more sophisticated, the role of private label in their stores changes from that of a vindictive price-fighter to being a value-added marketing differentiator**

Each of the two main strategies, Quasi-Brands and Store or Group Brand, has a number of potential sub-strategies

POTENTIAL PRIVATE LABEL STRATEGIES



Almost every strategy conceivable is being (or has been) used by some retail group

SELECT COMPANIES PRIVATE LABEL STRATEGIES

Quasi-Brands	Store or Group Brand(s)	
Pure	Uniform Brand	Two-tier Brands
Aldi Dansk/Netto Lidl Norma Winn-Dixie Safeway (1940-1985) Auchan (1960-1990)	Marks & Spencer (St. Michael) Albertsons Food Lion Publix Costco	Carrefour A&P Wal-Mart
Endorsed	Brand + Sub-Brands	Mixed Strategy
Safeway (US; 1985-1993) Auchan (1990-1998)	Sainsbury/Shaw's Tesco Safeway (UK) Casino Auchan Wegman's Trader Joe's (Aldi)	Loblaw Kroger Ahold Safeway (US)

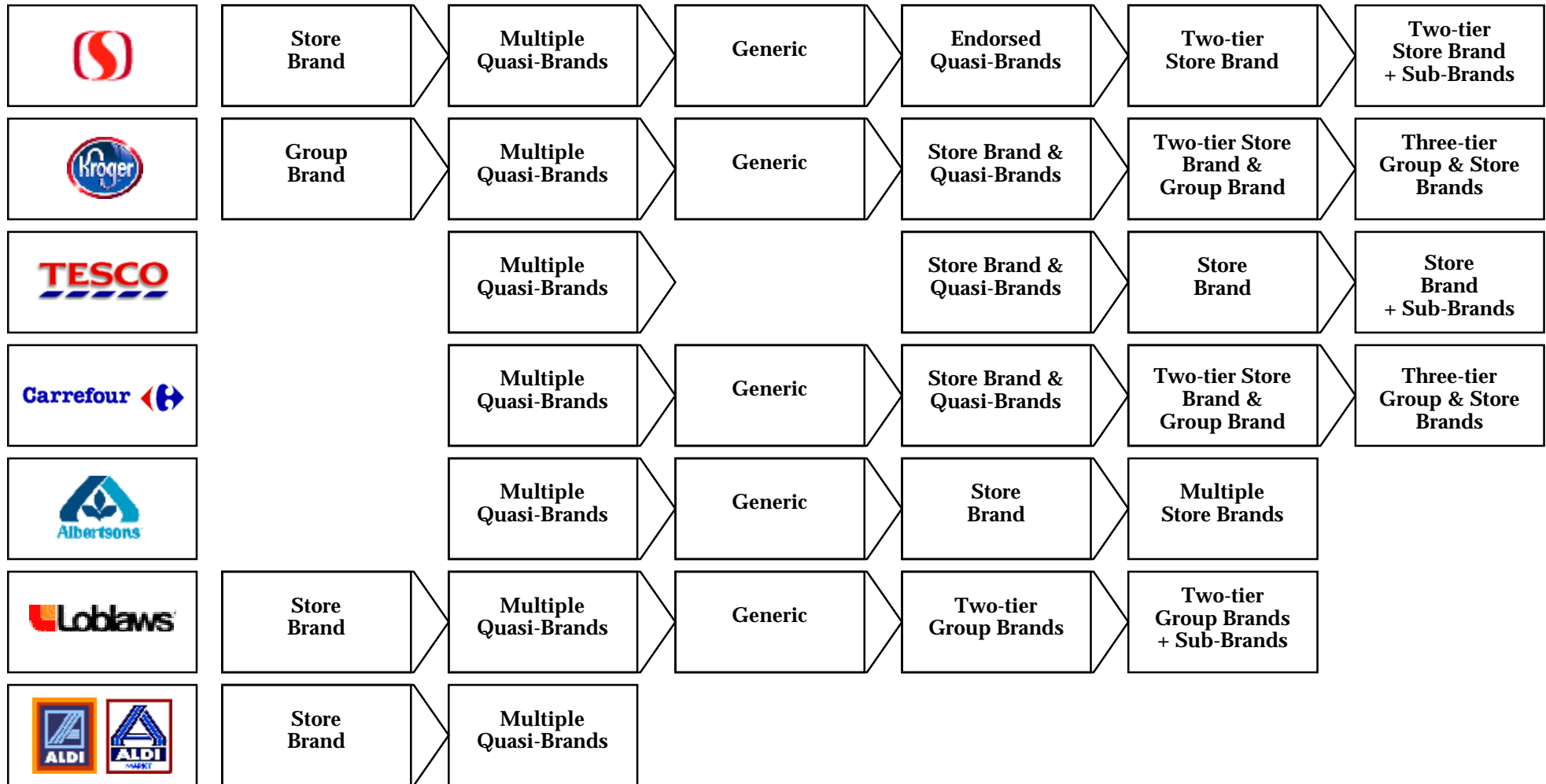
Private label appears to evolve through a number of distinct stages

EVOLUTION OF PRIVATE LABEL

	First Generation	Second Generation	Third Generation	Fourth Generation
Type	<ul style="list-style-type: none"> • Generic 	<ul style="list-style-type: none"> • Quasi-brands 	<ul style="list-style-type: none"> • Umbrella Brand (group or store fascia) 	<ul style="list-style-type: none"> • True 'brand' shaped using traditional brand management techniques • Segmented private label sub-brands
Objective	<ul style="list-style-type: none"> • Increase margins • Provide lower price product for consumer during inflationary times 	<ul style="list-style-type: none"> • Reduce manufacturers' power by setting the entry price • Increase margins • Provide a better-value product (quality/price) 	<ul style="list-style-type: none"> • Enhance total category margins • Expand product assortment • Build retailer's image among customers 	<ul style="list-style-type: none"> • Increase and retain customer base • Enhance total category margins
Characteristics	<ul style="list-style-type: none"> • Low-volume functional product • Technology lagging behind market leader • Perceived as lower quality/inferior image • Price as necessity to attract consumer 	<ul style="list-style-type: none"> • Large volume one-off product • Technology lagging behind market leader • Average quality (but perceived as lower) • Price is major criterion for purchase 	<ul style="list-style-type: none"> • Big category products • Expand the number of SKUs • Technology close to market leader • Quality/image in line with leading brands • Quality and price as criteria for purchase 	<ul style="list-style-type: none"> • Image-forming groups • Many SKUs, but with small volumes • Innovative technology • Quality/image equal or superior to leading brands • Better products as criterion for purchase
Supplier	<ul style="list-style-type: none"> • National manufacturers, partly specializing in private label 	<ul style="list-style-type: none"> • Self-manufacture in own plants (e.g. bread, dairy) • National manufacturers, partly specializing in private label 	<ul style="list-style-type: none"> • National manufacturers mostly specializing in private label 	<ul style="list-style-type: none"> • International manufacturers, mostly specializing in private label

Many leading chains have gone through most stages at one point or another

EXAMPLES OF SELECT COMPANIES EVOLVING PRIVATE LABEL STRATEGIES



As retailers become more sophisticated, the role of private label in their stores changes from that of a vindictive price-fighter to being a value-added marketing differentiator

ROLE OF PRIVATE LABEL FOR RETAILER

	Vindictive	Margin Booster	Marketing Differentiation
Objective of private label	<ul style="list-style-type: none"> • Reduce power of manufacturer by reducing their volume and brand franchise • Match competitors prices /eliminate smaller competitors 	<ul style="list-style-type: none"> • Enhance category margins • Replace tertiary brands with private label 	<ul style="list-style-type: none"> • Differentiate product offer from competitors through points-of-difference • Build a differentiated store image
Key	<ul style="list-style-type: none"> • Price 	<ul style="list-style-type: none"> • Price-value 	<ul style="list-style-type: none"> • Value-added (Value and quality)
Operational Imperative	<ul style="list-style-type: none"> • Low cost operation 	<ul style="list-style-type: none"> • Cost management 	<ul style="list-style-type: none"> • Need for marketing and technical skills
Supplier Relationship	<ul style="list-style-type: none"> • Periodic auctions 	<ul style="list-style-type: none"> • Periodic auctions or self-manufacture 	<ul style="list-style-type: none"> • Strong long term relationship between retailer and manufacturer

III. Retailers with a strong value-added private label strategy are stronger competitors and produce better financial results

IIIa. Private label appears to be most successful in countries, retailers and categories where it offers good quality at a good price rather than average quality at a low price

IIIb. In the past, countries have generally gone down either of two potential private-label pathways: value-adding or price-fighting

IIIc. The success of British retailers at neutralizing the threat of the German discounters appears to demonstrate the superiority of the value-adding position

IIIa. Private label appears to be most successful in countries, retailers and categories where it offers good quality at a good price rather than average quality at a low price

- Private label has been more successful in some categories than in others**
 - Private label is most successful in categories where consumers have no brand preference; growth in strong brand categories takes time and effort**
 - Private label is most successful in categories with low-innovation by manufacturers**
 - Even in the UK, with high overall penetration, private label is more successful in some categories than in others**

- There is strong evidence that consumers will pay relatively more for better quality private label**
 - Although it is counter-intuitive, evidence from the UK shows that private label has the highest penetration in the categories where the price difference is lowest**
 - The measure of a successful private label program is not how cheap it is, but how expensive**

- Done right, private label has the capability to dramatically re-divide the available industry profit pool**

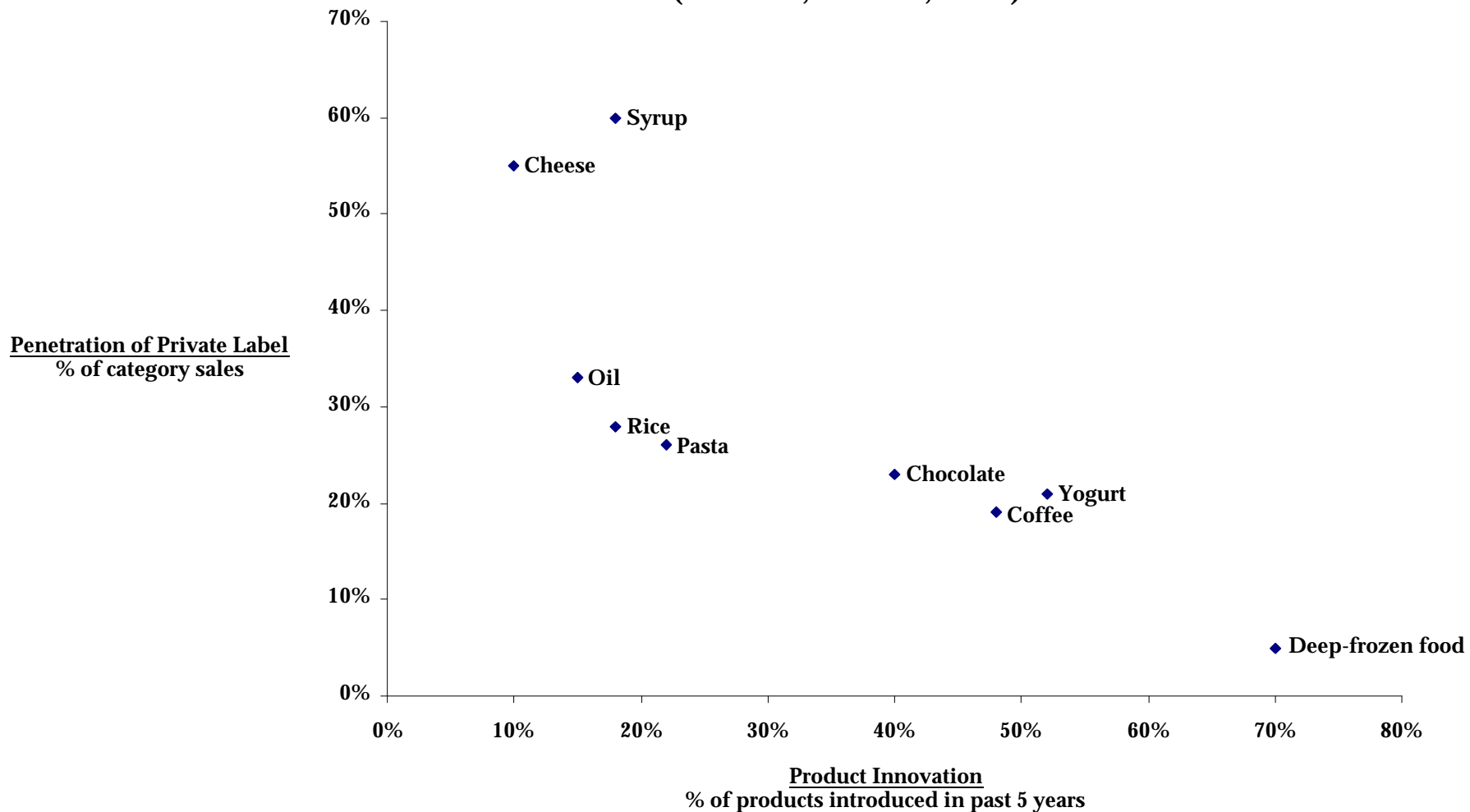
Private label is most successful in categories where consumers have no brand preference; growth in strong brand categories takes time and effort

CONSUMER BRAND PREFERENCE AND PRIVATE LABEL

	No Preference	Relative Preference	Absolute Preference
Product Characteristics	<ul style="list-style-type: none"> • Undifferentiated commodity products • No performance difference between brands 	<ul style="list-style-type: none"> • Product differentiation created through marketing mix: <ul style="list-style-type: none"> - advertising - promotion - merchandising 	<ul style="list-style-type: none"> • Innovative or complex product technology • Items with unique flavour profile
Consumer Behaviour	<ul style="list-style-type: none"> • Consumers may recognise brands but do not differentiate between them • No sense of loss if consumer fails to find known brand 	<ul style="list-style-type: none"> • Purchase decision made at point-of-sale from repertoire of brands • Sensitive to in-store promotion and display 	<ul style="list-style-type: none"> • Consumers may switch stores to get preferred brand • Consumer needs full confidence in store and product
Private Label Characteristics	<ul style="list-style-type: none"> • Fast share growth • Low investment • Products feed off store traffic 	<ul style="list-style-type: none"> • Share growth takes time and effort • In-store support critical • Image of store carries over to image of brand 	<ul style="list-style-type: none"> • Share growth is difficult • High investment in time and resources - media support required • Products draw customers to store • Sub-branding often used
Examples	<ul style="list-style-type: none"> • Milk & butter • Paper products • Flour 	<ul style="list-style-type: none"> • Film • Household cleaners • Cold beverages 	<ul style="list-style-type: none"> • Razors • Chewing Gum • Cigarettes

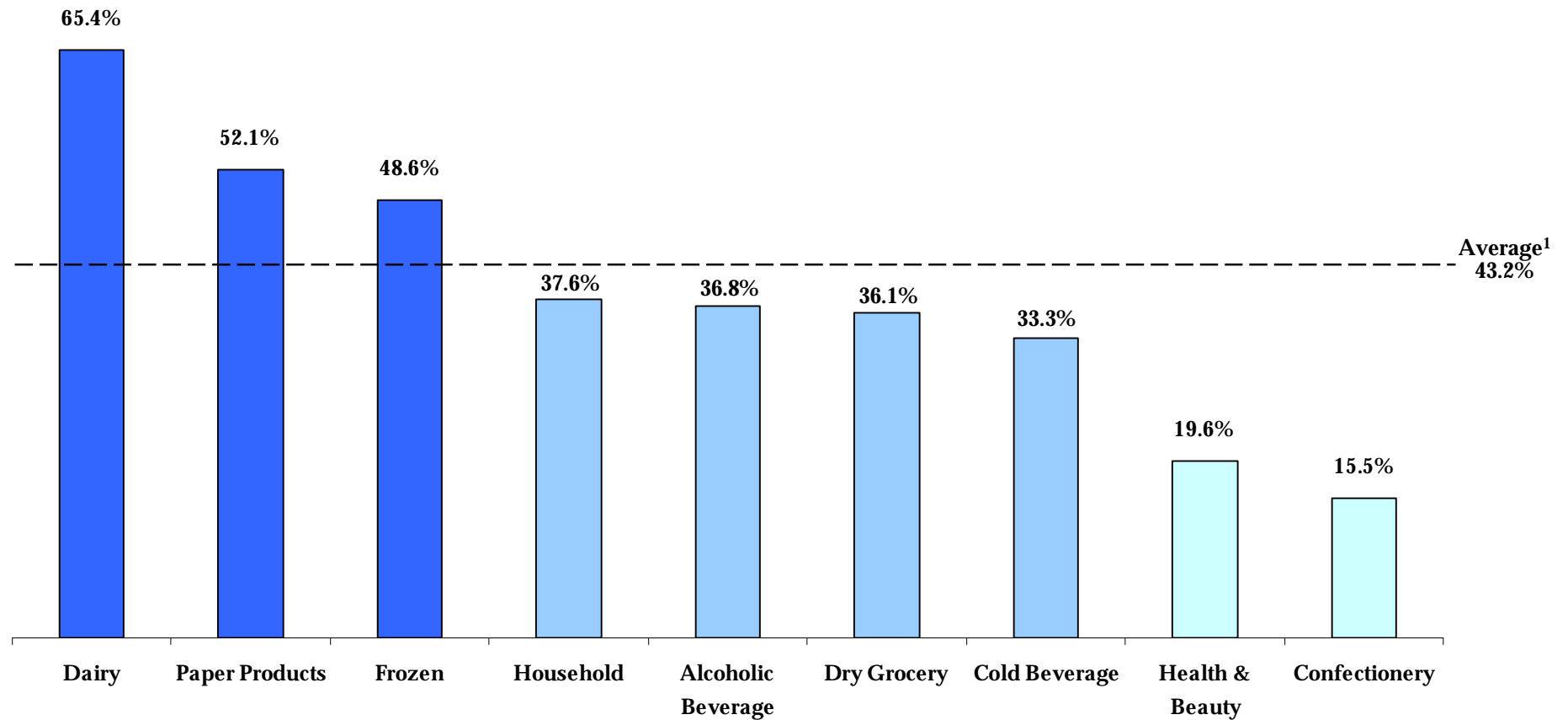
Private label is most successful in categories with low-innovation by manufacturers

