



The Race Towards Sustainable Private Label Carrot, stick or collaboration?

How retailers in Europe address sustainability with private label

IPLC

Disclaimer

Data was gathered by means of internet search and physical store checks by IPLC consultants. In all, more than 50 retailers in eight European countries were included in the research. We have made some interesting observations, although we acknowledge that it is impossible to have captured every individual element into detail or include all initiatives. However, we believe that from the country reports, a representative impression can be obtained of what is happening in each market and how this relates to others.

About IPLC

International Private Label Consult is a boutique consulting firm specialised in strategic consultancy services and project management support to manufacturers and retailers. With a broad and unrivalled understanding of the private label industry, we help our clients with a pragmatic and action-oriented approach. Founded in 2003, IPLC has been involved in many international assignments for manufacturers, retailers and the supply industry. IPLC has offices in the Netherlands, Belgium, France, United Kingdom, Ireland, Italy, Spain and Portugal.

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The majority of the research work for this report was completed before Covid-19 hit the world. Indeed, all of the policies, strategies and initiatives we saw in retailers as part of the research for this report were developed long before Covid-19 appeared. It is fundamentally clear that the crisis will potentially bring lasting change to the European and world food supply chain, offering an opportunity to break with old habits and build a more circular and sustainable food supply chain.

‘Once the COVID-19 crisis is over we must not return to a sluggish, linear and carbon-spewing economy depleting natural resources, producing dangerous waste and toxic pollutants, putting the population and industry at risk, before even mentioning climate change’ [Which world do we want after COVID-19? By Bertand Piccard and Frans Timmermans, 16 April 2020].

What will this change look like?

At IPLC we see four potential themes.

ENVIRONMENT

We believe there will be a greater focus on the need to care for the planet and the people that inhabit it. There will be demands from consumers for greater transparency in the supply chain and shoppers will insist on information about the origin and processing of their food products. Animal welfare concerns will impact consumer behaviour across many countries not just in countries such as the UK where it has always been a focus.

As an example: Lidl has recently published online a full list of their Private Label suppliers, information that is not normally made public.

FOOD WASTE

With more meals eaten at home consumers will become more conscious about the waste they generate in their households. The immediate benefits of reducing and re-using food will be more visible. The use of plastic for food protection and to prolong the shelf life may be reappraised and better understood by consumers.

LOCAL SOURCING

Consumers now realise more than ever the importance of a strong local agricultural sector worth protecting. The trend toward fairness in pricing and trading will be encouraged. Locally sourced food was already on the agenda of many retailers and this topic will become even more important due to the crisis as it will support the local and national economy. In addition, we could see a concerted effort to shorten supply chains, either through agricultural or investment policies. All designed to support local production, or seeking new, possibly higher cost options which are geographically closer.

HEALTHY LIFESTYLE

The Corona virus has made us even more aware of the vulnerability of people with an unhealthy lifestyle. More consumers may be looking for healthy products which are free from additives, pesticides, low in sugar, salt and fat. Also, heavy meat consumption may be reconsidered. As an example: in France organic products have experienced significant growth.



Executive summary

Successful businesses have a unique identity, they know what they stand for. They also have a clear strategy; they know where they are now and where they want to go in the future. For grocery retailers, the direction of travel is clear - more and more of their sales are through private label products. In countries such as the UK, Ireland and Germany, private label now constitutes over half of the packages that go into the shopping trolleys. This presents both an opportunity and a challenge. The opportunity is for retailers to express their unique identity and their strategic objectives through their private label ranges. The challenge is that retail brand managers now need to think about more than just their own objectives.

In a world where equality, health and climate crisis are daily conversation topics, businesses need to think about what they can do to rise to these generation-defining challenges. To harness widespread action, in 2015 the UN created the 17 Sustainable Development Goals (SDGs). The SDGs represent the most impactful ways for businesses, governments and ordinary people to address the biggest challenges faced by humankind, “a blueprint for peace and prosperity for people and the planet, now and into the future”.

With grocers occupying five of the Fortune 500's top 50 slots in 2019, it is obvious that our industry has a responsibility to act in support of the UN SDGs, and with private label a growing part of their offer, grocers are in a unique position to lead the charge. Therefore, IPLC surveyed the market to see what the big retailers were saying about sustainability both online and in-store. We made some interesting observations:

Firstly, when scanning the European market, and assessing supermarket sustainability strategies, we saw two kinds of retailers leading the charge:

- Firstly, retailers whose actions are consistent with long-established values of integrity and responsibility such as Sainsbury's, Albert Heijn, Edeka and Coop Italy.
- Secondly, retailers that have global brands, so if they do not act assertively on sustainability issues there may be potential damage to their brand on a global level, e.g. Tesco, Lidl and Aldi.

We also observed that the sustainability challenge is highly dynamic. The goalposts are moving continually in such a way that consumers are confused as to the 'right' things to do, and retailers are reacting in different ways in different countries. Some topics, such as responsible fishing is old news in the UK and Ireland, whilst coming on the radar only recently in Spain and Portugal. And whilst, single-use plastics and packaging are agreed to be the industry 'bad guys' we still see retailers driving sales on badly packaged and non-sustainable items and consumers that are slow to adopt new behaviours. Consumers demand choice and place a value on fresh foods, but these are the products driving food waste the most.

The challenge is huge for big global retailers with significant resources and 'thought leadership' within their global HQs. But it could be overwhelming for local retailers, in fragmented markets, that lack global thought centres. Nevertheless, coordinated activity is required to harness consumers, businesses and governments to act together. In the world of private label, the key is collaboration. Retailers demand a continuous supply of safe, healthy, high-quality, high-integrity consumer goods. However, to deliver on these demands and maintain a competitive price position, retailers and suppliers will need to commit to longer-term contracts that allow manufacturers to invest in new technology and see a return over a longer period, safe in the knowledge that they will not lose the business after a year.

We also found that many retailers had already made sustainability part of their ethos, long before it was on the consumer's radar. In highly competitive markets, sustainability actions help to reduce costs since they generally involve using less resources, energy and materials. This approach means that the discounters are sustainability fanatics, that have been living and breathing the principles of corporate frugality for many decades already. Finally, with the retail private label brand managers starting to make ambitious commitments on sustainability, the pressure is on the A-brands to get their act together.

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Introduction

Responsible consumer behaviour is central to the social debate on climate change and sustainability. Notably the younger generations are concerned about the impact of their conduct on the planet and their own future. It is therefore not surprising that food retailers in particular are explicitly involved in the discussion with visible and measurable action. As providers of the daily necessities in life, they see initiatives in this area as an opportunity to profile and differentiate themselves.

Retailers are very close to the consumer and continuously seek to intensify their relation with them to drive shopper loyalty. Within the private label strategy, sustainability in all its forms offers them a unique opportunity to respond to the 'mindful living' consumer.

