



## Food for Thought

Chu-An Lee  
+1 312 364 5216  
[clee@williamblair.com](mailto:clee@williamblair.com)

Ben Riback  
+1 312 364 8882  
[briback@williamblair.com](mailto:briback@williamblair.com)

John LeVert  
+1 312 364 5217  
[jlevert@williamblair.com](mailto:jlevert@williamblair.com)

Arthur Van Der Goes  
+31 2020 91549  
[avandergoes@williamblair.com](mailto:avandergoes@williamblair.com)

Tim Lynch  
+1 312 364 8575  
[tlynch@williamblair.com](mailto:tlynch@williamblair.com)

Ben Settle  
+1 312 364 5026  
[bsettle@williamblair.com](mailto:bsettle@williamblair.com)

## Consumer & Retail M&A Contacts

Brent Smith  
+1 312 364 5392  
[bsmith@williamblair.com](mailto:bsmith@williamblair.com)

Sean Huss  
+1 312 364 8826  
[shuss@williamblair.com](mailto:shuss@williamblair.com)

## Three Phases of Growth in Three Years— Private Label’s Continued Evolution

As inflation puts pressure on consumer spending, private label food and beverage is well positioned and has regained the momentum it lost during the COVID-19 pandemic.

### Pre-pandemic Era: Strong Growth as Private Label Industry Matures

The private label food and beverage market has grown significantly over the last thirty years. Most recently, emerging consumer trends and the possibility of a looming recession have sparked renewed interest in the category.

Key factors driving the long-term growth of private label include:

- Value drives demand: Private label products typically sell at a discount to brands. In a recent survey conducted by the Food Industry Association, shoppers who buy more private label products cited value and price as leading reasons why.<sup>1</sup>
- Private label quality has improved: Consumers increasingly view private label products as comparable to or better than branded products, and private label manufacturers have improved their processes and operations to better serve customers’ needs.

- Retailers are expanding private label initiatives: According to the Food Industry Association, 80% of food retailers and manufacturers expect to increase investment in private brands over the next two years.<sup>2</sup> Retailers have recognized the value of private label products, including attractive profit margins and a multi-billion-dollar market opportunity.
- Private label-focused channels have refined the customer experience: Retailers with higher private label share (e.g., Aldi and Trader Joe’s) and club stores (e.g., Costco and Sam’s Club) have enhanced their ability to drive customer traffic through a unique product offering and a differentiated shopping experience.
- Recession gains have proven sticky: Private label does particularly well during challenging economic environments. Historically, private label has made its biggest market share gains during recessionary periods. Following a recession, private label tends to maintain these share gains as economic conditions improve.

1. The Food Industry Association, [“Key Attributes Beyond Just Price Drive Shoppers to Private Brands,” June 21, 2022](#)

2. Food Industry Association, [“As the food industry invests more in private brands, key growth strategies emerge.”](#) September 29, 2022.

## Pandemic Phase: Operational Issues and Consumer Changes Disrupt Private Label Market

Consumer spending shifted away from private label in favor of national brands during the height of the COVID-19 pandemic in 2020–21. The pandemic led many consumers to shift their spending from in-store to online, which stunted the growth of private label brands. Historically, private label hasn't been well-merchandised online, and the value proposition for private label isn't as clear for consumers online vs. when they can compare two products side-by-side on a shelf. In addition, many consumers used their additional government stimulus funds to trade up in food and grocery, especially in lockdown environments with fewer spending alternatives.

Along with these demand-side headwinds, private label producers faced significant supply chain and operational challenges during the pandemic. Private label producers typically manage many more SKUs than national brands, making them more vulnerable to supply chain disruptions.

## Current Phase: Strong Momentum for Private Label Amid Emergence from Pandemic

Consumers' pandemic-era spending shift toward branded products has begun to reverse in 2022. The influence of stimulus money on consumer spending is wearing off, and inflation and rising interest rates are putting pressure on consumer balance sheets. The trade-down cycle is reasserting itself, and private label is making gains relative to national brands.