PRODUCT INNOVATION VS. PRIVATE LABEL PENETRATION
(Percent; France; 1993)



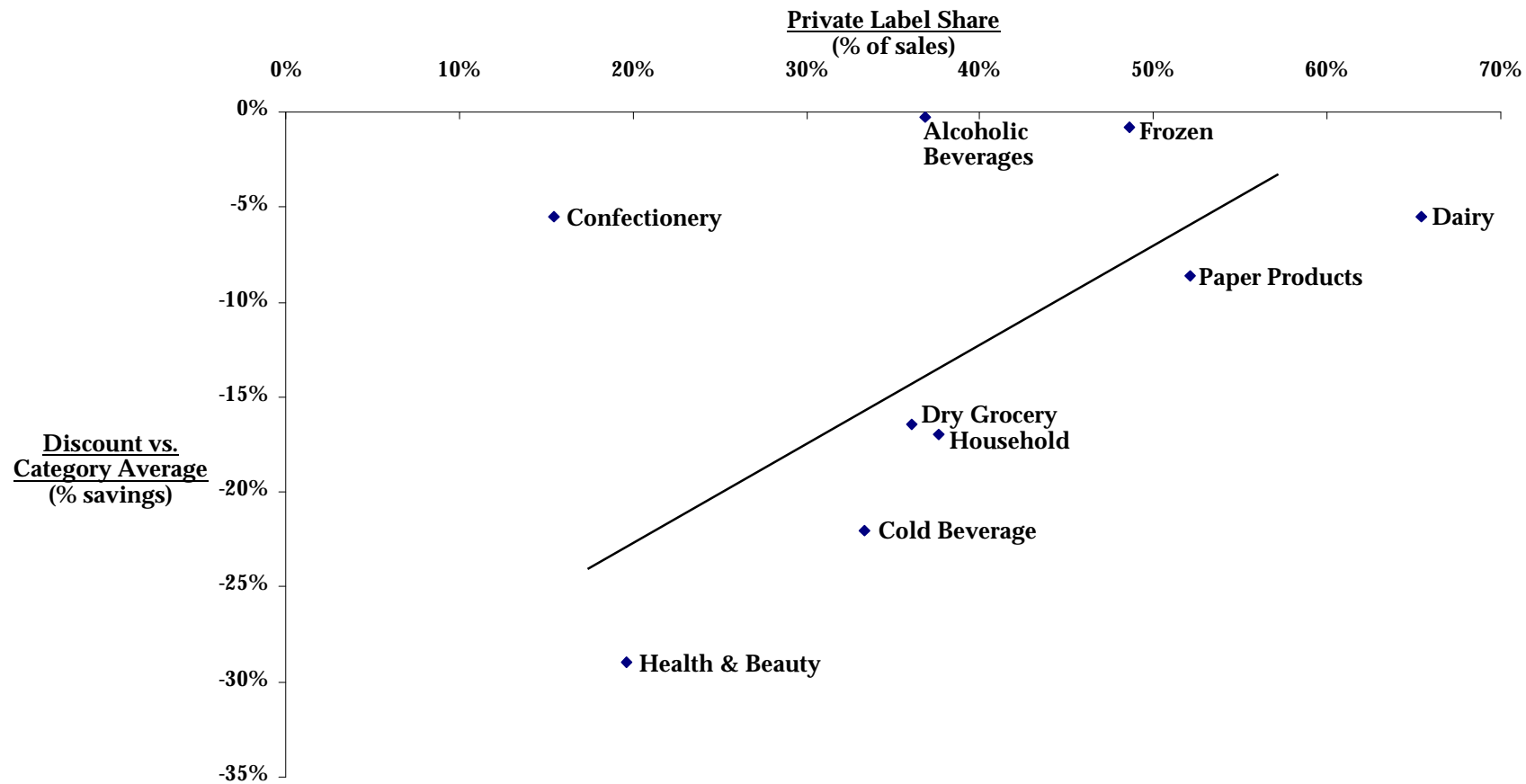
Even in the UK, with high overall penetration, private label is more successful in some categories than in others

UK PRIVATE LABEL SHARE BY MAJOR CATEGORY
(Percent of sales; 1998)



Although it is counter-intuitive, evidence from the UK shows that private label has the highest penetration in the categories where the price difference is lowest

PRIVATE LABEL DISCOUNT VS. PRIVATE LABEL SHARE BY CATEGORY
 (Percent; UK market; 1998)

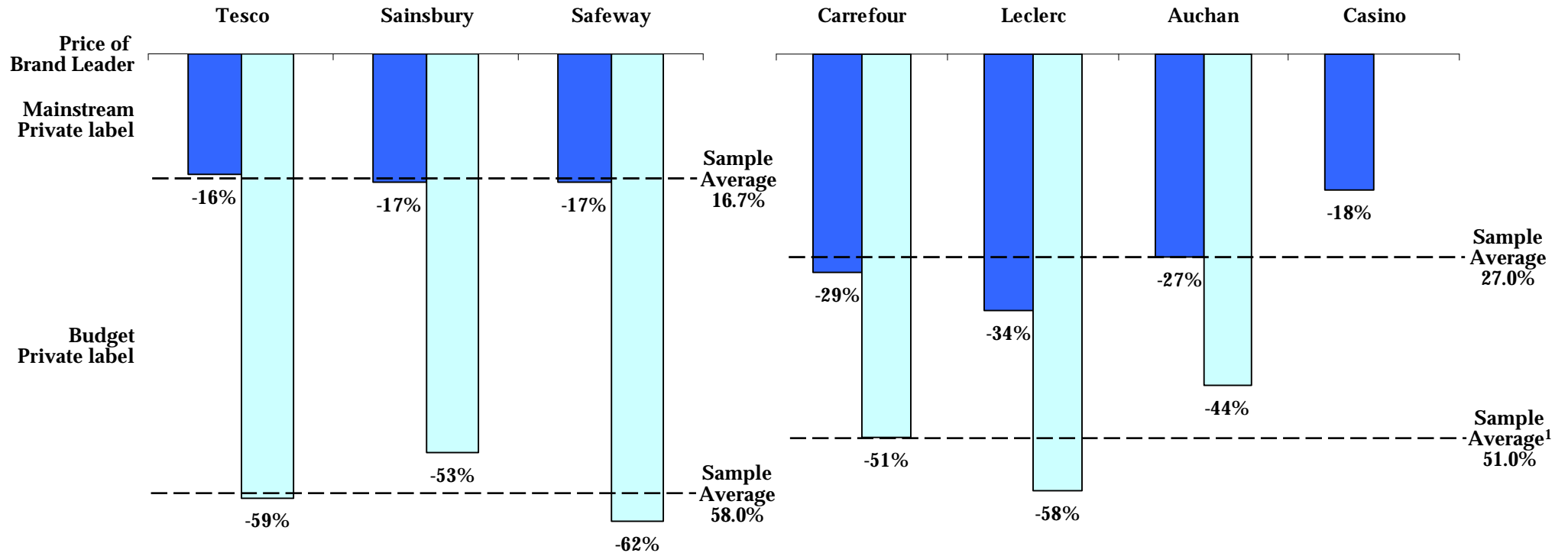


The measure of a successful private label program is not how cheap it is, but how expensive

AVERAGE DISCOUNT VS. BRAND LEADER BY TYPE OF PRIVATE LABEL
 (Percent price discount vs. brand leader by type of private label; 1998)

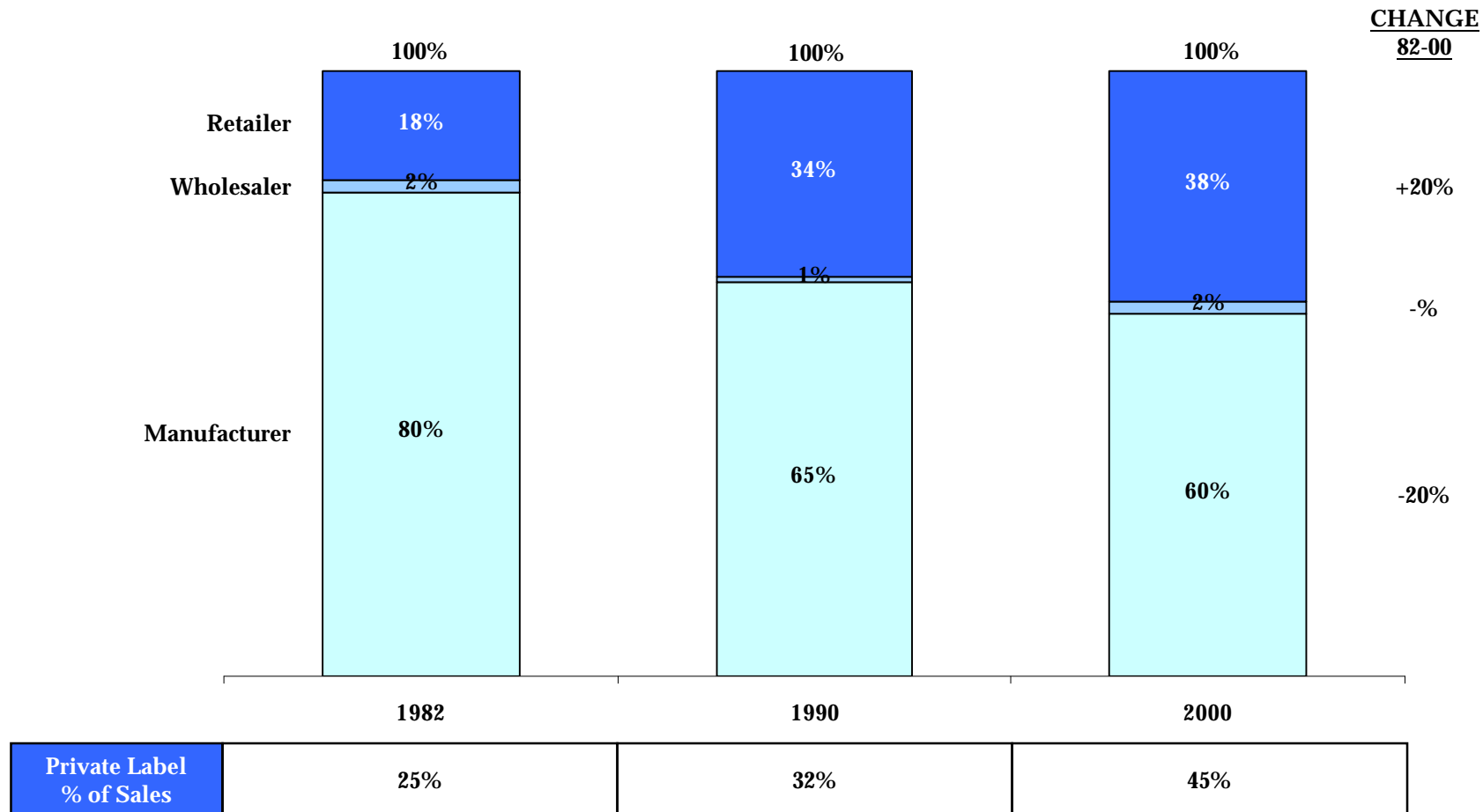
United Kingdom

France



Done right, private label has the capability to dramatically re-divide the available industry profit pool

REDIVIDING THE UK FOOD INDUSTRY PROFIT POOL
 (Percent of total UK food industry operating profit; 82v90v00)

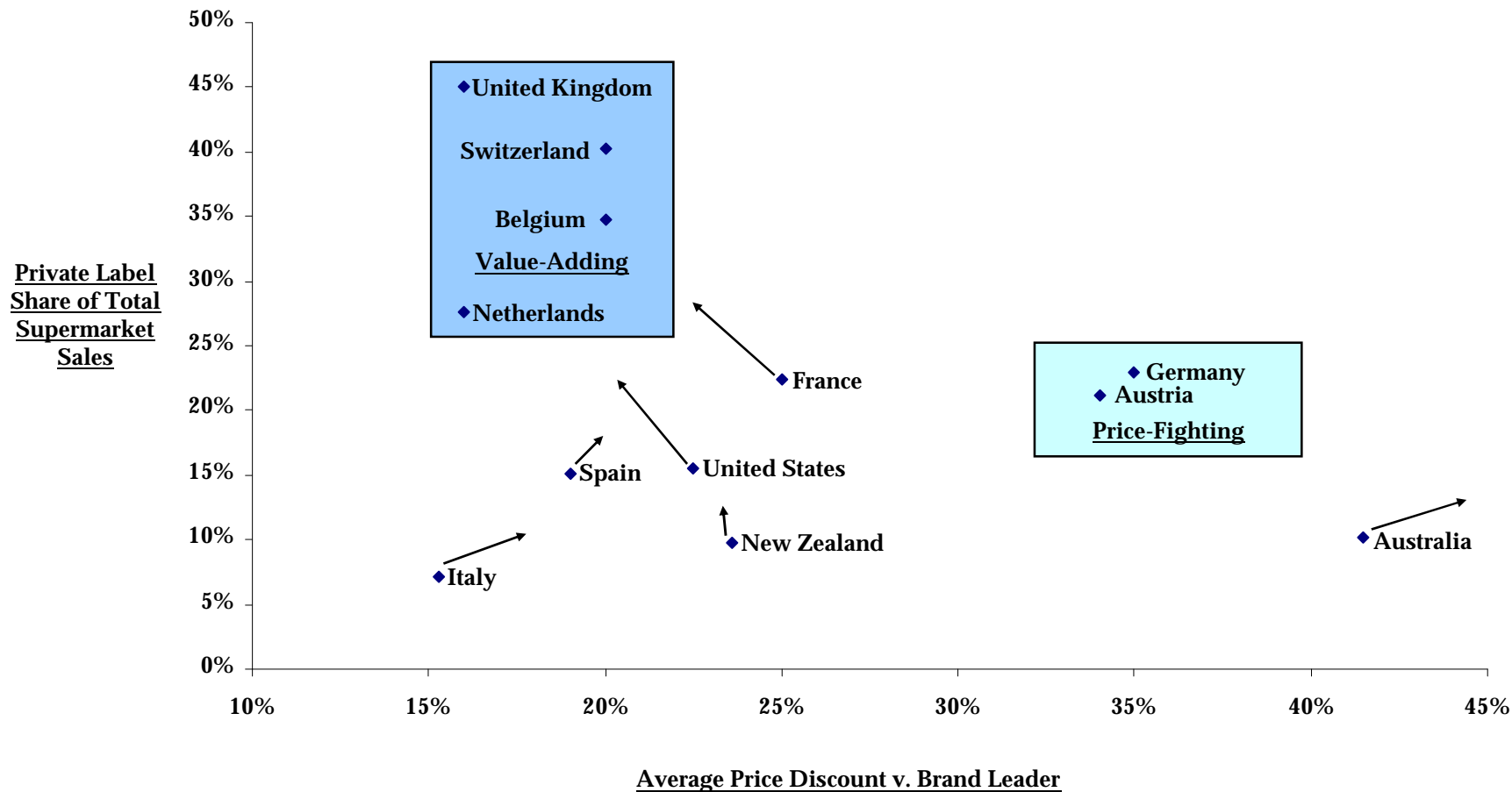


IIIb. In the past, countries have generally gone down either of two potential private-label pathways: value-adding or price-fighting

- There appear to be two distinct private label positions: Value-Adding (high price/high margin) or Price-Fighting (low price/low margin)**
- Both market positions have their strengths and weaknesses**
- The strategy used appears to reflect market history and the competitive environment in the country**
 - The intense focus on price by full-service supermarkets in Germany appears to have limited their private label growth, partly reflecting the distorting presence of Aldi in their market**
 - Countries with two very strong supermarket groups usually see the development of value-added private label strategies**

There appear to be two distinct long-run private label positions: Value-Adding (high price/high margin) or Price-Fighting (low price/low margin)

AVERAGE DISCOUNT VS. PRIVATE LABEL PENETRATION
 (% price discount vs. brand leader; % of supermarket sales; 2000)



Both market positions have their strengths and weaknesses

DIFFERENCES BETWEEN STRATEGIES

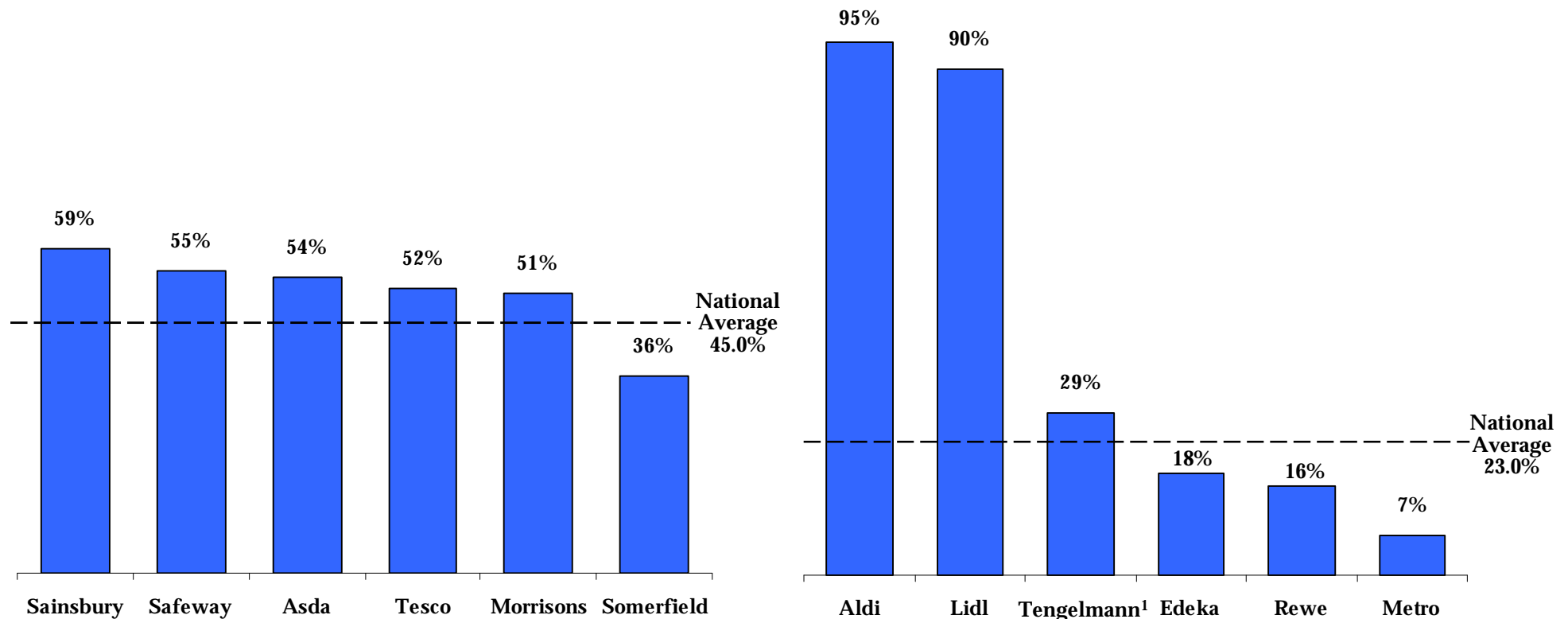
	Price-Fighting	Value-Adding
Branding Used	<ul style="list-style-type: none"> • Quasi-Brands 	<ul style="list-style-type: none"> • Store or Group Brands
Advantages	<ul style="list-style-type: none"> • Maintain price parity with hard discounters • Strong price impression versus branded 	<ul style="list-style-type: none"> • Much higher margins and profitability • Draw customer with unique signature items
Disadvantages	<ul style="list-style-type: none"> • Cannot afford to pay for higher quality products/ingredients • Limited to select categories <ul style="list-style-type: none"> - Undifferentiated commodities - Highly price sensitive items • Does not provide differentiated product or reason to choose outlet 	<ul style="list-style-type: none"> • Hard to implement • Requires large commitment of resources and personnel • Limited price impression vs. competition
Key Requirements	<ul style="list-style-type: none"> • Low cost store operations • Low cost distribution infrastructure 	<ul style="list-style-type: none"> • Store-as-a-brand attitude • Extensive marketing and advertising expenditure • Continual product/packaging development costs
Example	<ul style="list-style-type: none"> • Germany • Austria 	<ul style="list-style-type: none"> • United Kingdom • Switzerland

The intense focus on price by full-service supermarkets in Germany appears to have limited their private label growth...