In most EU countries the top three food retailers take well over 50% of their local market. Add to this the ever expanding presence of global discount retailers such as Aldi and Lidl and it becomes clear why all players are in the spotlights and as a result at the forefront when it comes to taking their responsibility in the field of sustainable business.

Since the 1980s, when private label growth developed its own momentum, the role of private label has changed. Whereas in the beginning it was all about margin improvement and changing the leadership within the supply chain (retailer in the lead as opposed to brand manufacturers), it switched to differentiation and category management. Nowadays, private label strategies are aimed at supporting the retailer store image and sustainability objectives offer a unique opportunity to do so. Topics such as the carbon footprint, packaging and waste reduction, responsible fishing, animal welfare, social responsibility and biodiversity can all be directly or indirectly addressed with private label.

At IPLC we wanted to better understand how retailers across Europe have defined their agenda to address all these objectives. What measurable targets were set and what has been achieved so far?

RESEARCH SETUP

In January 2020, IPLC's partners surveyed the market in eight EU countries. Firstly, an analysis was made of what more than 50 retailers communicate with regard to their sustainability strategies and objectives on their websites and in annual reports. Secondly, a large number of stores were visited to assess what has become visible in terms of tangible results on the shelves. We specifically looked for initiatives taken with private label as retailers are aware that in this area in particular, they are in a unique position to make a difference.

MANAGERIAL RELEVANCE

We believe our research is relevant for both retailers and suppliers. For retailers it is important to assess how their objectives and actions compare with competitors in their market and what they can learn from initiatives taken in other countries. For suppliers - growers and private label manufacturers alike - it is crucial to understand what is on the sustainability agenda of their retail clients and how they can respond to this to support them in achieving their objectives. This will enable them to better prepare for retail client visits. A proactive attitude as well as commitment to support retailers driving the sustainability agenda may lead to a deeper engagement with their retail clients.

Furthermore, this survey has significant value for the supply industry (packaging and ingredients) and other professionals active in the agro-sector and private label supply chain.

In the following report, we share the findings of our annual IPLC research by means of a range of country reports including photographs to illustrate a selection of interesting initiatives. We expect it will provide unrivalled insight for all participants in this market sector. Not only where it stands today but also in identifying areas of growth and opportunity for the future.



GLOBAL INTRODUCTION

2019 saw the continued reshaping of the UK Grocery market as the discount sector attracts a greater share of consumer spending. In the last decade the Big 4 (Tesco, Asda, Sainsbury's and Morrisons) have seen their share decline from 75.6% to 67.7%. Aldi and Lidl have seen their combined share over the same time frame rise from 5.2% to 14.1%. Whilst their combined growth is slowing, they still grew by 7.9% in 2019 vs an overall market growth of 0.9%. We also have some other stand-out operators such as the Co-op that has shown continued growth through 2019, achieving 2.9% for the year. Ocado, the pure play online retailer, has also seen growth of 9%, albeit from a low share of 1.4%.

Kantar are now stating that private label accounts for 50% of value and nearly 56% of volume sales. We are likely to see private label take an ever-larger share of sales as Aldi and Lidl continue to take sales from the Big 4.

SUSTAINABILITY HOT TOPICS

The two hot topics in the UK market have been plastic reduction closely followed by food waste. The debate around plastic reduction stems from the Blue Planet TV programme featuring David Attenborough aired in November 2018. The clear evidence that showed extensive plastic pollution in the Oceans galvanised consumers and businesses to find ways to reduce plastic used in the supply chain. It also initiated a renewed focus to make any material used recyclable. Black plastic which is widely used in fresh meat and ready meals has been a real issue as colour sorting equipment in recycling centres cannot identify the material.

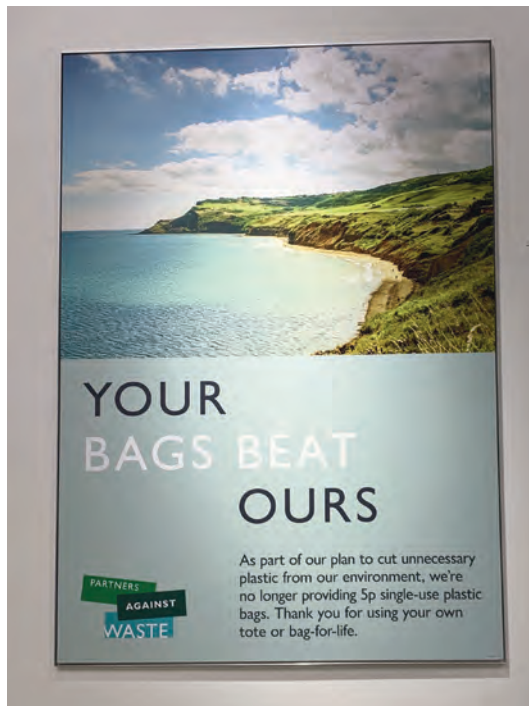
The UK also has a major issue in that there is no national strategy around recycling standards but it is left to local authorities working with recycling companies. This leads to massive differences across the country on what can and cannot be recycled at present. However, government, in consultation with industry, has now started to bring together a more coherent strategy on recycling. This will include a total review of the current Producer Waste Packaging



Asda encouraging consumers to re-use bags or bring their own

Regulations; current estimates are that industry pays about 11% of the costs to recover and recycle packaging. The plan is that industry will pay more of the costs. The government has announced that any plastic not having a 30% recycle content will attract a tax of £200 per tonne.

Food waste remains a massive issue in the UK, with WRAP estimating that 10m tonnes are thrown away per annum. Over the last two to three years, retailers have been very active in working with charities to ensure that food nearing their expiry dates is used to help those most in need. New technology has played a major part in facilitating this, with Fareshare supported by Tesco in leading the advancement in this concept. Now supported by many other retailers and manufacturers in 2018 they distributed over 46m meals.



Waitrose reminding customers to use their own bags



Marine Stewardship Council logo on Tesco canned Mackerel



Waitrose addressing the issue of non-recyclable coffee cups.

RETAILERS IN ACTION

Most UK retailers support the UN Sustainability Goals within their sustainability reports and policies. This is then turned into specific action by supporting a range of global initiatives such as the Cerrado Manifesto, where every UK retailer is a signatory. As an example, Tesco recently committed an additional £10m support for this over the next five years. The Marine Stewardship Council (MSC) which promotes the concept of sustainable fishing also has strong support across UK retailers. Tesco has taken a lead in many areas such as being the first UK retailer to publish its waste figures (2013) and their top 27 suppliers have now also done the same. Dave Lewis, CEO of Tesco, is chair of The Champions of 12.3, whose target is to halve food waste by 2030. Other UK retailers are now also publishing their food waste data.