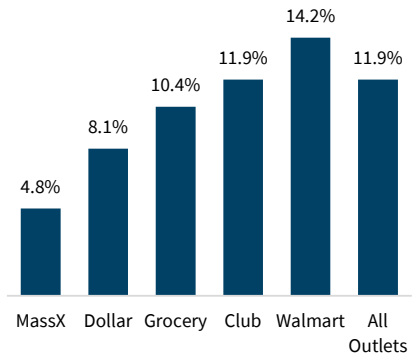
Trade-down activity is driven both by buyers switching to less expensive options in the store and opting for more value-driven retail channels. Low- and middle-income consumers are more prone to trade-down than upper income consumers because food and household staples represent a larger share of their spending.

This substitution behavior tends to favor club stores like Costco or Sam's Club and hard discounters like Aldi or Walmart, all of which are more heavily indexed to private label. Despite current economic uncertainties, these

## Push Toward Value

Elevated food inflation is pushing consumers to spend more at value-focused grocery channels, which are heavily indexed to private label.<sup>3</sup>

**CPG Purchasing by Channel, \$ Sales % Change vs. Prior Year, January – April 2022**



stores have been reporting strong same-store sales results in 2022. For example, Costco reported same-store sales growth of 9% for the quarter ended November 20, 2022.<sup>4</sup>

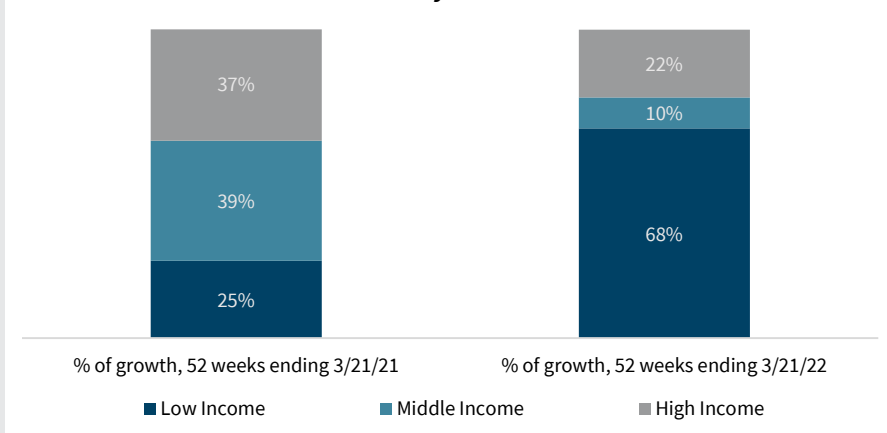
## Differences Among Consumer Income Levels

Consumer price elasticity varies across income cohorts, and private label's resurgence among consumers in 2022 is following a typical pattern. As economic stress builds, both lower-income consumers and higher-income consumers<sup>5</sup> tend to begin trading over to private label at about the same time, but the transition curve is steeper for lower-income consumers—in other words, they trade down faster.

## The Power of Stimulus Cash on Consumer Behavior

Stimulus money had a notable effect on CPG spending during the pandemic. Low-income consumers typically represent about one-quarter of CPG sales, but in 2021 they generated 68% of the growth in CPG spending.<sup>3</sup>

**CPG Growth by Income Cohort**



Source: IRI. Low income defined as less than \$30k; middle income defined as between \$30k and \$70k; high income defined as above \$70k. Data as of March 2022.

3. IRI, "Revenue Management in an Inflationary Environment", May 9, 2022.

4. Costco December 8, 2022.

5. Source: IRI, "Revenue Management in an Inflationary Environment," May 9, 2022. "Low income" defined as households with less than \$30 thousand for person 1 plus \$5 thousand per additional person; "middle income" defined as households with \$30 thousand to \$70 thousand in annual income for person 1 plus \$5 thousand per additional person; "high income" defined as more than \$70 thousand for person 1 plus \$30 thousand for all others.