PRIVATE LABEL SHARE BY MAJOR RETAILER: UNITED KINGDOM VS. GERMANY
 (Percent price discount vs. brand leader by type of private label; 2000)

United Kingdom

Germany



... partly reflecting the distorting presence of Aldi in their market

- “German supermarkets think they have to position themselves at the bottom to compete with Aldi.”

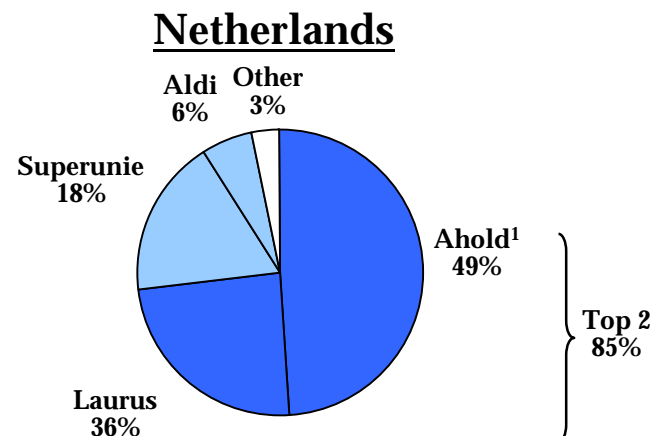
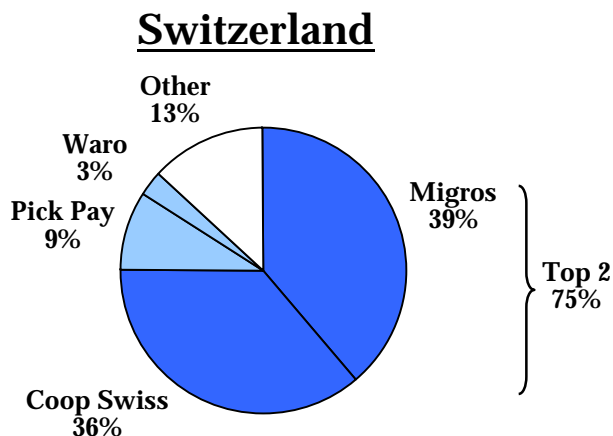
Barry Leach, A.T. Kearny, Munich

- “I am amazed that German supermarkets haven’t counteracted Aldi’s hard discount prices with quality.”

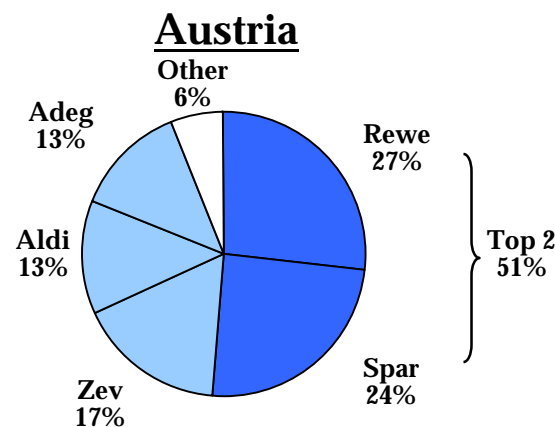
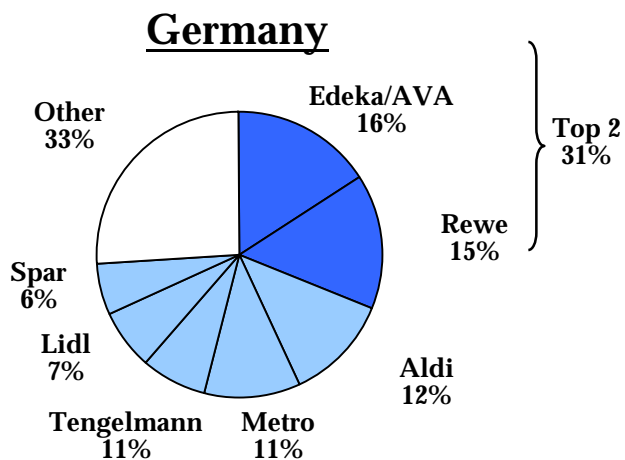
Philippe Kaas, OC&C Strategy Consultants, Paris

Countries with two very strong supermarket groups usually see the development of value-added private label strategies

SUPERMARKET MARKET SHARE BY SELECT COUNTRY
(% supermarket sales; 2000)



Value-Adding



Price-Fighting

IIIc. The success of British retailers at neutralizing the threat of the German discounters appears to demonstrate the superiority of the value-adding position*

- All of the major British chains, except Waitrose, launched a line of low-priced private label products in response to the arrival of Aldi, Netto and Lidl**
- These brands were priced at parity with the continental discounters, leading to very big price gaps in many key categories**
- Since it's height, budget private label's share in the UK as fallen, while the overall share of private label has risen**
- The United Kingdom appears to be the country that has most successfully neutralized Aldi's market entry**

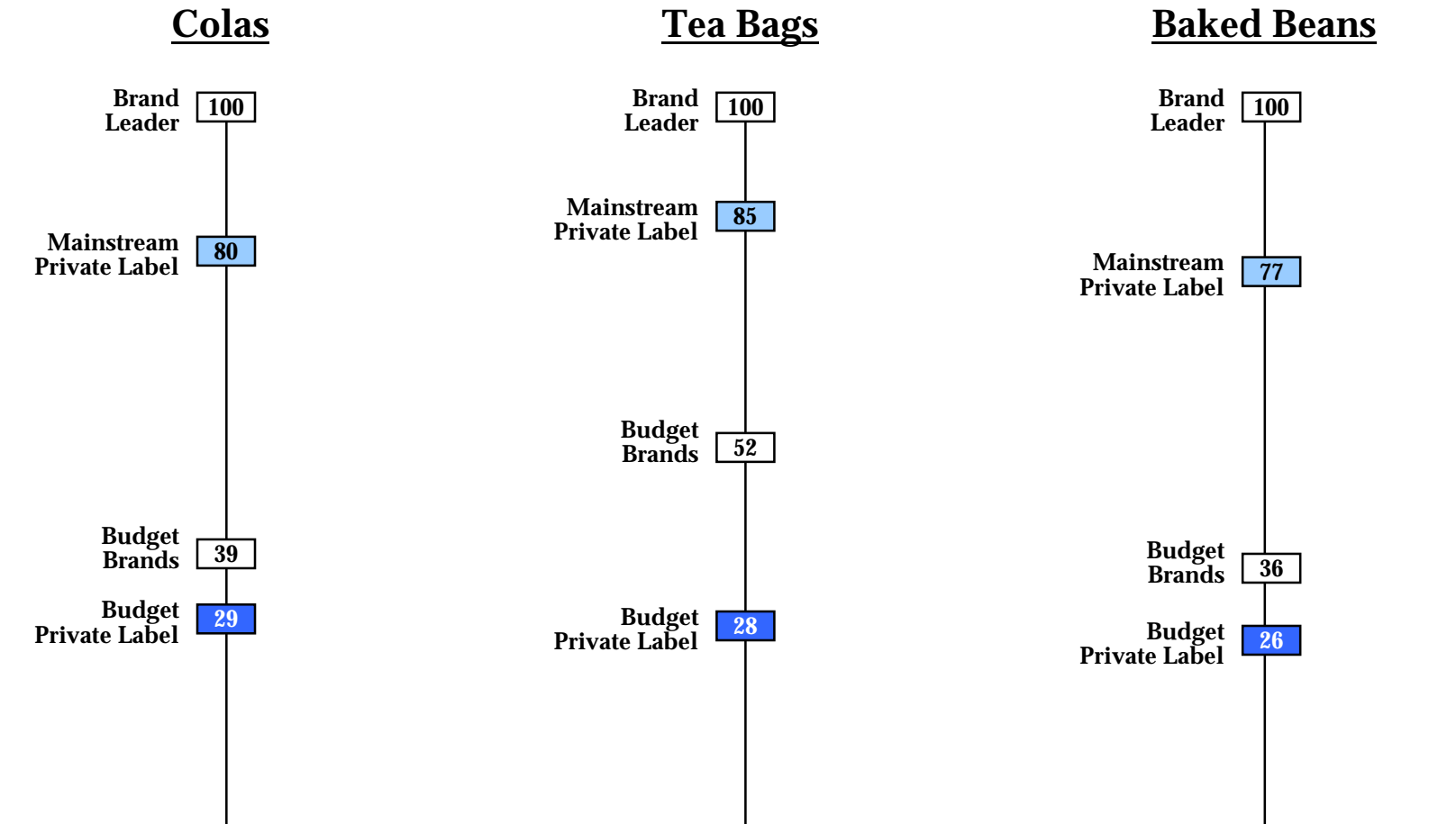
All of the major British chains, except Waitrose, launched a line of low-priced private label products in response to the arrival of Aldi, Netto and Lidl

UK VALUE BRANDS LAUNCHED IN EARLY 1990'S

Group	Mainstream Brand	Value Brand
Sainsbury	Sainsbury's	Sainsbury's Essentials
Tesco	Tesco	Tesco Value
Asda	Asda	Farm Stores
Safeway	Safeway	Safeway Savers
Somerfield	Somerfield	Basics
Waitrose	Waitrose	-
Kwik Save	-	No Frills
Iceland	Iceland	Super Value

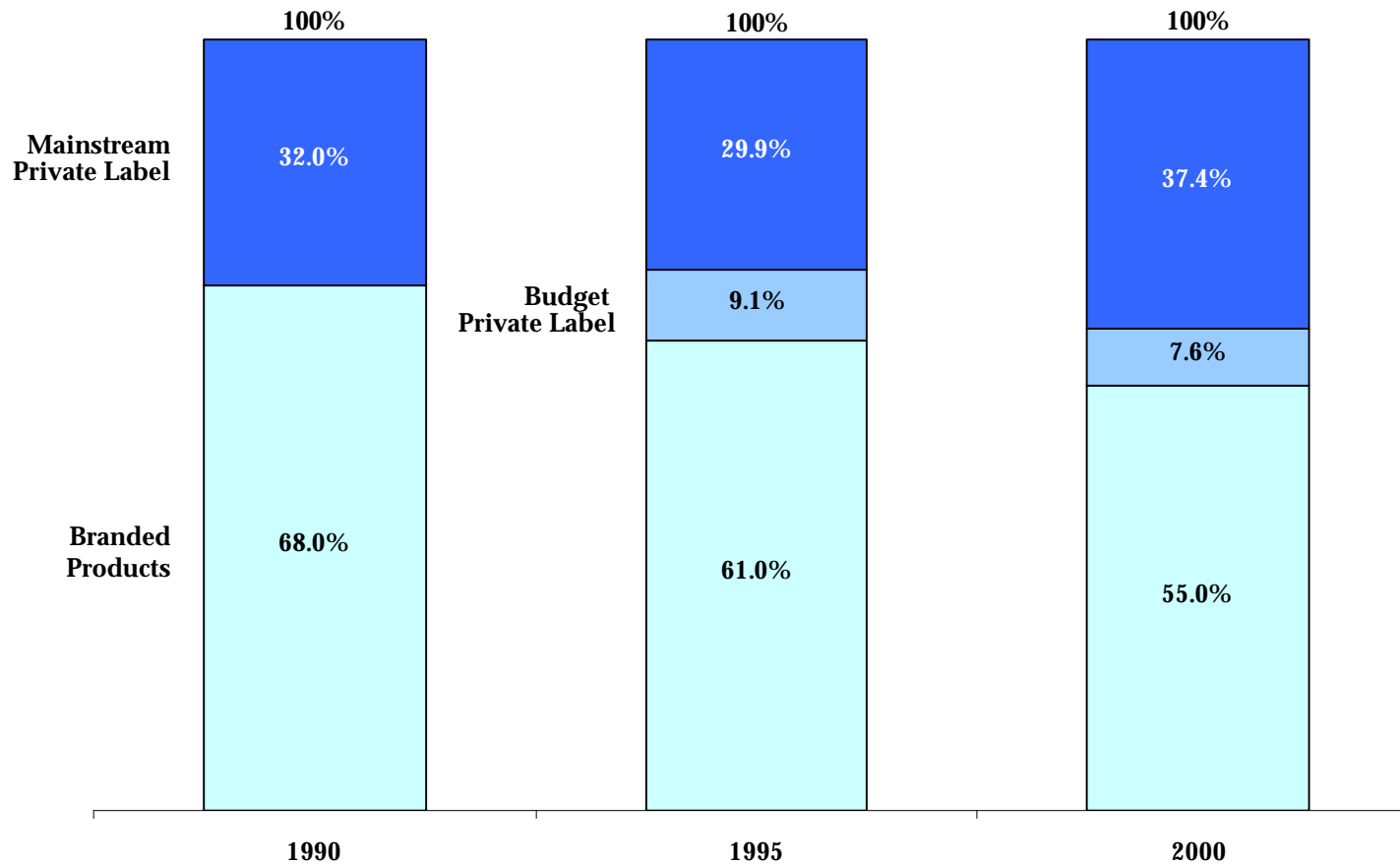
These brands were priced at parity with the continental discounters, leading to very big price gaps in many key categories

UK VALUE BRANDS INITIAL PRICE POSITIONING
 (Price of brand leader = 100; 1995)



Since it's height, budget private label's share in the UK as fallen, while the overall share of private label has risen

UK MARKET SHARE BY TYPE OF BRAND
(Percent of sales; 90v95v00)



The United Kingdom appears to be the country that has most successfully neutralized Aldi's market entry

EXAMPLES OF ALDI MARKET ENTRY




	Year Aldi Entered	# of Hard Discount outlets		Hard Discount Market share		Private label % of retail food sales
		Aldi	Total	Aldi	Total	
Germany	1945	3,263	14,600	12%	32%	28.0%
Austria	1967	220	445	13%	17%	21.1%
Netherlands	1972	359	638	6%	10%	27.6%
United States	1976	554	1,600	0.6%	1.1%	15.5% ¹
Denmark	1980	456	456	4%	10%	25.5%
France	1987	385	1,412	1.1%	4.3%	22.4%
United Kingdom	1990	254	474	1.1%	2.1%	45.0%

Appendix: Case Studies

Case Study I:	Tesco	A3
Case Study II:	Safeway (US)	A15
Case Study III:	Loblaw	A33

Private label has played an important role at three successful international retailers