All UK retailers, apart from Iceland, support the WRAP Plastic Pact which aims to have 100% of plastic reusable, recyclable or compostable by 2025. Morrisons was the first UK retailer to announce in November 2019 that it had removed black plastic from all of its private label. At the same time, it was widely reported that most other UK supermarkets were also close to removing all black plastic from their ranges.



Rainforest Alliance and Fair-trade Bananas at Aldi

Asda was the first to announce new packaging for all fresh steaks, which reduced plastic and also allowed for better package imagery. Through these changes, the use of black plastic has been reduced by 700 tonnes annually. Aldi have changed some lines to the same pack format and claim an 88% reduction in plastic. In terms of products, many retailers have on-pack claims e.g. Rainforest Alliance

(bananas/pineapples), Fairtrade (coffee/tea/bananas/chocolate), Red Tractor (meat, milk, fresh fruit and vegetables), MSC (fish), RSPCA (eggs, fish) FSC (paper products). Every retailer uses these on-pack claims, even the discounters. Red Tractor, a UK quality standard for farms, is used by Aldi and Lidl across all meat products and many lines of fresh fruit and vegetables.

CHALLENGES FOR SUPPLIERS

The main challenge for suppliers to the private label market is to ensure that demands from their customers are consistent. As an example, varying demands across types of packaging will add considerable costs. Moreover, changes to the types and formats of packaging can mean that significant investment is required for packaging machinery. With traditionally short-term supply agreements, how will this cost be covered? The answer can only be longer term supply agreements that are multiyear and recognise the investment required. There is evidence that this is happening with three- and five-year contracts already in place on some contracts.

The control of the downstream supply chain also adds considerable demands on the need for sophisticated control systems to ensure that products meet the on-pack claims. With supply chains sometimes stretching thousands of miles, this becomes a massive challenge. Tesco's recent incident with private label Christmas cards being packed by Chinese prisoners is a very recent example of what can go wrong.

CONCLUSION

The private label market has the ability to make significant changes to the whole sustainability and environmental debate, what is more they can achieve this at pace. A good example is the speed in which the market has been able to reduce black plastic. Questions are now being asked about the progress of this made by brands.

However, the challenges we face cannot be solved in isolation. It is only by government, NGOs, retailers and private label suppliers working together that we can effect real and lasting change. I firmly believe that the private label supply chain has the expertise and detailed understanding of every step in the process to facilitate this change in a truly collaborative way.

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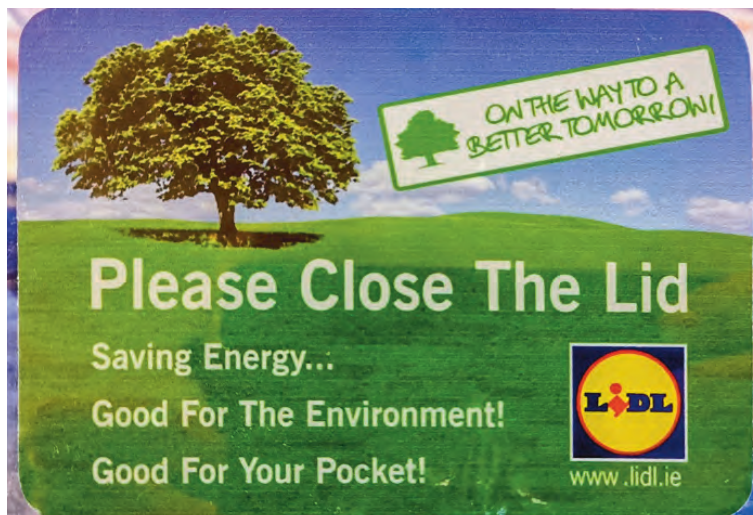


GLOBAL INTRODUCTION

The Irish grocery market has seen major change since 1999 when Aldi & Lidl arrived on a mission to redefine discount supermarket retailing.

The nation has seen an economic boom, bust and recovery and in this environment, the discounters have grown almost five-fold from around 5% of the market in 2004 to almost 24% by the end of 2019.

This has come at the expense of two retail channels. Firstly, independent retailers have struggled, very few family-owned grocers are not aligned to a major symbol such as Spar or Centra. Secondly, the mainstream multiple supermarkets have declined from 77% to 65% of the market in the same period. In the multiples, this decline has not been reflected in store numbers, so overall retail space has grown, but so has the proportion of underperforming, high food waste stores. The prognosis is that the discounters will continue to grow and define the market dynamics. And with private label products approaching 60% of volume sales, we can expect to see even further movement in favour of the retailer brands.



Freezer sticker in Lidl makes the link between using less resources, helping fight the climate crisis and saving customers money

SUSTAINABILITY TRACK RECORD

Sustainability has been firmly established on the global media radar since 2018. Consumers have been bombarded with messages around a narrow range of topics such as single use plastics and oceanic pollution. This has been driven by moments such as the airing of David Attenborough's Blue Planet in November 2018 and the speech of Greta Thunberg at the UN Climate Action Summit in September 2019. However, there are many more diverse sustainability issues and many have been on the agenda of Irish retailers for some time now, without becoming part of their PR programme and without becoming seared into the public consciousness. Specifically, in an environment of exceptional competitive pressure, grocery retailers have been managing costs by using fewer resources, fewer materials and less energy: twin-deck, aerodynamic design trailers have been in use for many years; most retailers have already refitted with low-energy LED lighting solutions; returnable crates are common across the fresh categories, heavily reducing the requirement for single journey cardboard boxes.

Retailers have been working in scientific detail on demand planning, balancing product availability with reduced food waste and price mark-down. Roundtable on Sustainable Palm Oil (RSPO) palm oil and Marine Stewardship Council (MSC) seafoods have been on the agenda for more than five years now. And public health in Ireland has been benefitting for over a decade from UK-driven improvements to both the nutritional profile and labelling of consumer packaged goods. All of these are worthy sustainability initiatives, coincidentally aligned to the UN Sustainable Development Goals (UN SDGs), but more inspired by an overall need for efficiency and regulatory compliance.



Tesco are active in attempting to change consumer behaviours like bringing your own bags.

SUSTAINABILITY HOT TOPICS

Given retailers' impetus to date, it has become clear just how hard it will be to quickly deliver an industry-wide step change. But again, given that there are 17 UN SDGs, consumers are beginning to demand action on a wider number of fronts. As a result, retailers have only recently started to realise the need for an integrated sustainability strategy, where not all of the pillars are immediately commercially beneficial. That said, the single hottest topic currently in Ireland is single-use plastics. Tesco, Aldi and Lidl have made significant commitments around plastic packaging, reducing the quantity used and making it more recyclable. Black plastic is being phased out due to its disruption of colour sorting equipment in recycling centres. However, customers are not always aware of what types of plastic can be recycled so separation is inconsistent. Furthermore, indigenous supermarket companies will find it much harder than their global counterparts to establish a credible direction and then produce measurable improvements. Dunnes Stores, Ireland's number one grocer, has only just appointed a sustainability manager in mid-2019 and is yet to make any public commitments on its sustainability agenda. On the other hand, Musgraves has been addressing sustainability issues over the last ten years, recently introducing fully compostable coffee cups and carrier bags.