## Changes in Shopping Choices due to Increased Prices

In a recent survey conducted by IRI, lower-income consumers are beginning to search for value in grocery shopping, including looking for sales and switching to store brands. Higher-income consumers also are showing signs of trading down but to a lesser extent.<sup>6</sup>

**Responses to increased prices among low and middle income vs. high income shoppers**



## Price Effects

As inflation took off in 2021–2022, the price gap between national brands and private label products initially widened because national brands can adjust prices more quickly than private label producers. Brands have this advantage for a few reasons, including the ability to alter promotion frequency and depth as well as fewer SKUs on which to negotiate prices with retailers. National brands also tend to provide a price halo for private label products—retailers often look to national brands to move first and private label to follow.

Trade-down activity so far has focused mainly in commodity categories like water, coffee, tea, condiments, canned fruit, vegetables, and dairy, and in temperature states, such as frozen baked goods. These products tend to have the greatest price elasticity, which means unit sales fall as prices rise. There has been little trade-down activity in higher stakes categories where brands matter more (and therefore prices are less elastic)—for example, sports and energy drinks, candy, snacks, fresh food, beauty and personal care, pet, and healthcare.<sup>7</sup>

## Price Sensitivity

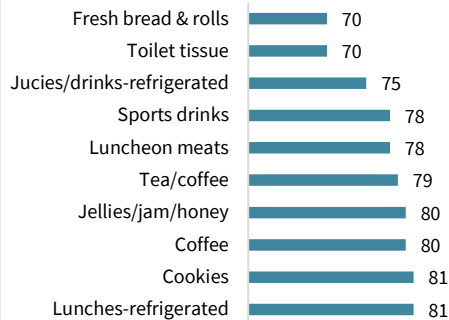
Under inflationary pressure, consumers are becoming more price-sensitive than they were during the pandemic. Normal price elasticities are returning, more so in commoditized food categories than in categories where brand matters or supply is constrained.<sup>7</sup>

**Recent Price Elasticity Indexed to Pre-COVID Levels**

### Categories where price elasticity is now higher than pre-COVID














### Categories where price elasticity is now lower than pre-COVID



6. Source: IRI, "Revenue Management in an Inflationary Environment," May 9, 2022. "Lower-income consumers" defined as households with less than \$100 thousand in annual income; "higher-income consumers" defined as households with greater than \$100 thousand in annual income.

7. Source: IRI, "Revenue Management in an Inflationary Environment," May 9, 2022. Pre-COVID = 52 weeks ended 2/23/2020. Data through 2/13/2022.

## Select William Blair Transactions

 <p>has been acquired by</p> <p><b>CAMPARI GROUP</b></p> <p>2022</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>AURORA CAPITAL PARTNERS</p> <p>2022</p>	 <p>a portfolio company of</p>  <p>has acquired</p>  <p>2022</p>
 <p>MUBADALA</p> <p>has acquired</p>  <p>2022</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Invest Industrial Building Better Companies</p> <p>2022</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p> <p><b>KNOX-LANE</b></p> <p>2022</p>
 <p>a portfolio company of</p>  <p>has acquired</p>  <p>2022</p>	 <p>Ready-to-Eat Cereal Business</p> <p>has been acquired by</p>  <p>2021</p>	 <p>has been acquired by</p>  <p>2021</p>

### Private Label M&A Activity

The William Blair team is bullish on continued private label food and beverage M&A activity in this coming year given the non-cyclical and non-discretionary nature of many of these businesses. Demand could come from large food and beverage companies looking to bolster their private label offerings and financial sponsors seeking to tap into private label's industry tailwinds.

William Blair's Consumer and Retail team has driven continued transaction momentum in the second half of 2022 within private label and across the broader food and beverage sector. Our extensive subsector knowledge and longstanding relationships provide clients with a range of innovative engagement opportunities in this competitive market.

For more information on what is driving M&A activity in private label food and beverage, please reach out to William Blair's [consumer & retail](#) investment banking team.

"William Blair" is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States. This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being "Eligible Counterparties" and Professional Clients). This Document is not to be distributed or passed on at any "Retail Clients." No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.