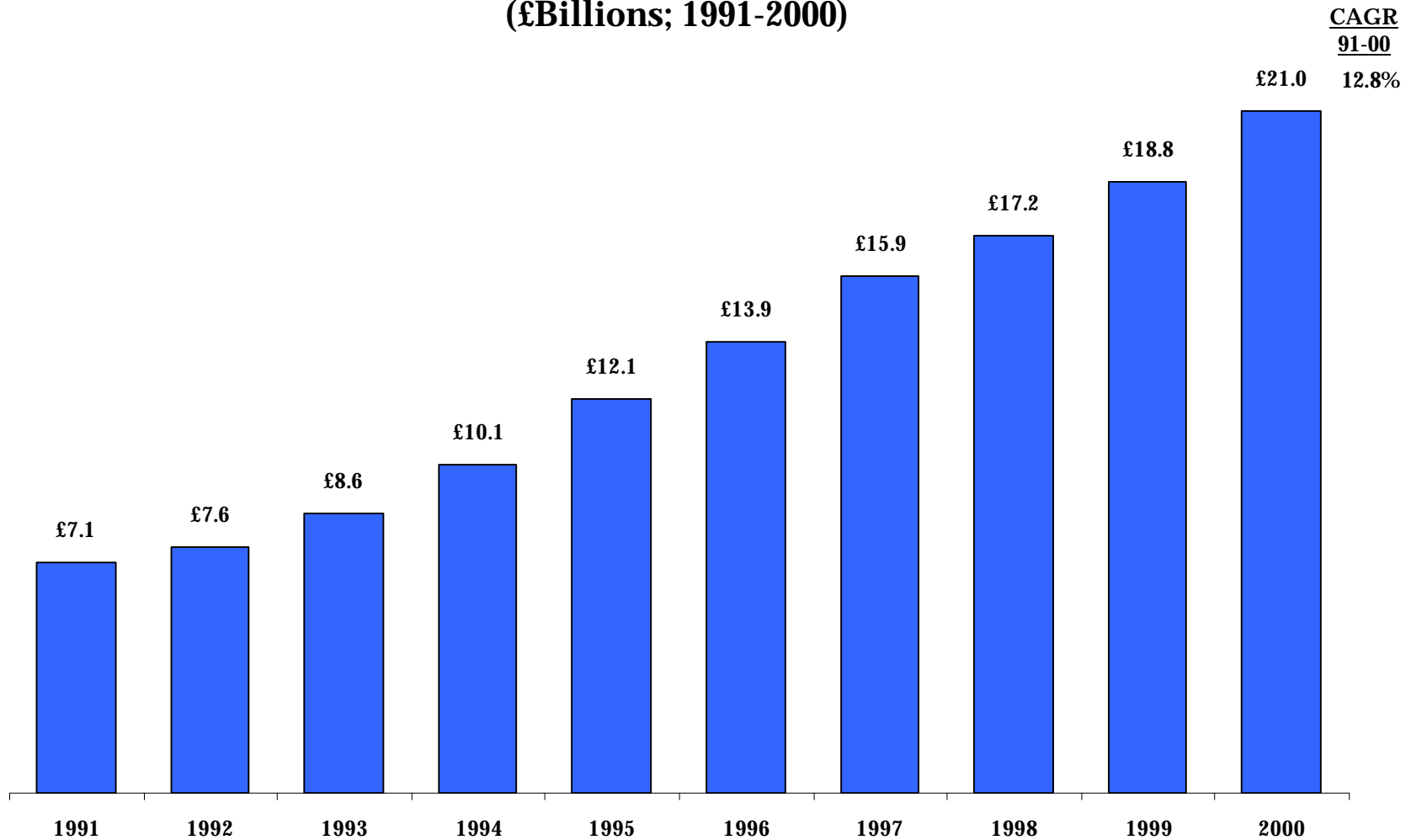
THREE CASE STUDIES PERFORMANCE PROFILE

	Sales CAGR (91-00)	EBIT CAGR (91-00)	EBIT Margin (FY00)	Change in EBIT Margin (91-00)	10 Year Stock Price Growth
	12.8%	13.7%	5.6%	+0.4%	550%
	8.7%	20.3%	7.1%	+4.3%	2,016%
	8.8%	18.1%	4.9%	+2.3%	783%



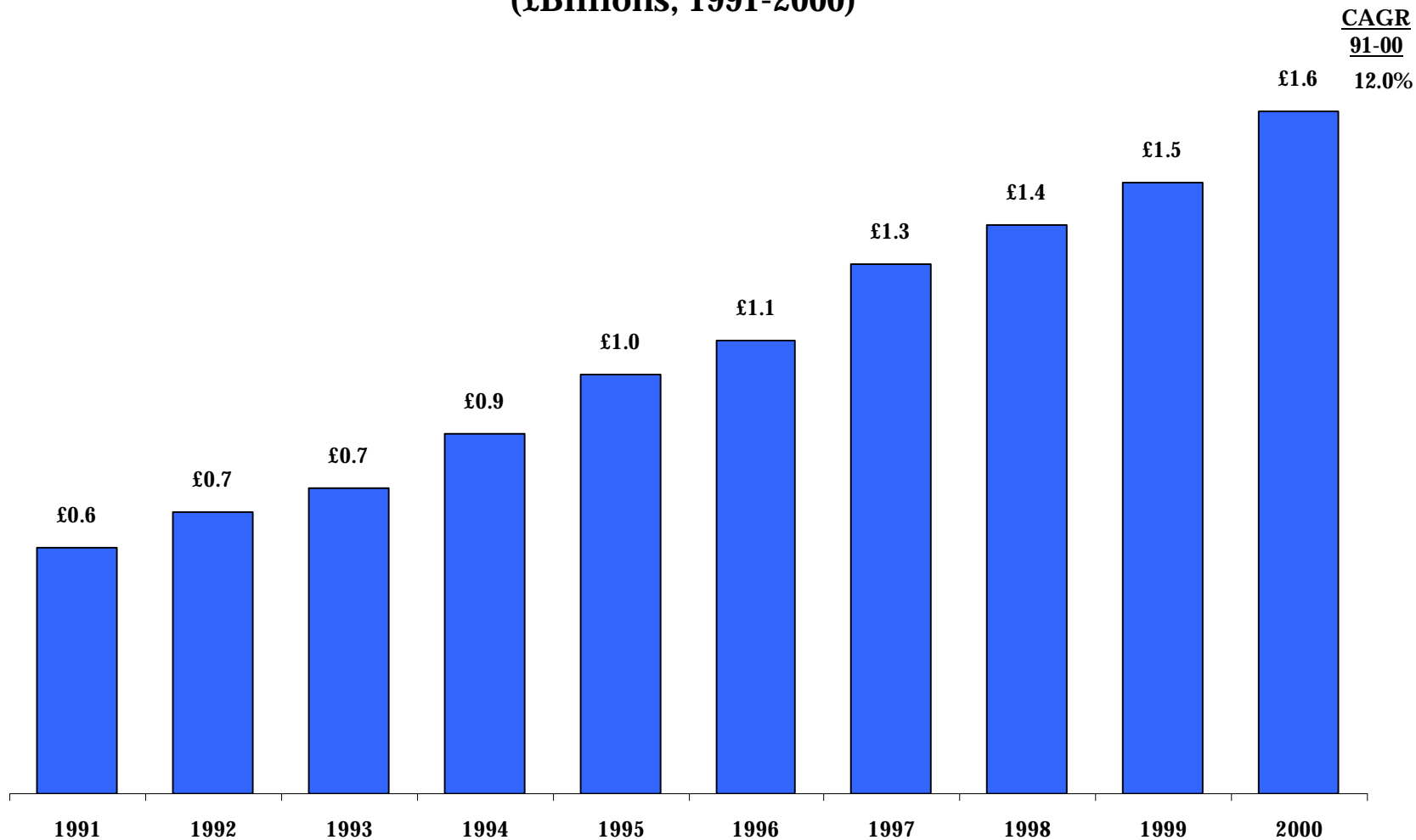
Tesco has shown constant strong sales growth for the past ten years

TESCO SALES GROWTH¹
(£Billions; 1991-2000)



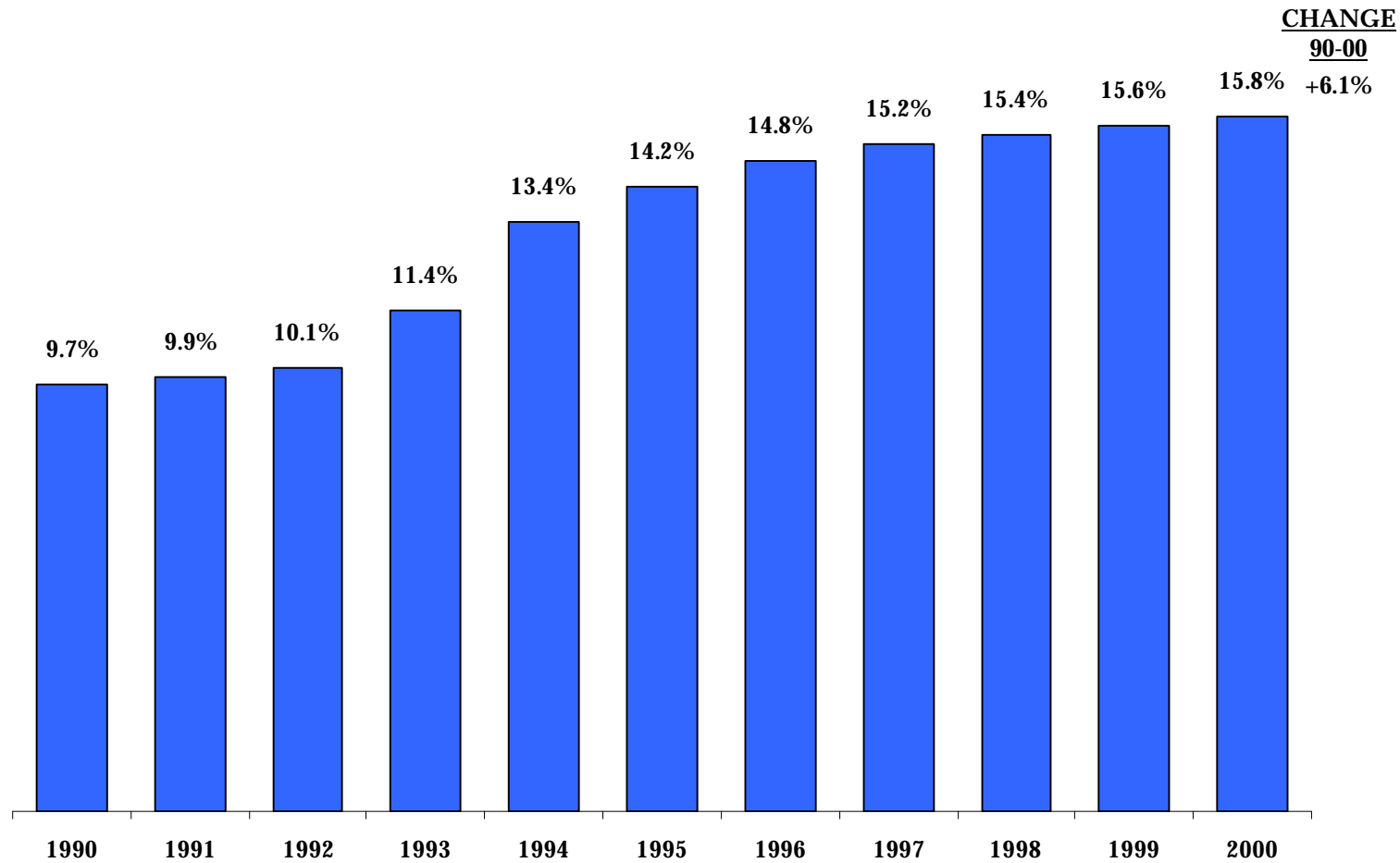
Tesco has also shown strong EBITDA growth for the past ten years

TESCO EBITDA GROWTH¹
 (£Billions; 1991-2000)



Tesco has gained over six points of market share in the UK in the past decade

TESCO UK MARKET SHARE GROWTH¹
(Percent of total industry sales; 1990-2000)



Tesco's share price has increased 550% in the past decade

TESCO SHARE PRICE GROWTH
(pence/share; share trades millions; 1991-2000)



Tesco is rapidly expanding internationally and now has operations in ten countries

TESCO COUNTRIES OF OPERATION

Europe



**United Kingdom
Republic of Ireland
Hungary
Poland
Slovakia
Czech Republic**

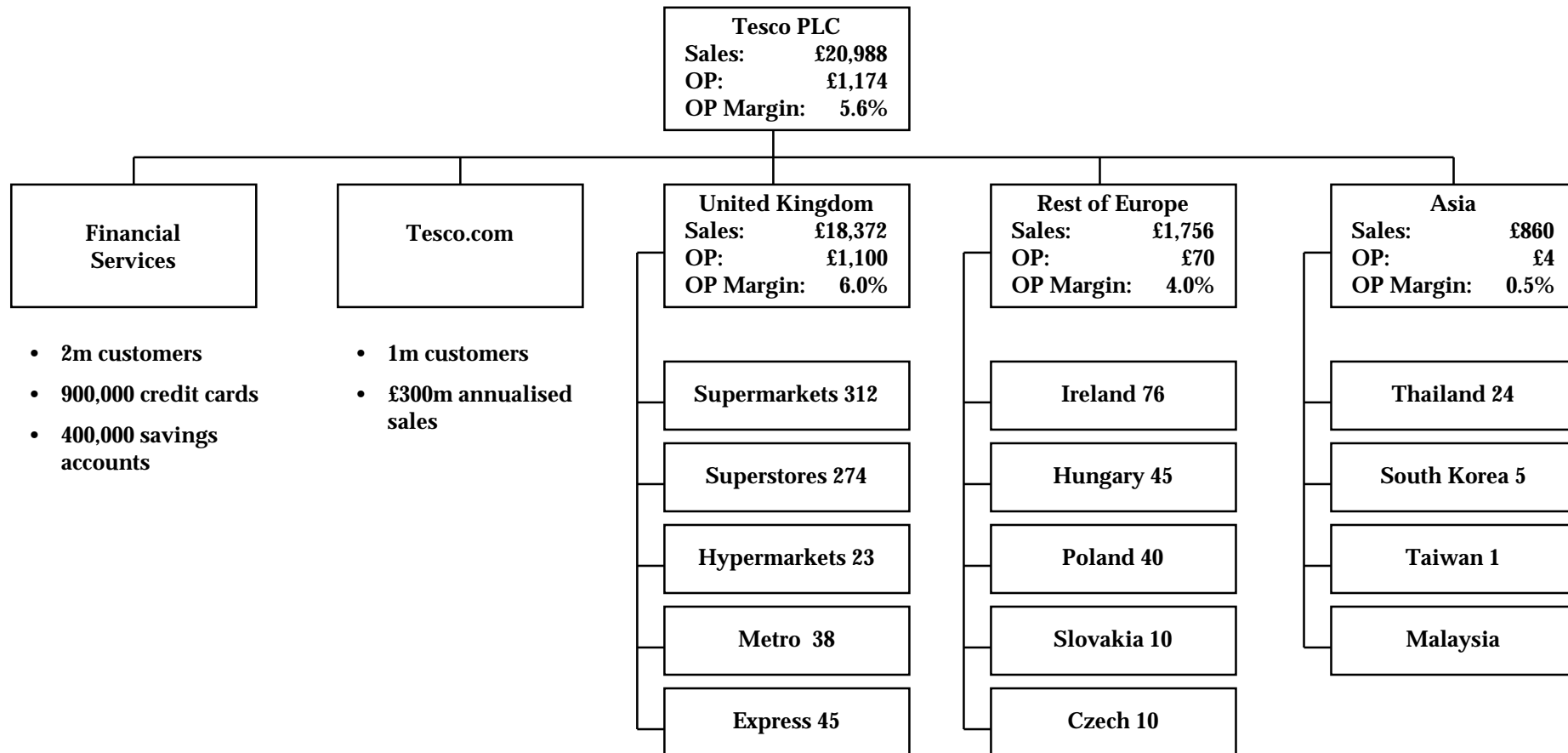
Asia



**Thailand
South Korea
Taiwan
[Malaysia]**

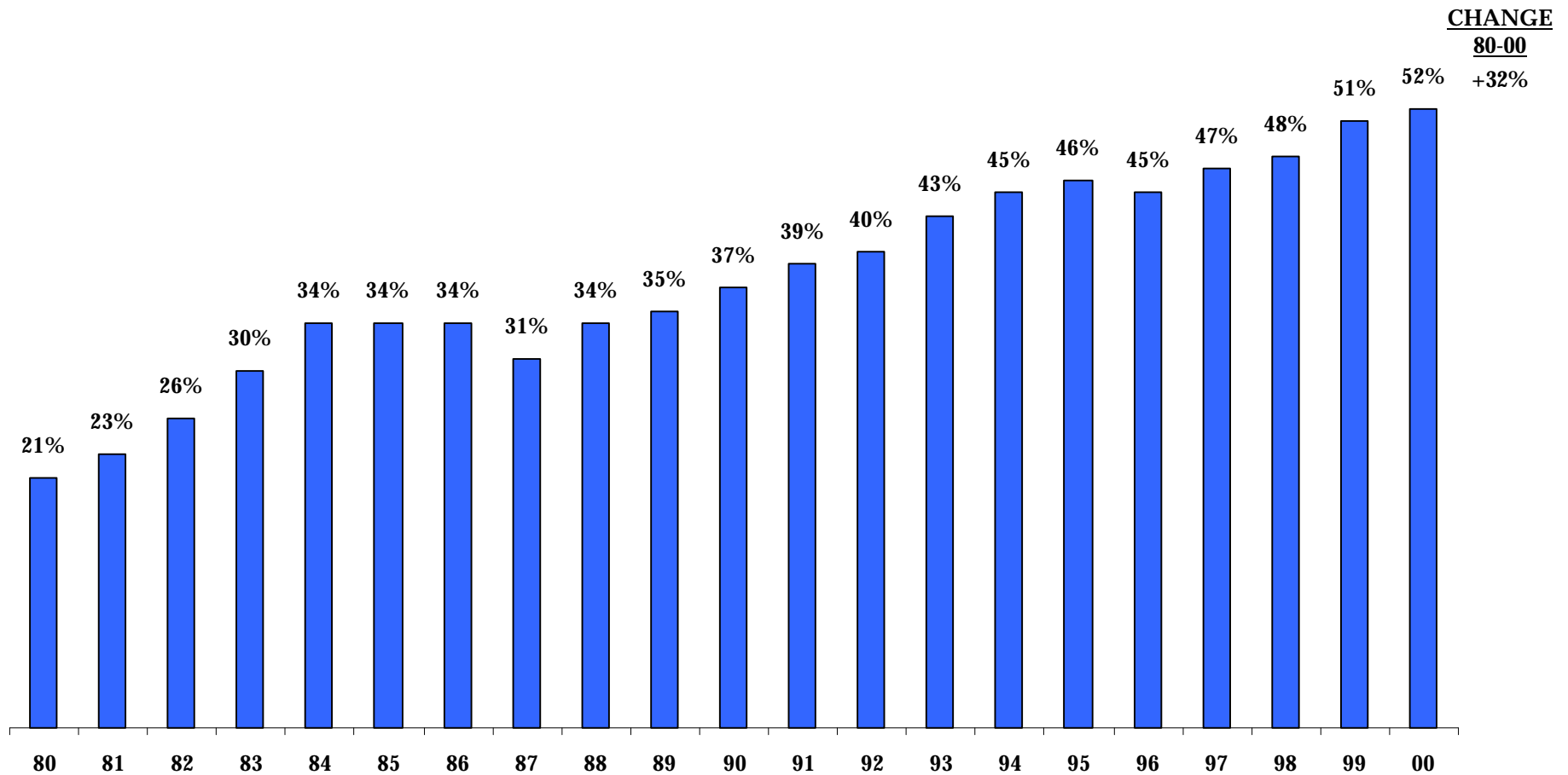
The United Kingdom, which still accounts for 87.6% of total sales, is funding international growth