RETAILERS IN ACTION

Ireland’s international retailers, enjoying the benefit of their UK or EU-based resources and thought leadership, support the UN SDGs and have published detailed reports. However, the key in-store communication topic remains ‘value’. Tesco has a highly robust sustainability strategy, personally sponsored by group CEO Dave Lewis, but the only obvious and consistent message in its Irish stores is that “You Won’t Pay More” (i.e. versus the German discounters). Scratch the surface though and we do start to see movement at product level. Aldi, Lidl and Tesco are displaying their sustainable sourcing credentials on-pack with Rainforest Alliance, Fairtrade, MSC seafood, UTZ cocoa and FSC paper logos visible on-shelf. In 2018, Tesco’s Irish milk buyer attempted to switch

its customers from 2-litre plastic tubs to 1.75-litre Tetra Pak cartons. It was too soon for customers though and the switch-over has been gradually scaled back, with only one SKU remaining on planograms in early 2020.

CHALLENGES FOR SUPPLIERS

The key challenge for Irish suppliers is to quickly define their own sustainability agenda. They need to be clear on which of the 17 SDGs are most relevant to their specific industry or category or else risk being subject to prevailing consumer/retailer demands. This takes skill and resources and in a highly deflated market with wafer-thin margins in many private label suppliers, it is a real challenge to take a long-term, informed view.



In 2018 Tesco Ireland’s milk buyer attempted an ambitious switch from 2ltr plastic tubs to 1.75ltr Tetrapak cartons, reducing plastic by 75%. There was no price disadvantage, and the message was communicated well on-pack, but shoppers did not support the move. It was too much of a change, too soon, and Tesco gradually migrated back to plastic tubs on most SKUs.



Aldi use widely recognised sustainability certifications on-pack

CONCLUSION

In many respects, Ireland's grocers are way ahead of the curve in improving consumer health and reducing the wasteful use of resources. However, this has been mainly driven by commercial and regulatory imperatives. Consumers (aka voters) have taken note of this, since widespread step change will be achieved much more quickly if the law requires this and new green laws are far more likely to be implemented by green politicians. Indeed, at the time of writing this report, the Irish electorate has just recently voted in the national parliamentary elections, quadrupling the Green Party from three members of parliament to 12. Equally, sustainability professionals, struggling to get traction in an organisation should focus on becoming more commercial to get better results, rather than hoping that their commercial decision-maker bosses will become more sustainable.

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GLOBAL INTRODUCTION

The German Retail Market is still led by the big four: Edeka/Netto (23.0% share), Rewe/Penny (15.6%), Schwarz Group: Kaufland/Lidl (15.6%) and Aldi Group: North and South (11.8%). With online operator Amazon, a new challenger has entered the playing field. Amazon is actually number five in Germany with a market share of 6.0% and has been achieving significant growth over the past 12 months (+ 17.4%). Another characteristic in the German market is the presence of large drugstores. DM with a 3.2% market share and Rossmann (2.6%) are the leading companies in the drugstore industry. The market share of private label is 37.0% and it is used as an important tool to increase consumer loyalty.

SUSTAINABILITY HOT TOPICS

Global warming and climate change are of huge concern to the German public. Packaging and plastic reduction score high on the consumer's personal agenda besides climate change and the concern for animal welfare.

A broad discussion on the individual carbon footprint is one of the trending topics in the media. Based on this, alternative modes of transport, reduction of plastic and packaging, the ban of microplastics and the reduction of meat consumption (animal welfare and climate change) are high on the daily agenda. NGOs and the government support these issues and a new packaging regulation has been in place since 2019.

Young people are driving an international campaign for more sustainability and the Fridays for Future movement is one example. These manifestations show up in many German cities where people demand a more sustainable policy from those in power. They fear for their future unless immediate action is taken. These demands are expressed in public demonstrations and protests that take place on

Fridays. Young protesters leave school without permission hence the name Fridays for Future. The movement was inspired by the Swedish activist Greta Thunberg, who went on a school strike on Fridays for a better climate and subsequently addressed national parliament in Stockholm.

RETAILERS IN ACTION

Most German retailers have action plans and policies in place to address their sustainability objectives and respond to the expectations of their shoppers. Private labels are used to underpin their sustainable image and improve shopper loyalty. Consumer interests such as vegetarian, organic, free-from and eco-friendly cleaning have initiated new private range introductions at Edeka, Aldi and Lidl. The message in their communication is clear: less packaging and less plastic. At times this seems more important than price, as was illustrated in a recent Lidl campaign. Lidl's Responsibly Packed leaflet in January 2020 details the percentage of plastic reduction in the packaging of 170 private label products.



Communication on plastic reduction in packaging at Lidl

Increasingly, consumers are reducing their meat intake and replacing animal protein by plant-based alternatives. Retailers such as Edeka, Lidl and Aldi have responded by offering private label vegetarian and vegan products in more sustainable packaging. Both Aldi and Lidl are striving to become the number one German retailer in the vegan segment.

In their 'Verpackungsmission' campaign, Aldi is seeking to educate the consumer in effective recycling. To facilitate recycling, bespoke packaging was created to ease separation of the different components, examples of which are a perforated strip around a plastic yoghurt tub and white plastic bottles. Most retailers have promised to reduce the packaging in their private label by 20-25% by 2025.

To address the concern over animal welfare, all retailers have started classifying meat products into four different tiers: 1 for conventional standard meat up to 4, the highest tier, for organic meat. Consumers are now able to make a well-informed choice and may decide to pay more to support better conditions for the way in which the animals are raised or choose to buy the cheapest meat available. The result of this classification is that more organic products can be found in the stores.

Depending on the season, retailers aim to offer regional products in their stores to support local communities and reduce their carbon footprint. Rewe offers a range of private label items under the Rewe Regional label.



Perforated strip for shower gel at dm to facilitate recycling

Aldi and Lidl use solar panels and have switched to more efficient cooling cabinets in their stores to help move toward an energy neutral status. In order to advance the logistics transformation, Lidl is to switch to trucks running on liquified natural gas (LNG). By the end of 2020, up to 100 LNG trucks will be used to transport goods from Lidl logistics centres to stores across Germany. [photo]

Suppliers of personal care products are being forced by grocery retailers and drugstores to reformulate their products and stop using microplastics. Rossmann and dm actively use the 'free-from-microplastic' claims in their marketing campaigns. [photo] Generally speaking, claims such as 'free-from' and 'vegan' are gaining importance.