**TESCO ORGANISATIONAL STRUCTURE
(FY 2000¹)**







A strong and growing private label programme has been one of the key elements of Tesco's success

TESCO PRIVATE LABEL PERCENT OF SALES¹
 (Percent of sales; 1990-2000)



While all private label products are labeled Tesco, the company uses four sub-brands to segment the market

TESCO PRIVATE LABEL BRANDS

	# of lines	Sales (£M;00)	% of PL Sales	Strategy
	500	£350M	5%	<ul style="list-style-type: none"> – Directly address Marks&Spencer – Super-premium product and price – Limited to high-value added items
	560	£300M	4%	<ul style="list-style-type: none"> – Attract upmarket shoppers – Capture margin in new category – Aim to provide complete basket
	3,000	£5,525M	75%	<ul style="list-style-type: none"> – Same quality as national brand – To be the brand to choice – Increase margins vs. branded
	200	£1,175M	16%	<ul style="list-style-type: none"> – Directly address Aldi/Netto/Lidl – Cheap and basic – Limited to low-value added items

However, not all sub-brands are available on all products

TESCO PRIVATE LABEL BRANDS EXAMPLES

Tesco sees private label as a key element of its success

- **“Tesco selects, prepares and packages everyday products in dozens of different ways – from fresh to frozen, from value packs to gourmet treats, from raw ingredients to ready meals. We are continually innovating and investing in new lines to increase choice for our customers... The Tesco Finest range, introduced in February last year, has been a great success.”**

Tesco Annual Report 1999

All of the major retailers in the United Kingdom now have strong private label programs based on using their store name as the brand

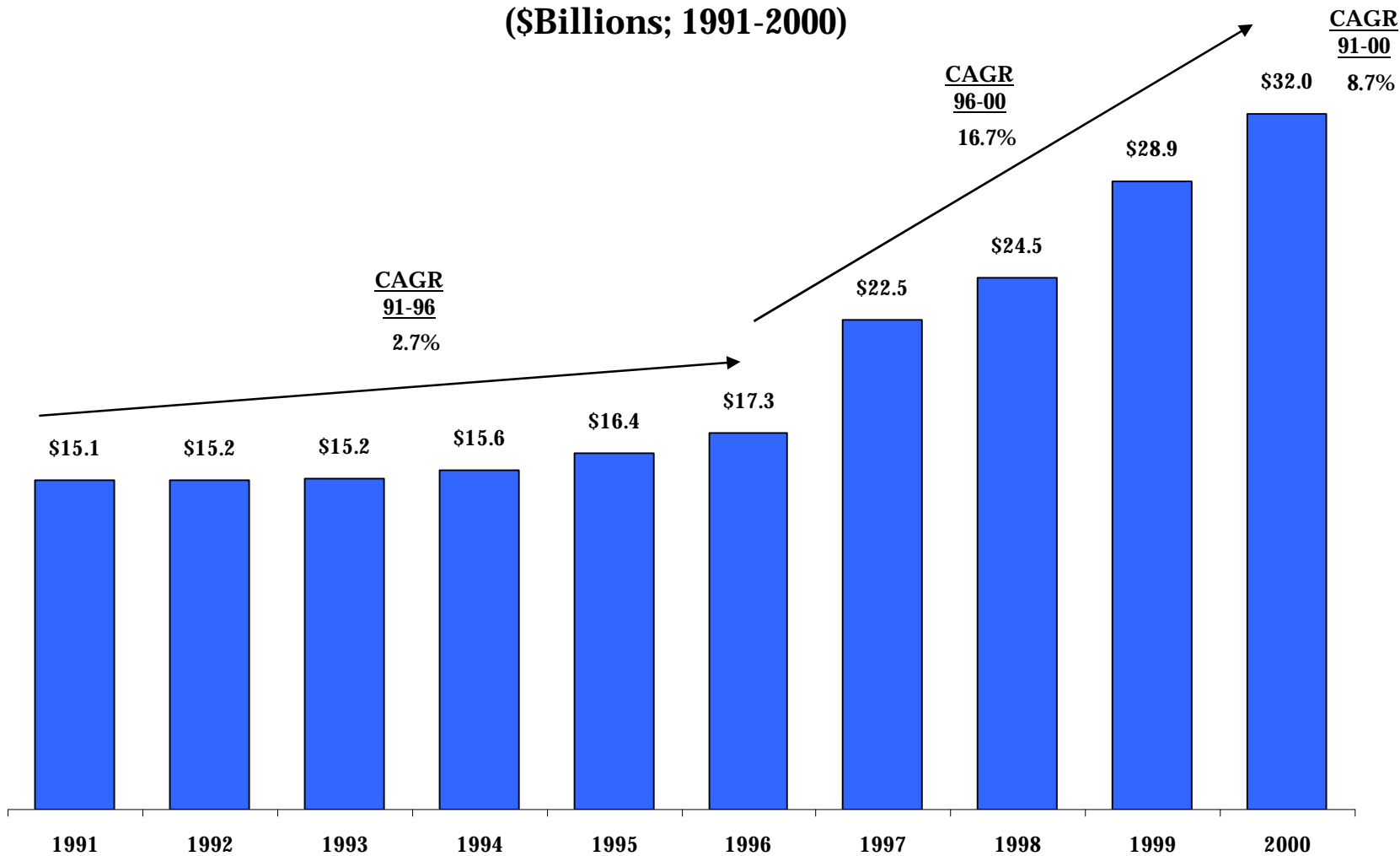
TOP FIVE UK SUPERMARKET GROUPS PRIVATE LABEL STRATEGIES

Company	Private Label % of Sales	PL Strategy	Brands Used
Tesco	51.8%	Store brands and sub-brands	Tesco Tesco sub-brands (Value, Organic, Finest)
Sainsbury	59.2%	Store brands and sub-brands	Sainsbury Sainsbury sub-brands (Novon, Gio, etc.)
Asda	54.2%	Two-tier brands +pseudo brands	ASDA Smart Price (replacing Farm Stores) George (apparel)
Safeway	54.8%	Store brands and sub-brands	Safeway The Best Safeway Safeway Select Safeway Savers
Somerfield	36.0%	Store brands + generic	Somerfield Kwik Save and No Frills (Kwik Save)

 **SAFEWAY**
(USA)

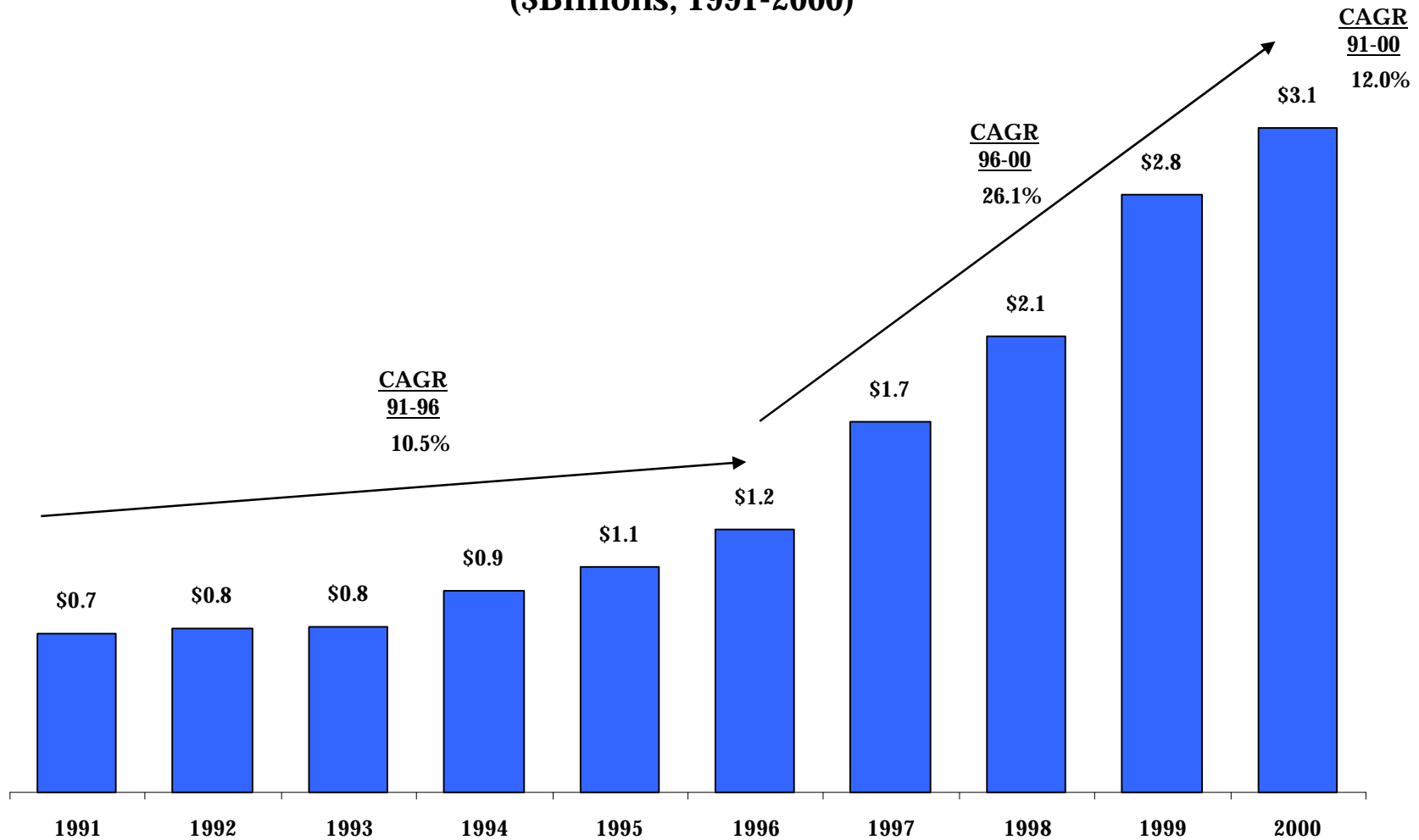
Safeway was showing limited sales growth until a recent series of major acquisitions

SAFWAY SALES GROWTH
 (\$Billions; 1991-2000)



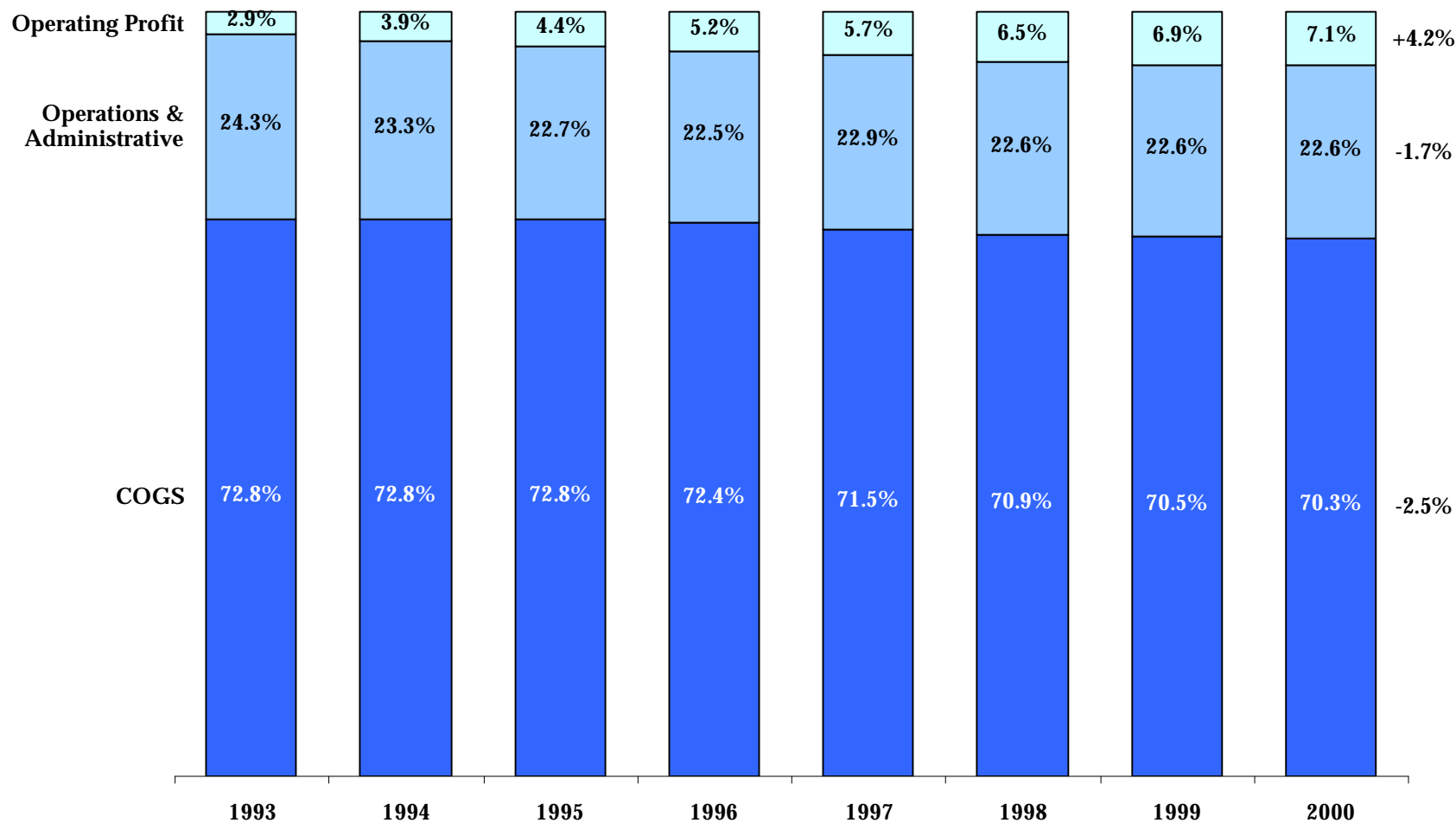
However, Safeway was showing good profit growth, which gave it the ability to do acquisitions

SAFWAY EBITDA GROWTH¹
(\$Billions; 1991-2000)








Safeway has improved its operating profit consistently quarter after quarter, year after year, since Steve Burd was appointed CEO and the Safeway Select range was launched

BREAKDOWN OF MARGINS

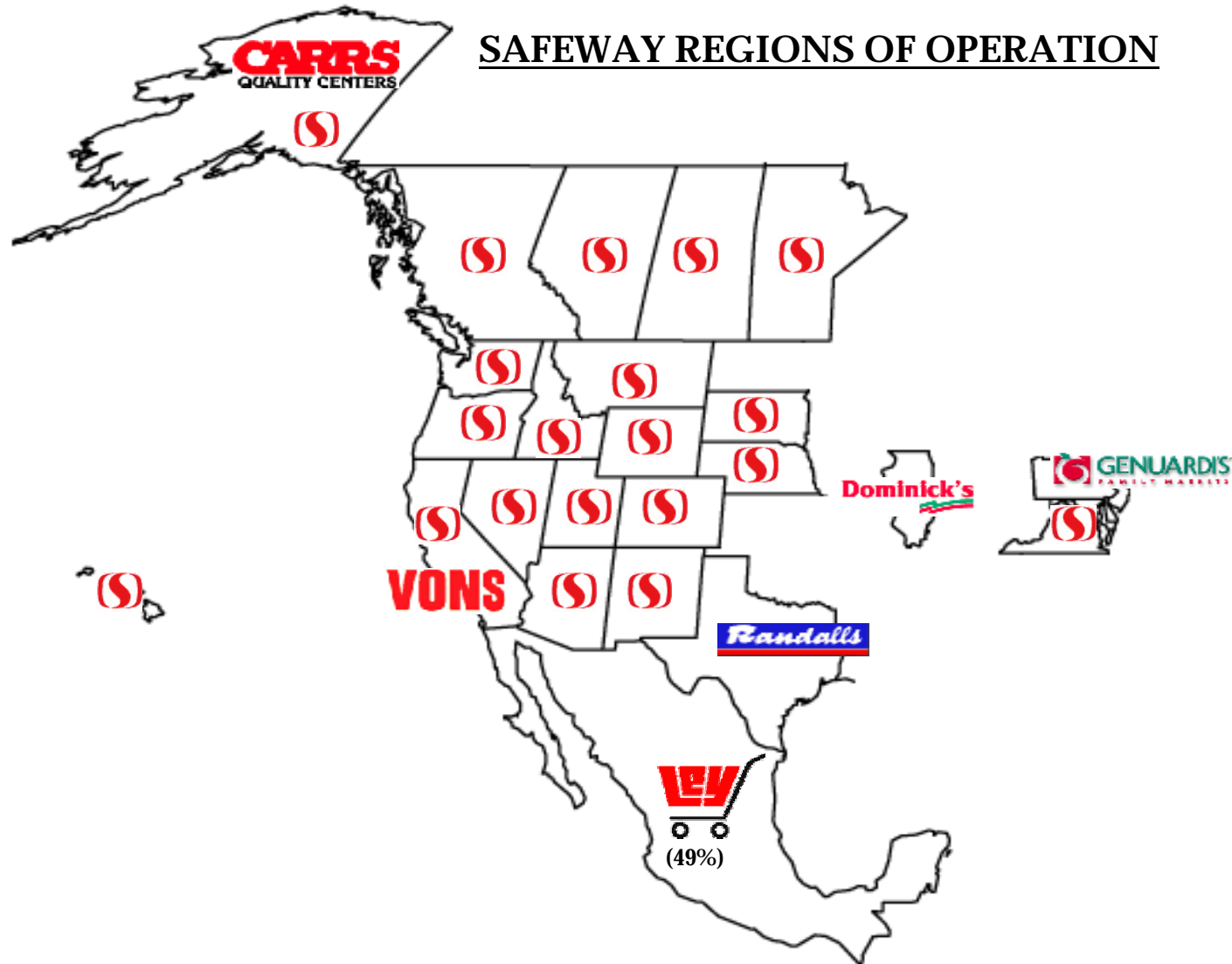


The demonstrated ability to improve results allowed Safeway to make acquisitions

SAFWAY ACQUISITIONS





	Date of Acquisition	Acquisition Year Sales	# of Stores	Average US\$/store/wk
	April 1997	\$5.4B	320	\$325,000
	Nov 1998	\$2.6B	116	\$432,000
	April 1999	\$0.6B	49	\$237,000
	Sept 1999	\$2.6B	117	\$428,000
	Dec 1999	\$1.0B	39	\$494,000

Safeway's acquisitions have served to expand its geographic coverage



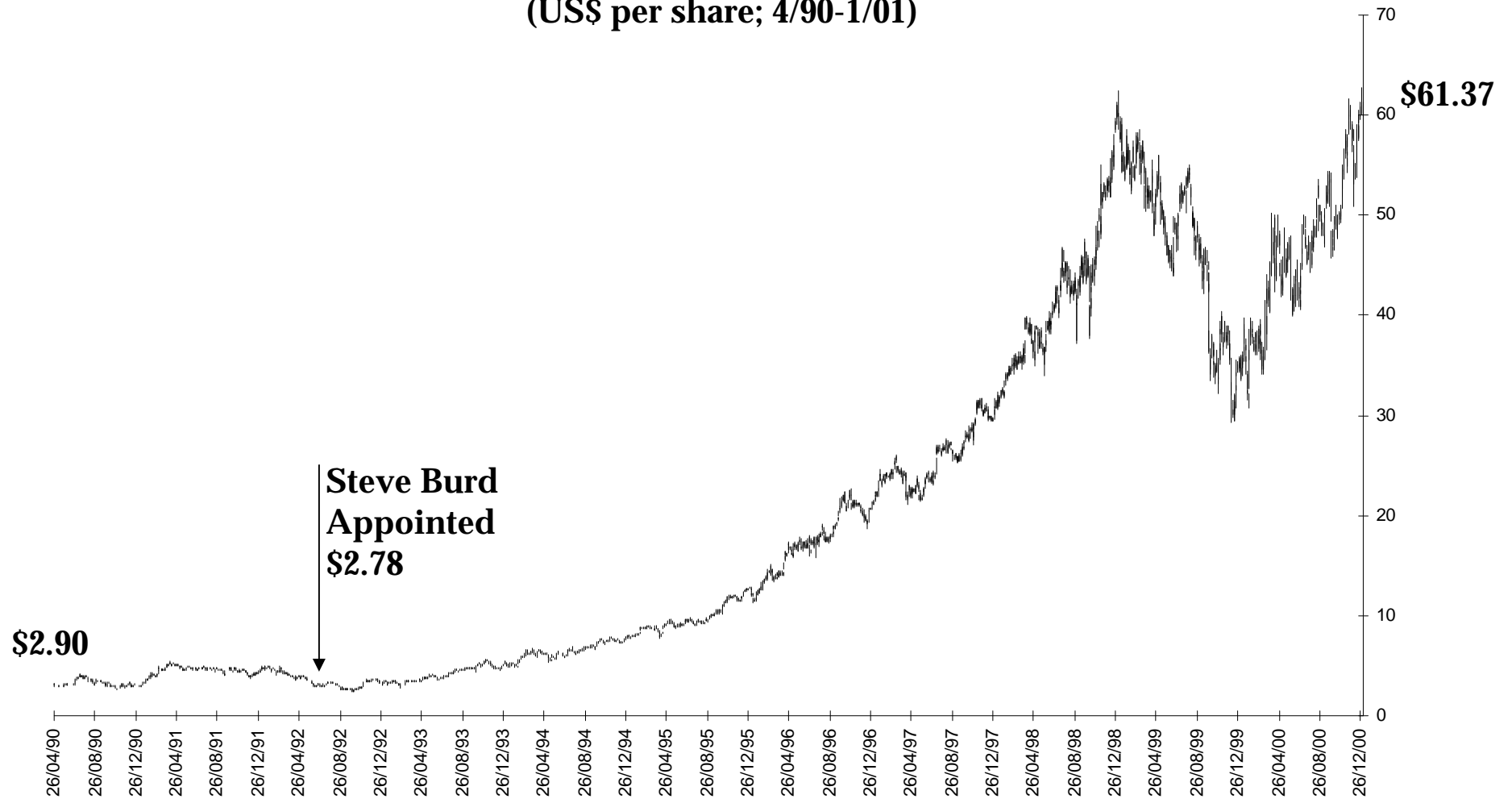
Safeway is now the number one or two in thirteen of its eighteen major markets

SAFEWAY POSITION IN KEY MARKETS IN 2000

Company	Market	Market Position
	San Francisco, CA	#1
	San Jose, CA	#1
	Oakland, CA	#2
	Sacramento, CA	#2
	Portland, OR	#1
	Seattle, WA	#1
	Phoenix, AZ	#2
	Las Vegas, NV	#3
	Denver, CO	#2
	Washington, DC	#2
Baltimore, MD	#3	
	Los Angeles, CA	#2
	San Bernadino, CA	#4
	Orange County, CA	#3
	San Diego, CA	#1
	Chicago, IL	#2
	Houston	#2
	Dallas, TX	#2
	Fort Worth, TX	#4

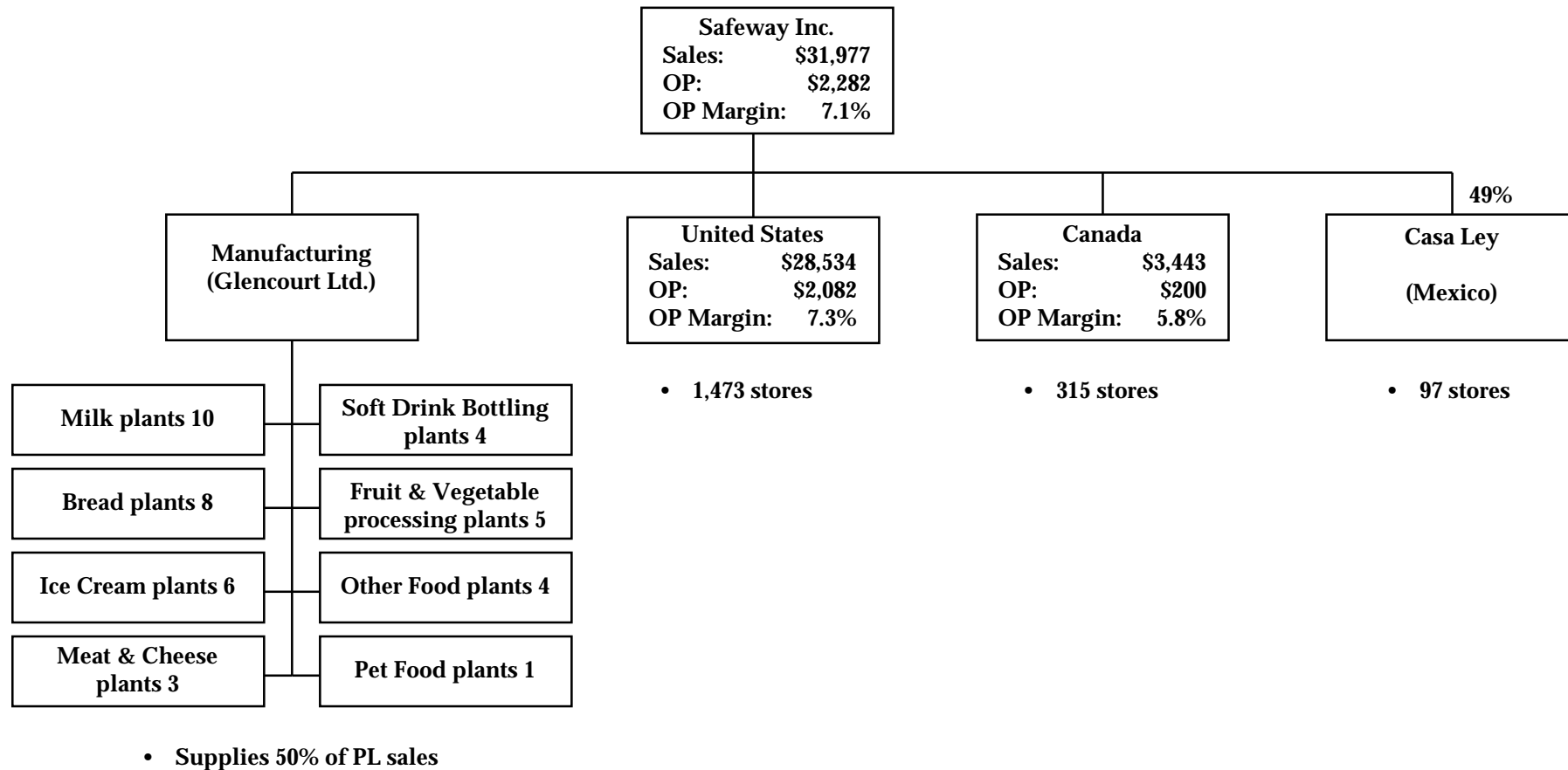
Safeway's share price has increased 2,016% in the past decade

SAFWAY SHARE PRICE GROWTH¹
(US\$ per share; 4/90-1/01)



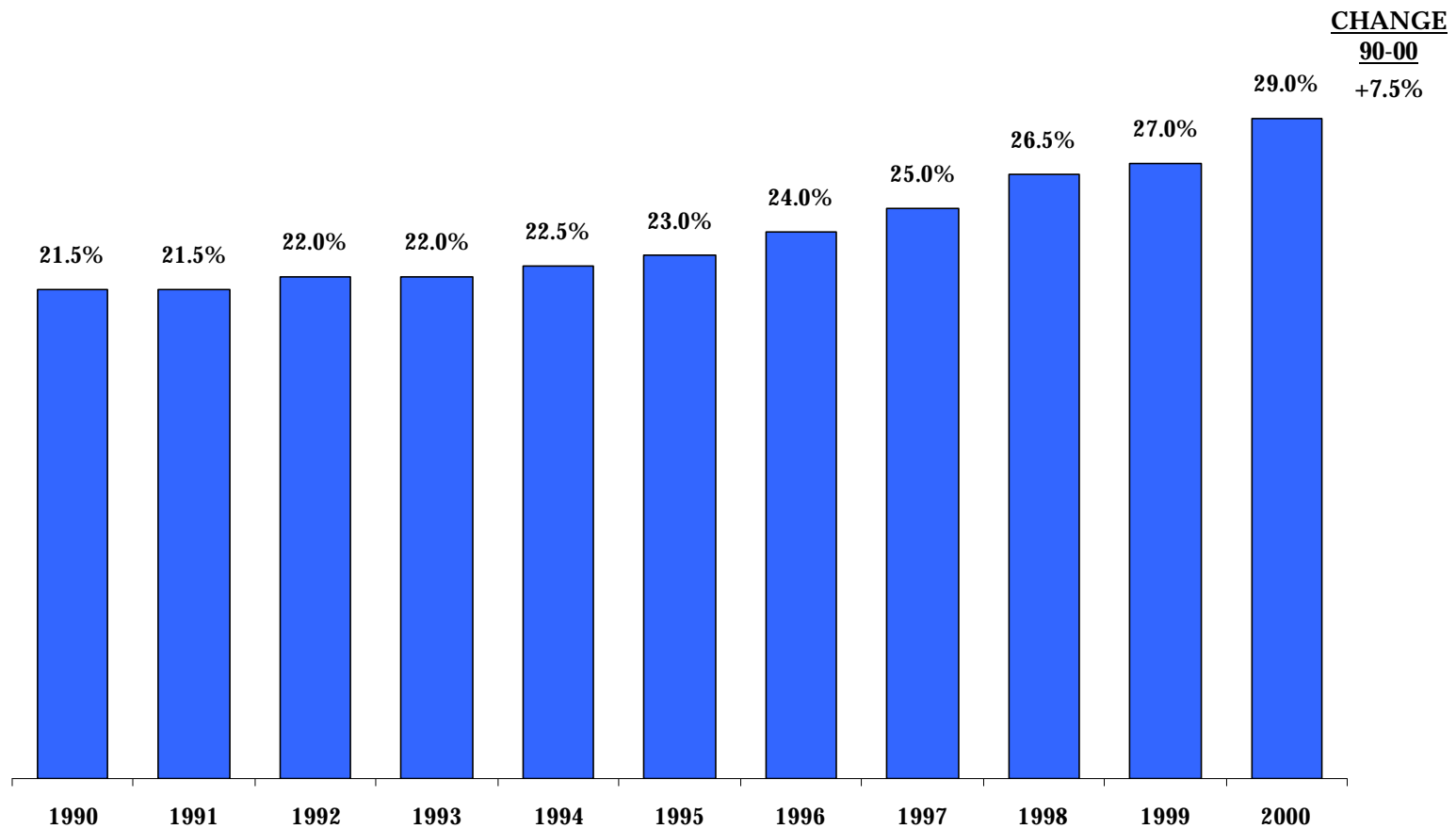
Safeway has extensive private label manufacturing operations, stores in the United States and Canada, and owns 49% of Casa Ley of Mexico

SAFeway ORGANISATIONAL STRUCTURE
(FY 2000)



A strong and growing private label programme has been one of the key elements of Safeway's success

SAFWAY PRIVATE LABEL PERCENT OF SALES¹
(Percent of sales; 1990-2000)



Safeway has tried just about every possible private label strategy

EVOLUTION OF SAFEWAY'S PRIVATE LABEL PROGRAM

	Stage I	Stage II	Stage III	Stage IV	Stage V
Strategy	Store Brand	Controlled Labels	Low-price Generics	Endorsed Labels	Store Brand + Premium
Time Period	1926-1940	1940-1968 1980-1985	1968-1980	1985-1993	1993-Current
Brands	Safeway	Cragmont Edwards Town House Lucerne Bel-Air Verdi Truly Fine Marigold Piedmont +47 others	Scotch Buy	— (S) —	Safeway (sub-brands) Safeway Select (sub-brands)










Safeway recognizes the appeal of good quality at good prices to its customers

- **“Private label today is far different from what it was 10 years ago when we as retailers felt the only thing important in private label was price and quality was second. Quality must be in the forefront and you have to price it so that it represents a real value to the consumer, otherwise there is no reason for being. The U.S. has the potential to reach the market penetration of private label in Canada and in Europe - where the bar is high - but the American consumer is absolutely going to be the one that dictates what that level is going to be.”**

Gary Smith, SVP Marketing, Safeway Stores

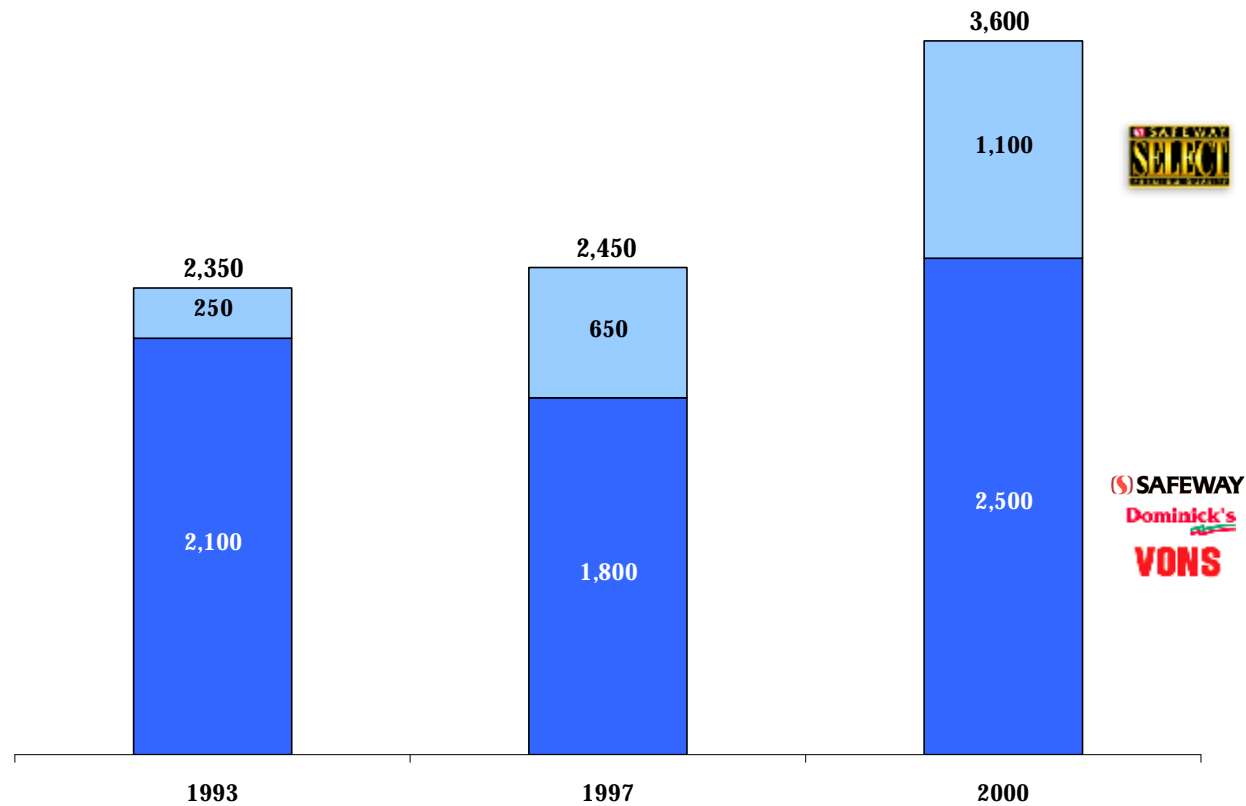
Safeway uses a two-tiered private label program with a few sub-brands under each tier