CHALLENGES FOR SUPPLIERS

Suppliers of private label must comply with the ambitious requirements of German retailers. Sustainability in all aspects is clearly high on all their agendas. Those unable or unwilling to adapt are highly unlikely to succeed in the future. Challengers with innovative and fresh ideas will get the opportunity to gain new business and replace incumbent suppliers.



Lidl will use liquified gas-powered trucks for internal logistics



Free from microplastics shampoo at Rossmann

CONCLUSION

Sustainability is the key topic in society and is therefore specifically addressed by private label suppliers in the German market. Grocery retailers and drugstores use own brands to demonstrate their engagement for a better world. The co-operation between retailers and NGOs such as NABU (nature protection federation), Viva con Agua and WWF are gaining weight in endorsing the trustworthiness of the retailer's initiatives. Often retailer requests to the suppliers are more ambitious than legal requirements. Suppliers of private label are expected to respond to the priorities on the retailer's agenda. Those who do will benefit from the opportunities.

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GLOBAL INTRODUCTION

French food retail market volumes have declined for the last four years in a row. With a 1.4% decline in 2019 (vs -0.7% in 2018, Iri Reperes 2020), reduced consumption is the prevailing trend. Nevertheless, the food retail market managed to achieve positive growth in 2019 (+0.8%) based on a combination of price inflation and French consumers' increased preference for value-added products.

By channel, the discounters are winning (+6.2% turnover), followed by independent chains (Système U, Leclerc and Intermarché +1.7%). Lidl has developed a reputation for being a high-quality and affordable retailer through continuous investment in media (TV, newspapers) and a private label focused offer. The cooperative retailers are growing thanks to a combination of competitive price position and greater credibility in their local provenance credentials and localised approach to doing business.

France has been the exception regarding private label development in Europe. However, after almost five years of declining private label share, 2019 saw some growth with an increase of 1.7% in value (Nielsen). French legislation (EGALIM), which limits 'Buy One Get One Free' promotions, has introduced new legal requirements around deep discount selling. Where previously there was a ban on below-cost selling, there is now a further requirement that the biggest brands are sold at retail prices that create at least 10% gross margin. The intention was that this additional profit could be routed towards local farmers to offer them a fairer price for their produce. The

unintended consequence is that the law has effectively increased the price gap between the big national brands and private label options. Private label market share has now reached 32.7%, benefitting from this renewed price advantage and a rapid growth in the sustainable product offer. Organic products are still the engine of growth (+22%) and even if private label is growing slower (+18.3%, Nielsen) they have initiated the sustainability conversation long before national brands who are now investing significantly.



Leclerc private label positioning with the “C'est qui le patron” which brings fair compensation for farmers.

SUSTAINABILITY HOT TOPICS

French consumers are increasingly concerned about climate change and this has put pressure on the French food supply chain. The Paris Agreement in 2015, followed by the Green Party's recent victories in the 2019 European elections demonstrates that French consumers are actively changing their consumption habits, supporting local producers and farmers as an expression of responsible food consumption. The Max Havelaar/Opinion Way survey of 2019 confirms that sharing value is a key issue for the French. Preserving the environment, in particular through the fight against over-packaging and food waste, is an important element in the drive for conscious consumption, especially among young French people.



In-store banners promote new agricultural practices supported by the government

The French government has initiated actions to tackle these issues and the EGALIM law is part of this answer. The 10% increase of resale below cost threshold is meant to benefit the producer by increasing their revenues. At the other end of the supply chain, packaging waste and food waste are also being targeted by the government through the National Pact on Plastic Packaging⁷ (signed by brands manufacturers and retailers in 2019) and the Food Waste Law of 2016. A minimum of 60% of plastic packaging should be recycled effectively by 2022 and all packaging must be reusable, recyclable or compostable by 2025. France wastes 10 million tonnes of food annually so the target is to reduce this by 50% by 2025 (base 2013). Since 2016, food stores of more than 400 m² are obliged to donate unsold, edible food to redistribution associations. Historically, some supermarkets would use cleaning chemicals to spoil unsold food waste, preventing the most desperate people from getting food from bins.

Supermarkets are now banned from exercising these unsavoury practices which render food waste inedible. The media, aided by repeated scandals, have increased consumer awareness of this issue in recent years.

These major sustainability issues have also generated new opportunities in the market with the development of food apps (Too Good To Go, Yuka, YaQuoiDedans) helping customers to make informed decisions. New brands such as C'est qui le patron (Who's the Boss) are citizen-led initiatives and the development of bulk product initiatives are supporting packaging reduction goals.

RETAILERS IN ACTION

Most French retailers have embraced the sustainability agenda, sometimes even before legislation required it. As the last and most visible part of the supply chain, retailers have embarked on a programme of sustainability commitments, mainly through their own brands. Carrefour’s ‘act for food’ gathers 13 initiatives impacting 1,200 Carrefour products and will continue in 2020 with an extra 900. Leclerc is committed to its Marque Repère with 15 commitments focusing on transparency on the origin of raw materials and plastic reduction. In 2012, Système U was a first-mover by initiating a crackdown on controversial food additives and has managed to remove more than 80 substances from its private label range. Système U went through the Marke.org consultation platform to collect ideas from French consumers. Surprisingly, 30,000 Système U employees contributed their ideas (out of the 70,000 polled by the group). In the end, 7,000 proposals were submitted. The two priority subjects put forward by French consumers were "short food supply chain and monitoring the products seasonality" and "plastic packaging and their recycling". Système U is already very involved in the development of local links in France for its 6,000 products and intends to be a zero-waste brand.

Food waste, now banned for supermarkets and restaurants, has gained attention thanks to the Too Good To Go app which connects retailers directly to consumers. Apart from Lidl and Aldi, most retailers and specialists have engaged a partnership with the app.

Almost all French retailers have started short supply chain themed initiatives aimed at private label or serve-over-counter products. Auchan has so far established 120 ‘responsible sourcing channels’ in a variety of categories where they can demonstrate total supply chain transparency and sustainability and ethical trading standards. Système U has developed the brand U de nos régions (U from our regions) to promote local business at the regional level and Leclerc is also following the same principle with its Alliance locales with 12,000 partnerships with small producers close to stores. Thanks to its own production facilities, Intermarché is promoting its partnership with local suppliers (more than 17,000 farmers).



Plastic reduction in bottled water at Intermarché has a significant impact



A few of the private label wines at Intermarché private label 'Expert Club' use the HVE logo (High Environmental Value)

Despite the growth of organic products, the certification label neither covers all environmental issues nor satisfies the volumes required in the market. Retailers are now also investing in new certifications in meat, fruit and vegetables with the Bleu Blanc Coeur brand (higher nutritional value), High Environmental Value certificate (improved environmental impact) and Zero-residue (free from pesticides).

THE IMPACT FOR SUPPLIERS

Retailers are increasingly demanding with regard to transparency and supply chain integrity on finished products, packaging, additives and raw material origin. Suppliers need to balance these demands whilst maintaining competitive pricing. Packaging will be a major challenge since the playing field is highly dynamic. And, whilst packaging suppliers are actively innovating to offer more sustainable options, these solutions may not as yet be competitively priced. Furthermore, even if solutions exist, e.g. switching from plastic to cardboard cartons, the required production line investments are likely only feasible for big companies or will require more long-term collaboration between retailers and manufacturers.

CONCLUSION

Consumer demands are rapidly evolving and as the first point of contact, food retailers are going through a major transition too. This will create opportunities for the suppliers with the agility and capacity to help retailers deliver on their sustainability commitments. However, in

the longer term, we believe that sustainability features will be captured in production standards such as the British Retail Consortium Standard (BRC) or International Food Standard (IFS).

Even if the French market is a mature private label market, the growth of discounters will most probably impact the share of retailers' brands, especially with the transformation of Leader Price stores into Aldi. International brands may find it more difficult to fulfil the requirements of these new standards (local production, transparency, packaging reduction) where the flexibility of SMEs will be a serious asset for private label. However, this transition is impacting the entire supply chain and will take some years to be fully implemented. Long-term trading relationships will not only be a differentiation tool for retailers but also a way to effectively transform the food industry. Will we see more vertical integration in the private label sector in the coming years?

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GLOBAL INTRODUCTION

Overall, food and drink consumption was largely stable in Italy in 2019, albeit with regional variances, growing +2.52% in the south and declining by -1.0% in the north (Nielsen Osservaitalia, December 2019). The large retail chains saw consumer packaged goods sales grow by +2.1% (IRI, 2020), despite the constant growth of out-of-home food consumption which exceeded 37% of total Italian food purchases. Italy is number one in Europe for per capita annual food expenditure at €2,428, followed by France at €2,353 and Germany at €2,019 (source: OECD-Rapp, Coop 2018), confirming the absolute centrality of ‘food and social experience’ for Italians.

In September 2019, Coop and Conad effectively became joint market leaders with a 13.4% and 13.3% market share, respectively. VèGè Group realised the strongest growth and became the fifth biggest retailer at 7.0% by winning the business of several regional retail chains (GNLC, September 2019). Even Conad, following the acquisition of Auchan Italia, is now being forced to rework its hypermarket format that is felt to be in crisis. However, in a mature market, it is important for market leaders to show real leadership in terms of both performance and innovation. Esselunga, with only 160 stores on the peninsula, enjoys 8.9% market share, thanks to a market-leading capacity to attract customer footfall and loyalty. Retailer own brands or private labels represent €27bn of annual sales in a total large chain retail market estimated at €100bn (GNLC, 2019). This is constantly growing, with private label shares similar to France and Germany, especially in the north of Italy. The own brand share of sales is over 40% at Unes, over 30% at Coop and Conad and likely over 30% at Esselunga, if we include their exclusive brands. Own brands are also growing in line with discount channel growth which is ahead of market growth. The discount market leader is Eurospin, followed by Lidl, MD and Aldi, which entered Italy in 2018. All four chains are aggressively opening new stores and will likely reach a combined 24,6% market share in the next three years (IPLC estimate based on different sources).

E-commerce and grocery home deliveries have exploded in 2019 with growth of + 37% (IRI).



Sustainably fished Yellowfin tuna at Esselunga

In Italy, the dynamism and success of stores owned and operated by local entrepreneurs (Conad, VèGè, Selex) is assured since they are closest to the needs of local customers and cultures of the ‘bel paese’, the ‘beautiful country’.

SUSTAINABILITY HOT TOPICS

Sustainability has firmly entered the consciousness of Italians thanks to climatic impacts, pressure from international media and NGOs and the new taxes on plastic in packaging and sugar in drinks. Food waste reduction strategies combine effectively with consumer needs since they come with the advantage of monetary savings for families. This phenomenon is facilitated by the birth of organisations such as Last Minute Market or the local Caritas, which collaborate with retailers to collect surplus food at near end-date, making it available to people living in poverty. Apps such as Too Good to Go also offer very low-priced products nearing expiration to consumers who go in-store to collect.

Another consumer awareness, revealed by research carried out in the Bologna University Business School, is the relationship between CO2 equivalent emissions and the product choices of shoppers at the supermarket shelves. In order to help manufacturers and retail companies, the Observatory On Sustainability of Packaged Consumer Goods, founded in 2019, helps to measure the impact in CO2eq of the ranges that supermarkets select, starting from the Life Cycle Assessment of the ingredients and packaging.

In the context of social responsibility, the Italian government has put in place legislation to prevent exploitation of immigrant workers and poor people in agriculture in southern Italy. Unethical practices were highlighted via numerous consumer-facing campaigns. Altromercato, one of the largest fair trade organisations in Europe, launched *Solidale Italiano* (products made in Italy with fair trade practices) which include Fair Tomato products, certifying that collection, production and distribution is done legally without labour exploitation. Some northern European companies actually threatened a boycott of Italian tomato imports, which proved a useful impetus to legislate against the gangmaster labour system. Finally, the Coop launched its *Buoni e Giusti* campaign that focuses on buying and selling only legally produced fruit and vegetables.



Fully traceable free-range eggs at COOP. Chickens raised without antibiotics and GMO-free feed

RETAILERS IN ACTION

The main retailers in Italy have made commitments and launched communications around sustainability through their own strategies but also under external pressure from world events and customer demands. Retailers have also been urged by The Italian Alliance for Sustainable Development (ASviS) that promotes the adoption of practices aimed at achieving the 17 United Nations Sustainable Development Goals. However, the commitments and product offer of retailers still seem inadequate when viewed against the scale and urgency of the climate crisis and prevailing sustainability agenda. Nielsen notes that 74% of consumers believe that companies are committed to the environment but only 16.4% of these offer 'green' products, despite the fact that more than 70% of Italian consumers are willing to pay more for these (Nielsen Sustainable Shopper Report, AT2019). There is an increasing gap between the growth of consumer awareness and consumer action versus the access to information and sustainable products in stores. It is a dangerous gap, especially for private label manufacturers and retailers who still do not have clear, accountable, commitments and objectives that are regularly and effectively communicated to their customers.

Coop is one of the most active retailers in Italy with a record, both in terms of projects and communication, even though they may appear slightly ambiguous. For example, on plastic reduction, they repeat their intention "not to demonise" plastic use, whilst taking on reduction commitments. At the end of 2019, the Coop campaign touched an emotional chord: "with good shopping choices you can change the world." Coop is also actively engaged in reducing the use of pesticides, glyphosate in agriculture in particular, which means that they now stock the largest range of organic products available in Italy under a unique brand: *Vivi Verde Coop*. Coop and Carrefour in Italy are leading the work on traceability and transparency in eggs, chicken and citrus fruit supply chains.