SAFEWAY PRIVATE LABEL BRANDS

	# of lines	Sales (\$B;00)	% of PL Sales	Strategy
	900	\$2.5M	34%	<ul style="list-style-type: none"> – Quality as good as market leader – Capture margin in new category – Increase margins vs. branded
  	200			<ul style="list-style-type: none"> – Create a unique signature item – Super-premium product and price – Limited to high-value added items
   	2,200	\$5.0M	66%	<ul style="list-style-type: none"> – Same quality as national brand – Basic choice for everyday needs – Increase margins vs. branded
 <p>Mrs. Wright's Lucerne</p>	300			<ul style="list-style-type: none"> – Two strong heritage sub-brands – Leveraging manufacturing plants – Limited in-store competition

As the Safeway Select brand was being developed, the number of Store Brand items decreased, until recent acquisitions increased the range again

CHANGING SAFEWAY PRIVATE LABEL RANGE
(Number of skus; 1993v1997v2000)



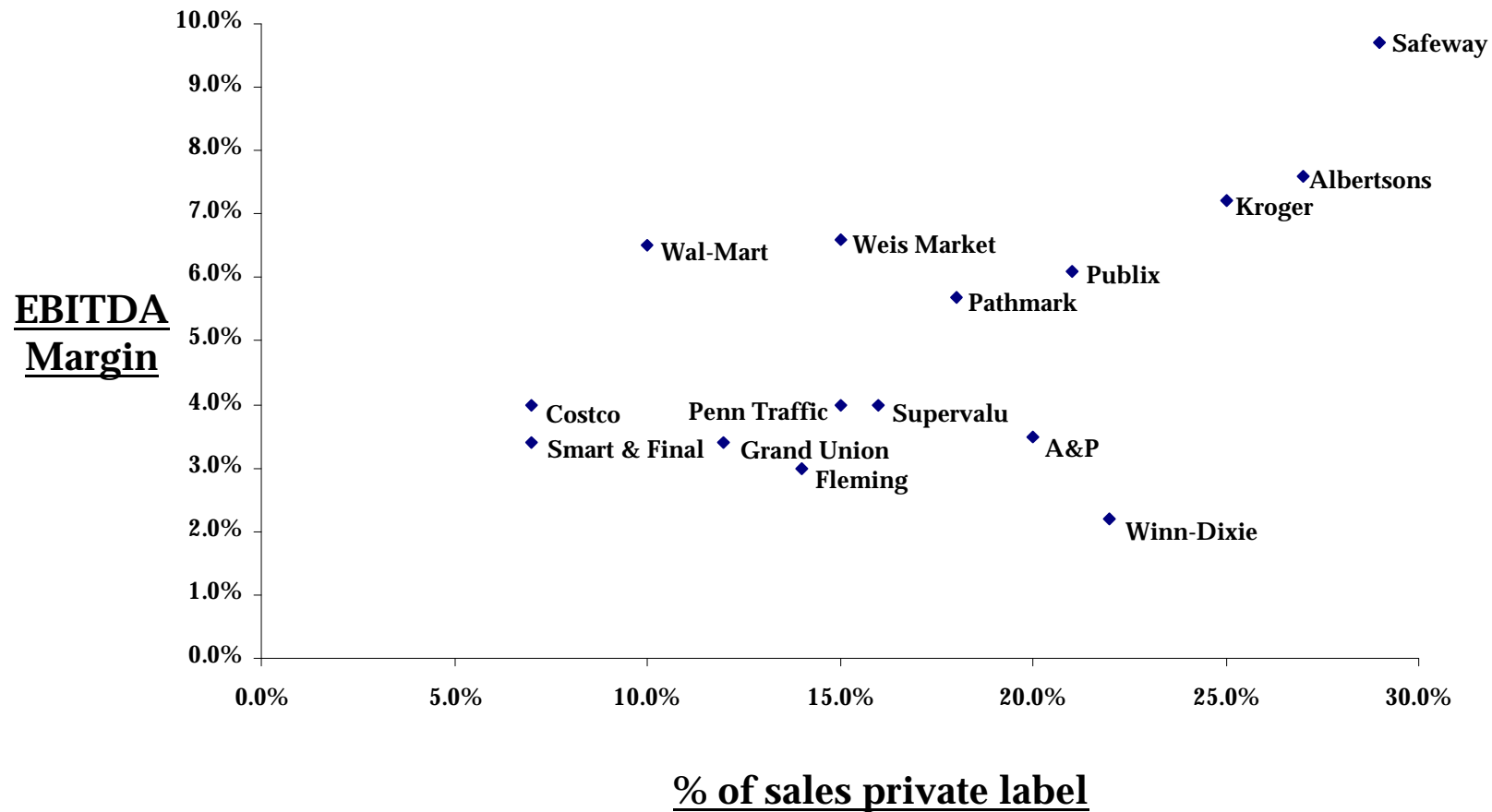
Safeway uses store brands for basic items and Select for premium lines

SAFEGWAY PRIVATE LABEL BRANDS EXAMPLES

The United States market demonstrates the potential of the relationship between private label and profitability

PRIVATE LABEL VS. PROFITABILITY IN AMERICAN SUPERMARKETS
 (Percent of total sales private label; EBITDA percent of sales; FY2000)



Private label as a key element to Safeway's success

- **“Safeway has been early at rationalizing and upgrading its private label program. It is also early at recognizing the potential for future development. A leader in private label, the company has aggressively expanded its private label, introducing 195 new items in FY 1999. The company has developed distinct brands and sub-brands that have gained increased customer acceptance due to their superior quality. We believe that the richer margin mix on these products has translated and will continue to translate into bottom-line growth but also provides a major reinforcement in the branding of the company.”**

Deutsche Bank, May 2000

- **“The exciting thing about Safeway Select is that it has enjoyed instant recognition and popularity. The new cola has been described as ‘a home run,’ and the chocolate chip cookie is the No. 1 or No. 2 best-selling cookie in every division. Our impression is that the success of the Safeway label is more than partly due to the high-quality interiors and superior service found in Safeway stores.”**

Mark Husson, Analyst, JP Morgan

All of the major American supermarket groups now have a private label program broadly similar to Safeway's

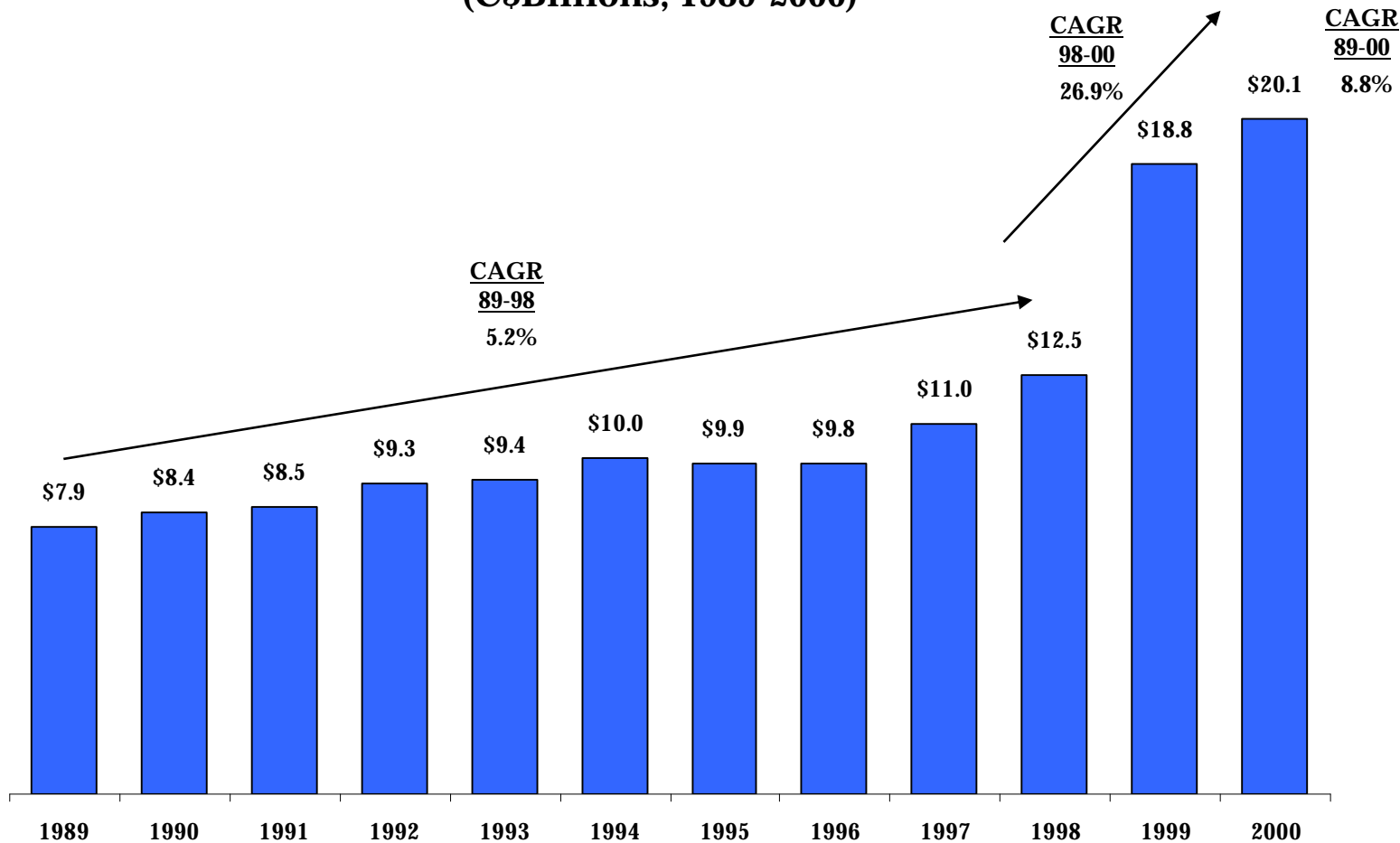
TOP FIVE US SUPERMARKET GROUPS PRIVATE LABEL STRATEGIES

Company	Private Label % of Sales	PL Strategy	Brands Used
Wal-Mart	Grocery 8% Non-food 11%	Two-tier group brands + pseudo brands ¹	Sam's Choice (grocery) Great Value (grocery) Ol' Roy (dog food), Special Kitty (cat food) White Cloud ² (tissue)
Kroger	25%	Three-tiered group and store brands	Private Selection Banner Brands (Kroger, Ralph's, King Sooper) FMV (For Maximum Value)
Albertsons	27%	Store brands	Albertsons, Jewel, Albertsons-Osco (OTC drugs)
Safeway	29%	Store brands and sub-brands	Safeway Select, Safeway Select sub-brands Safeway, Safeway sub-brands Vons, Dominick's
Costco	7%	Group brand	Kirkland Signature



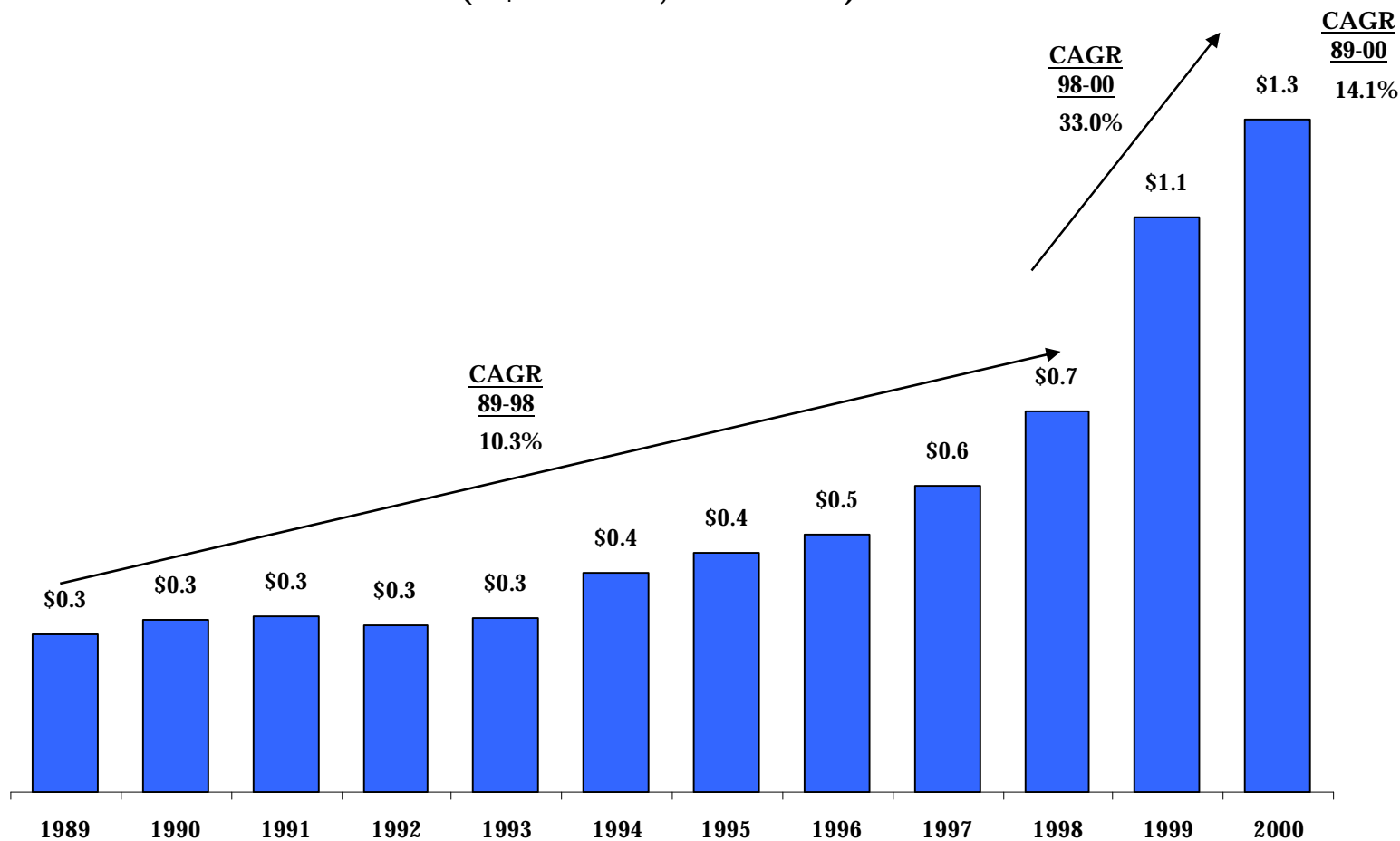
Loblaw demonstrated constant sales growth until its recent acquisitions (primarily Provigo)

LOBLAW SALES GROWTH
(C\$Billions; 1989-2000)



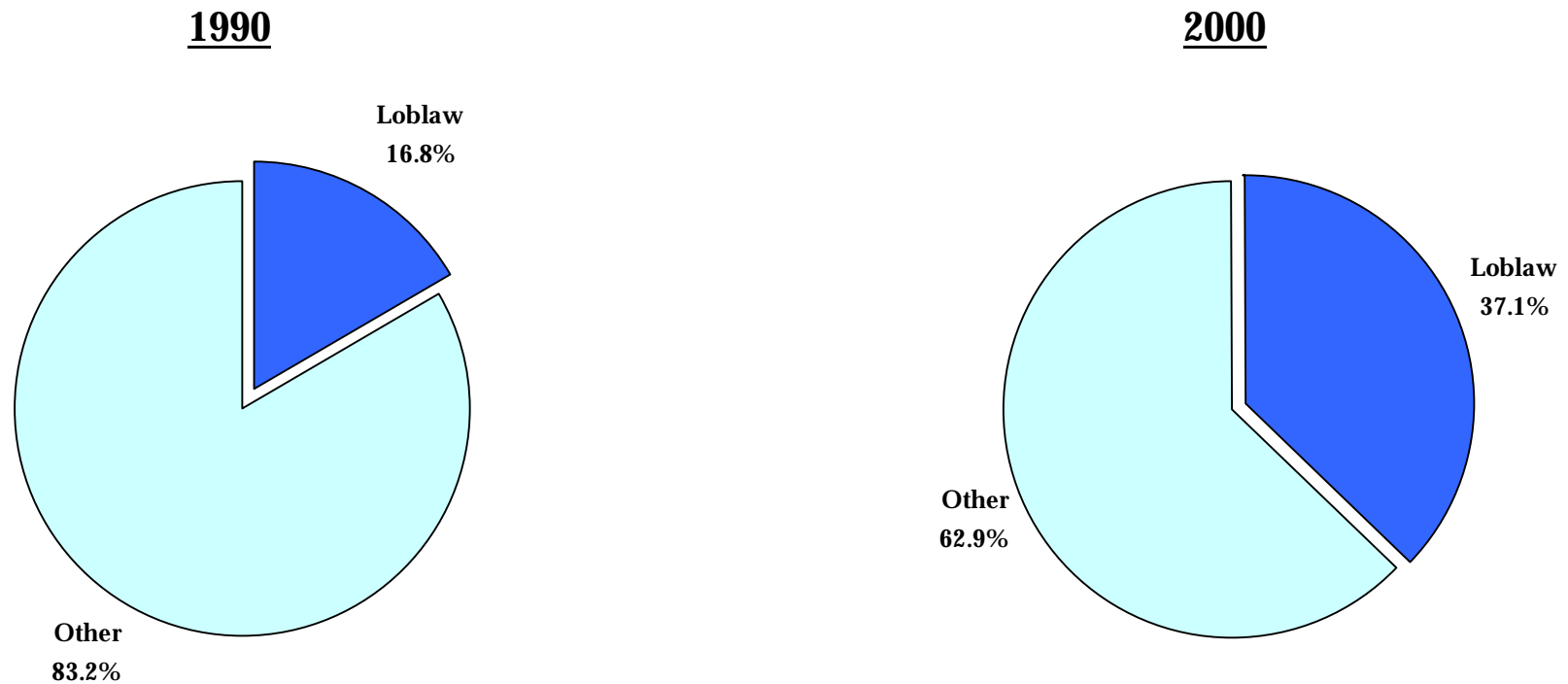
For ten years, Loblaw managed to grow EBITDA twice as fast as sales, giving it the credibility to make major acquisitions

LOBLAW EBITDA GROWTH
(C\$Billions; 1989-2000)