Conad has made important promises such as the elimination of plastic by 2021 from many own brand packages and reporting in volume, but not in percentage, the reduction of plastic and CO₂eq. Esselunga has started a plastic bottle collection trial in its stores. In line with international strategies, the communication made by Aldi and Lidl is comprehensive and clear.

CHALLENGES FOR SUPPLIERS

The impact repeatedly highlighted by manufacturers is the conflict between the demand for lower prices by retailers and the

need to innovate with new packaging solutions, ingredients, traceability, etc. This is not a new problem since it has always been difficult to share the distribution of innovation costs in a supply chain if the shared choices are not believed to generate new value. It is therefore essential that the path towards sustainability is carried out with a common entrepreneurial vision between private label producers and retailers, guided by the leadership of innovative retailers and retailer associations in collaboration with a task force of specialised consultants, managers, universities and NGOs.



CONAD eco-friendly private label detergent containing biodegradable plant-based surfactants



Positive impact on the environment by offering organic fresh milk at Esselunga in Tetra Pak instead of a plastic bottle is communicated on-pack.

CONCLUSION

The path towards sustainability within the end-to-end consumer goods industry, is played out in Italy via three key practices:

1. Collaboration, co-entrepreneurship and team play.
2. Creation of fairly shared value.
3. Innovation and competitiveness.

Italian companies are known for their flexibility and entrepreneurial spirit but they lack the unifying and motivating effect of leadership and collaboration that are essential in an SME economy structure. Self-awareness is an excellent starting point and the growth of private label, which still lags behind other countries, is an opportunity.

The Italian grocery retail market is highly saturated and is under intense competitive pressure from out-of-home eating and e-commerce, driving reduced supermarket sales per m2. In an attempt to address this, players like Esselunga are experimenting with the integration of food retail and food service. The future success of Italian grocers will depend on this kind of channel creativity as well as digitisation, omnichannel offers, customer centricity and a credible sustainability strategy. This poses a challenge for private label since its traditional position as a value offer will need to evolve to capture additional features or values: 'valore e valori'.

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Portugal

GLOBAL INTRODUCTION

2019 was a good year for the Portuguese retail market. Volume growth at +2.0% combined with +2.2% price inflation resulted in total growth of +4.2%. Private label grew quicker at +7.2% versus brands at +3.0%. The current private label share is around 36% in value, however retailer brands constitute almost 50% of the volume bought in the grocery market (Nielsen).

An important event was the entrance of Mercadona (market-leader in Spain) into Portugal. To date, Mercadona has opened ten stores, all in the north but national coverage is its ultimate objective. The other Spanish player, Dia, saw its market share drop considerably because of financial problems. Aldi has announced ambitious plans, aiming to add around 130 new stores to its existing estate of 70 stores by 2023. The market leader, Sonae MC/Continente will continue to defend its position determinedly, followed by Jerónimo Martins/Pingo Doce. The two companies together hold a share of more than 55% of the total market. Below the top tier, we find Intermarché (10%), Lidl (8.5%) and Auchan (7.5%).

SUSTAINABILITY HOT TOPICS

Sustainability has become increasingly important in the Portuguese market during the last few years. The main topics are plastic reduction, organic production, promotion of recycling and reducing food waste. Other topics with less focus include energy reduction, transport optimisation and CO2 reduction. Although not directly related to sustainability, healthier living initiatives are also being promoted. Local production is also a feature but it is used mostly to create added value and not in the context of sustainability.

Regarding plastic reduction, free plastic bags at the point of sale have been banned. Similarly, the use of styrofoam and ultra-light plastic bags for fruit and vegetables will also be phased out during early 2020. Another government initiative is the creation of a collection system for plastic bottles at supermarkets and hypermarkets. Although not yet fully defined, the system will likely be incentivised by giving discount vouchers to the consumers to be spent in-store. The value will vary between €0.02 for bottles between 100ml and 500ml,



Pingo Doce offers the opportunity to refill bottles with water in store

and €0.05 for bottles between 500 ml and 2.0 litres. Nationwide roll-out is anticipated after an initial trial period.

In recent years, organic products have moved from niche to a more mainstream position. All players have their private label organic range and are commonly merchandising all organic products together in a defined location instore. It is normal for retailers to have recycle points. Not only for paper and plastic but also for clothes, electronics, batteries, used oil, plastic caps, coffee caps, etc. Often the weight of collected products is linked to an amount of money to be offered to social institutions.

Food waste reduction has a long tradition in Portugal with the Banco Alimentar Contra A Fome (Food Banks Against Hunger) active since 1991. Banco Alimentar acts as a platform between retailers and thousands of social organisations, together reducing waste on near end-date foods. Discounts on near end-date products are common and some retailers even have specific locations within the store to promote those products.



Promotion 'Banana Estou só' (I am Alone) to sell single bananas at Continente

RETAILERS IN ACTION

Despite a general movement towards more sustainable actions, we have highlighted some of the most important below.

At Continente (Sonae MC), in-store we can clearly see a variety of initiatives and messages promoting healthier living and healthy products. In its flagship stores 'food labs' have been created to promote healthier and more innovative products, which are unknown to most Portuguese people. Some noteworthy initiatives include the banana 'estou só' (I am alone) promoting the sale of individual bananas as well as several products like the Panana cake and marmalades, made of food which otherwise would go to waste. Continente has saved over 740 tonnes of virgin plastics by selling private label bin bags made

from recycled plastic recovered from its own operation. Continente was the first Portuguese Retailer to sign the International pact on plastic reduction.

Pingo Doce also has some interesting initiatives such as its reusable water bottle and refill service. Bottled water is very high-volume product in the Portuguese market so the potential impact of this action is significant. Pingo Doce claims that its packaging reduction initiatives have removed 15,000 tonnes of material since 2011.

Regarding food waste, Pingo Doce uses food that falls outside its normal visual or size specifications in its central kitchen where meals are prepared to be sold in its in-store restaurants.

Auchan is currently modernising its stores and relaunching its private label. An impressive space is given to self-service bulk products, where we can find products like spaghetti, cocoa, chocolates, spices and nuts. Furthermore, organic products and healthier foods have their own defined locations with significant shelf space. In terms of food waste reduction, Auchan sells stale bread to be used for bread crumbs.

Lidl pays a lot of attention to sustainability and also promotes these efforts in-store. From fair-trade chocolate, packaging designed by children on healthier products and Marine Stewardship Council (MSC) certificates on price labels. To avoid food waste Lidl explains the difference between the two expiration dates used in Portugal; 'until' and 'best before'. The latter is defined as "The date until which the food retains the specific properties. Products can be consumed after the best before date if the storage and preservation advice has been followed". Moreover, organic articles are strongly promoted through a special place in store and through posters claiming "Organic (products) by Lidl. Nobody sells them like our customers". Currently, Intermarché lacks a clear message regarding sustainability despite having supported some good initiatives. Intermarché has recently reviewed and consolidated its exclusive brands into a single private label range Por Si (for you) and this relaunch has commanded its attention in the short term. Portuguese retailers understand that they



Self service section at Auchan where products are offered in bulk

can positively influence consumer habits concerning healthier lifestyles as well as sustainability. Some examples are the Healthy Food Education Programme given to 24,000 students (Continente), the Super Sports campaign (collectible cards) for children (Pingo Doce), the Auchan Run involving 3,000 athletes raising €15,000 for the Auchan Foundation and Lidl's 'cleaning the beaches' programmes.