Loblaw has more than doubled its Canadian market share in the past decade

LOBLAW CANADIAN MARKET SHARE GROWTH¹
(Percent of sales; 1990 vs. 2000)



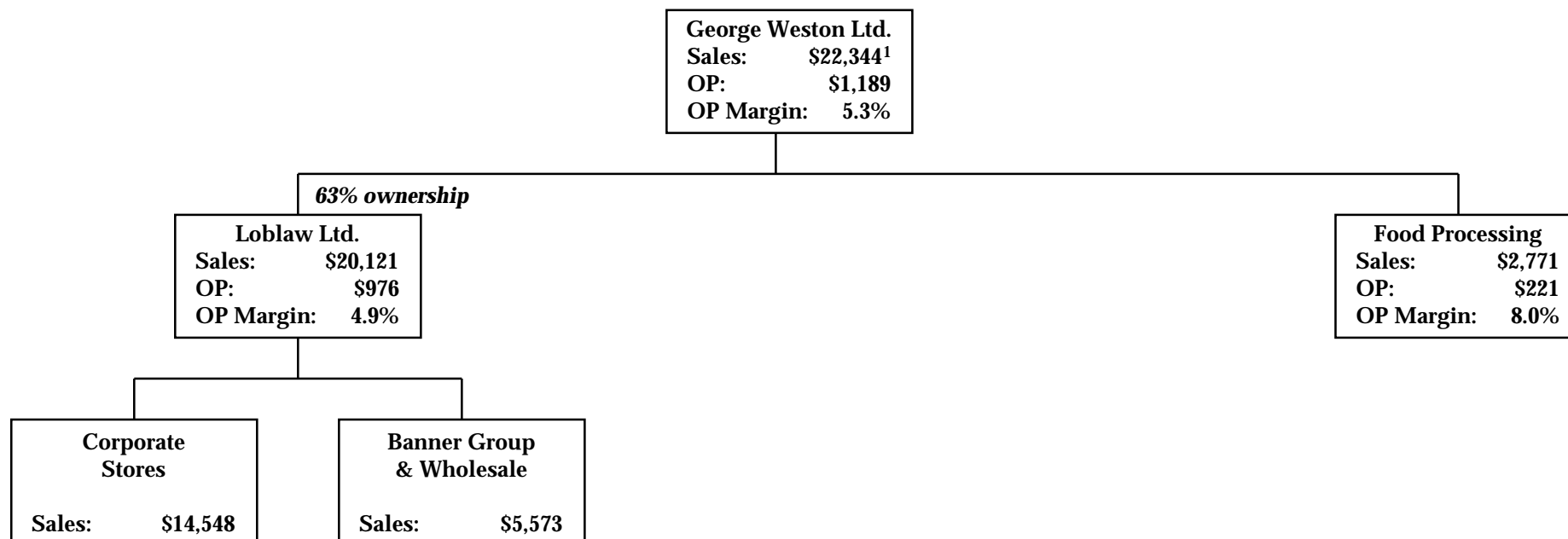
Loblaw's share price has increased 783% over the same time period

LOBLAW SHARE PRICE GROWTH
(dollars/share; share trades millions; 6/91-6/01)



Loblaw, owned 63% by George Weston Foods Limited, which is in turn owned 60% by Galen Weston, is both a retailer and a wholesaler

























LOBLAW ORGANISATIONAL STRUCTURE
(FY 2000¹)



- Supermarkets (298)
- Superstores (205)
- Warehouse Clubs (103)
- Franchised Stores (736)
- Wholesale Accounts (8,252)




Loblaw has a large number of both retail and wholesale store formats and banners

LOBLAW STORE FORMATS AND BANNERS

	West	East	Quebec
Retail	  Extra Foods 🍁	      	    <small>le panier le moins cher Including Maxi & Co.</small>
Wholesale	   Extra Foods 🍁	    	    

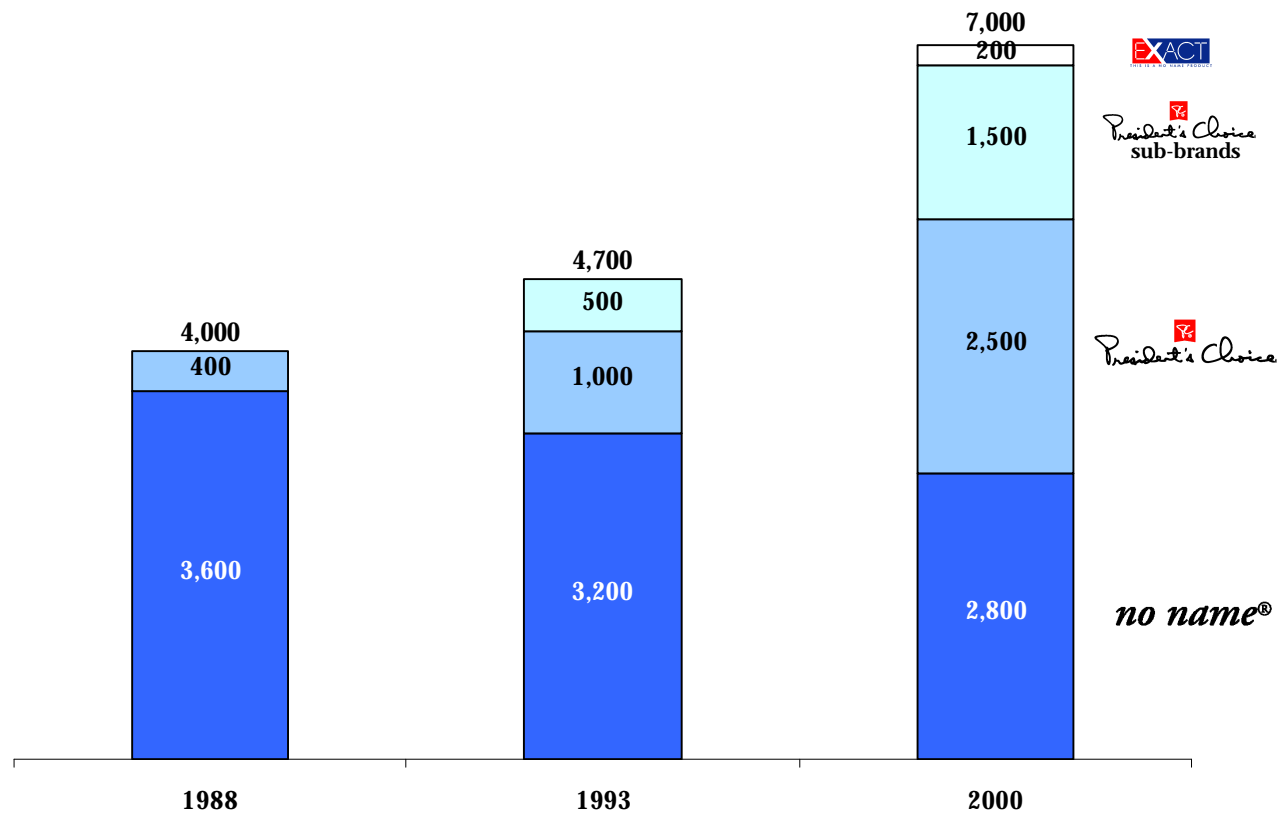
Loblaw uses a two-tiered approach to private label

LOBLAW PRIVATE LABEL BRANDS

	Year launched	# of lines	Sales (C\$B;00)	% of PL Sales	Strategy
<i>no name</i> [®]	1978	2,800	C\$2.0B	35%	<ul style="list-style-type: none"> - Launched as inflation fighter - Modeled on Carrefour range - Cheap and basic
 President's Choice	1983	2,500	C\$2.2M	40%	<ul style="list-style-type: none"> - Create a real point of difference - Modeled on Marks&Spencer - Increase margins vs. branded
 President's Choice GREEN TGTBT Club Pack Organic	1989 1991 1988 1999	1,500	C\$1.1M C\$0.2B C\$0.2B C\$0.6B C\$0.1B	20%	<ul style="list-style-type: none"> - Address specific consumer needs - Capture margin in new categories - Segment market
 EXACT <small>THIS IS A NO-NAME PRODUCT</small>	1996	200	C\$0.3M	5%	<ul style="list-style-type: none"> - OTC Pharmaceuticals - Sell through in-store pharmacies - Increase margins vs. branded





As the President's Choice brand has been developed, the number of 'no name' items has decreased

CHANGING LOBLAW PRIVATE LABEL RANGE
 (Number of skus; 1988v1993v2000)



Loblaw invests significant time and resources into its ongoing private label development program and is constantly launching new products and upgrading packaging

LOBLAW PRIVATE LABEL BRANDS EXAMPLES

<p><i>no name®</i></p>	
<p><i>President's Choice</i></p>	
<p><i>President's Choice</i> GREEN TGTBT Club Pack</p>	
<p>EXACT THIS IS A NO NAME PRODUCT</p>	

Dave Nichol, the President behind President’s Choice, copied most of his ideas from successful retailers from around the world

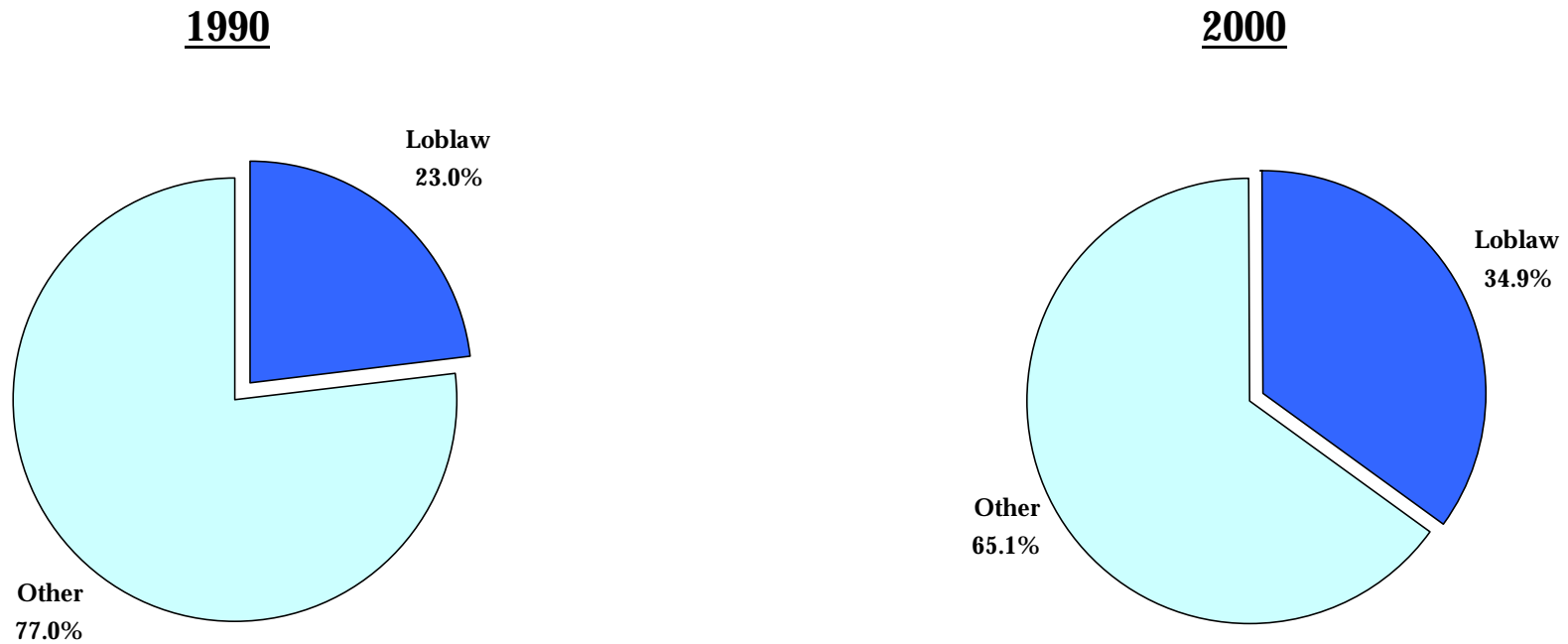
SOURCES OF LOBLAW’S IDEAS

Idea	Source	Original
No Name generics	Carrefour	Produits Libres
President’s Choice	Marks&Spencer	St. Michaels
Insider’s Report	Trader Joe’s	Insider’s Report¹
President’s Choice TV Commercials	Purdue Chicken	“It takes a tough man to make a tender chicken.”

**“Dave Nichol wasn’t a brilliant innovator.
But as an imitator, he had few rivals.”
- Canadian Business Magazine**

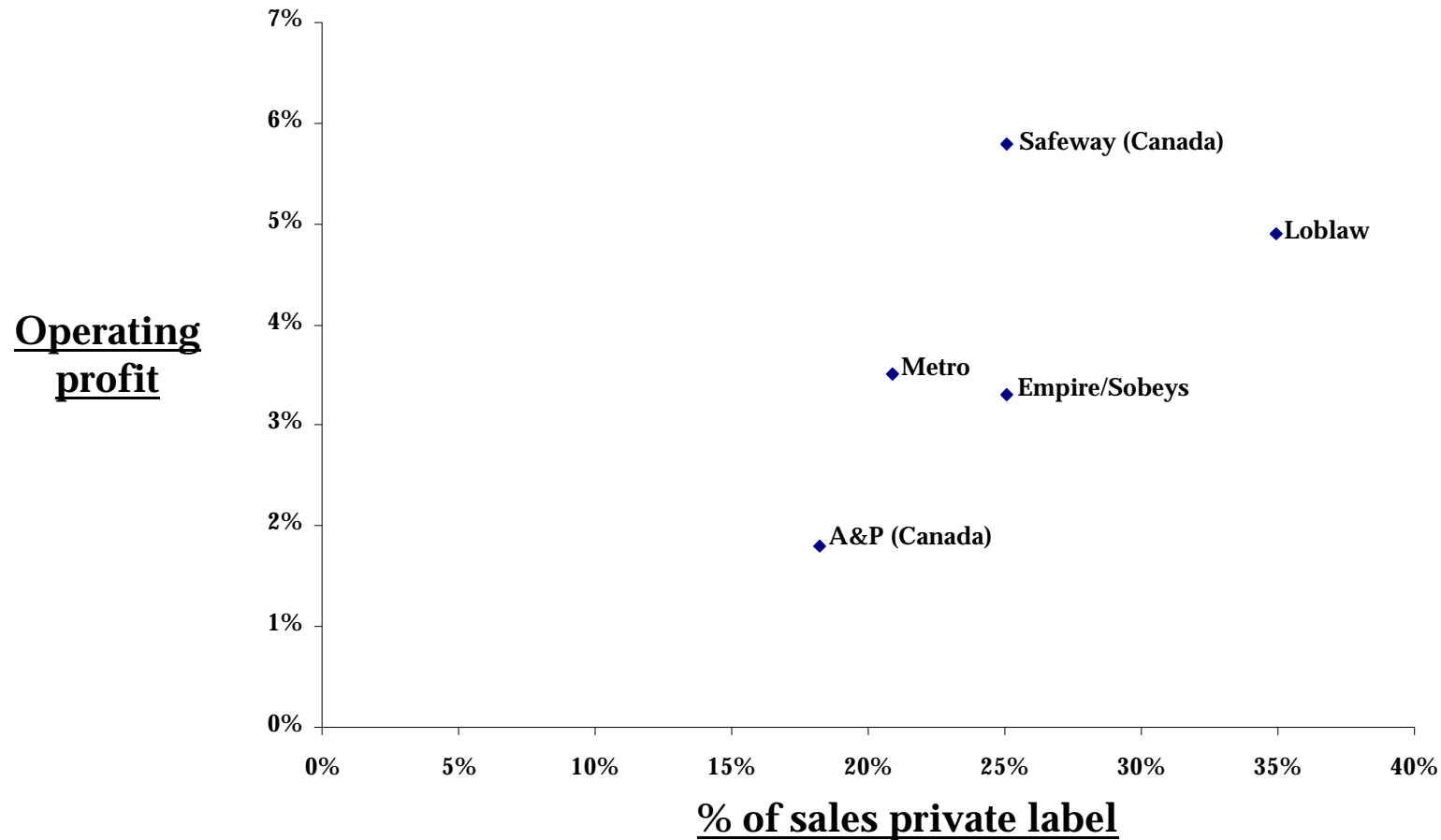
Loblaw has increased its private label penetration by almost 12% in ten years

LOBLAW PRIVATE LABEL PERCENT OF SALES¹
(Percent of sales; 1990 vs. 2000)



Canada clearly demonstrates the relationship between private label and profitability

PRIVATE LABEL VS. PROFITABILITY IN CANADIAN SUPERMARKETS
(Percent of total sales private label; EBIT percent of sales; FY2000)



Loblaw sees private label as a key element of its success

- “One of the great strengths of Loblaw Companies is its controlled label program, the foundations of which are *no name* and *President’s Choice*. In 1998, Loblaw successfully extended its *President’s Choice* brand into financial services, consistent with our philosophy of providing more and more everyday household needs while never losing focus on our prime objective of ensuring we are, first and foremost, the best food retailer we can possibly be. In 2001, we will broaden the financial services offering with the introduction of *President’s Choice Financial MasterCard*. Consistent with our financial services philosophy, *President’s Choice Financial MasterCard* will be a value-added product with no fees and will allow customers to earn even more *PC* points towards free groceries and other rewards.”

Loblaw Annual Report 2000

Loblaw’s Canadian competitors have copied it’s premium group brand private label approach

TOP FIVE CANADIAN SUPERMARKET GROUPS PRIVATE LABEL STRATEGIES

Company	Private Label % of Sales	PL Strategy	Brands Used
Loblaw	35%	Two-tier group brands	President’s Choice President’s Choice sub-brands No Name Exact (OTC pharmaceuticals)
Empire/ Sobeys	25%	Two-tier group brands	Our Compliments Smart Choice
Safeway	25%	Store brands and sub-brands	Safeway Select, Safeway Select sub-brands Safeway, Safeway sub-brands
Metro	21%	Group brands	Merit Selection
A&P	18%	Store brands + generic	Master Choice Savings Plus