CHALLENGES FOR SUPPLIERS

Sustainability-related products are now firmly on the radar of large retailers but we should not forget that the vast majority of products sold are standard tier versions.



The way Lidl explains the meaning of different expiration dates

Nevertheless, products like organic, healthier or vegan products bring new challenges and opportunities. Sometimes it even brings focus to completely new producers. We also see how sustainability topics are beginning to impact mainstream products. Canned fish for example is increasingly MSC certified.

Manufacturers often find it difficult to deal with the smaller quantities of products linked to sustainability and have to deal with obstacles in finding the respective raw materials and the specific packaging required.

Even if on the one side sustainability brings new challenges, both with regard to costs and the search for new solutions, on the other side it generates new opportunities. The sustainability agenda has presented new opportunities and opened many doors for retailers who have a significant appetite to adapt their range assortment and their private label innovations to answer sustainability challenges.

CONCLUSION

In summary, retailers are doing much more in the context of sustainability than they are able to communicate to shoppers in-store. Moving toward a more sustainable market will continue to affect the way Portuguese retailers think, work and define their assortment as well as their requirements towards suppliers. Over the past few years, there have been considerable changes in categories like organic and healthy products. Changes which are not only reflected in the assortment but also in the store design. Issues like food waste, plastic reduction and the promotion of recycling are on the agenda of all retailers. Private labels play an important role in promoting sustainability topics and will continue to do so in the years to come. To be successful, it will become more and more important that all stakeholders work in close collaboration to hit the expectations of increasingly demanding customers.

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GLOBAL INTRODUCTION

The total food and drink market value in Spain is €103bn, having grown by over €9bn in the last eight years. The in-home consumption market value accounts for more than 65% with a total value of €68.5bn and +1.6% growth versus last year.

Of the in-home segment, supermarket share continues to grow, reaching 47.2% and seeing significant growth at +3.9 % year-on-year. However, the traditional stores' market share is in continual decline, with negative sales of -5.4% last year. Figures for discounters are increasing, despite the decline of Spain's largest discounter Dia, thanks to the growth of the German discounters Lidl and Aldi. Discounter market share has now reached 12.9% with a year-on-year sales increase of +0.4%. Finally, hypermarkets have a market share of 13.3% with sales growing +0.3%.

Private label market share has grown to 42.0% by the end of 2019, driven largely by Mercadona where private label represents 58.2% of sales and Lidl where private label is 82.9% of sales. We can expect to see this trend continue as retailers focus their innovation efforts towards developing healthy and organic products under their own brands.

SUSTAINABILITY HOT TOPICS

Sustainability has made it to the agenda of most Spanish grocery retailers in recent years. Most have developed very clear corporate and social responsibility policies in order to reduce plastic, develop and use green energy, generate energy savings, reduce food waste, develop local products and to promote organic products, among others.

Spanish consumers are driving the topic of packaging reduction and are changing their day-to-day habits in a material way, i.e. 90% of households use cloths instead of kitchen paper for cleaning, 84% bring their own bags when they go shopping, 67% take refillable water bottles when leaving the house, and 61% avoid buying plastic plates and cutlery when hosting barbecues or parties at home (Kantar World Panel, 2019).

Spanish Congress has urged the government to develop a strategy to reduce the quantity of single-use plastic items placed on the market and to put in place measures to ensure that, by 2030, all plastic waste is recycled and reused. The House has adopted a non-binding resolution calling on the council and commission to ensure that plastic waste is managed without endangering the environment or human health and improving the quality of life of citizens.



Promotion of organic products and commitment to local sourcing at Carrefour

47% of Spanish people feel guilty about the amount of plastic they use and even more (88%) are actively trying to reduce the amount they waste, according to the Yougov survey. What are people doing to curb plastic consumption? Among the 88% who are trying to reduce their personal use of plastic, almost eight out of ten (78%) are no longer purchasing fresh fruit and vegetables in plastic packaging. Half are trying to reduce plastic in household products (52%). One-third are trying to avoid plastic packaging when purchasing household cleaning products (40%) or personal care products such as shampoo or toothpaste (33%), and one-fifth are considering plastic when purchasing cosmetics (23%).

Clean energy is growing at the expense of fossil fuels in Spain, to the extent that renewables will constitute 68% of electricity generation by 2030 and around 90% by 2050, off the current base of 40% (Bloomberg/Acciona report on new energy finance). According to the report, solar and wind power plants will play an essential role in the decarbonisation of the Spanish economy because they are the cheapest options for the country to generate electricity. By 2030, wind and solar technologies will together generate 51% of Spain's electricity compared to the current figure of 25% and will increase to 75% of electricity generation by 2050.

Spanish retailers are part of this movement, having stated clear intentions to develop more sustainable outlets and equipment with significantly reduced energy consumption, reduced CO2 emissions, and using energy from 100% renewable sources. One important investment is the roll-out of photovoltaic solar panels on store roofs so that they become more energy self-sufficient.



Eco-friendly liquid detergent at Carrefour containing plant-based soap

RETAILERS IN ACTION

To address the climate crisis, Spanish retailers are developing policies to reduce the environmental impact of their business activities.

Mercadona, with 26% market share, is working to ensure that 100% of its private label packaging is reusable, recyclable or compostable in the coming years. Both Eroski and Lidl have committed to making all of their private label packaging recyclable. In addition to the reduction of packaging material and clean energy there are a number of topics on which the vast majority of distributors are also working, such as food waste, logistics, local production, development of organic ranges, animal welfare and sustainable fishing.

With regard to food waste, the various chains operating in Spain have partnered with food re-distribution programmes and are also working very hard to develop zero waste programmes.

The expansion of organic private label ranges is also a good example of improving sustainability policies of the Spanish retailers. Lidl, Carrefour, Aldi and the regional supermarket chains are leading the organic foods revolution and their competitors, with the exception of Mercadona, are following their lead.

Spanish retailers have also developed sustainable fishing, animal welfare and local product policies and the associated logos are commonly seen on private label packaging, e.g. MSC for fish, PLS for dairy products, FSC for paper and bricks, UTZ Fairtrade for chocolate and coffee.

CHALLENGES FOR SUPPLIERS

Manufacturing companies are responding well to the retailers' sustainability demands. The issue is that solutions are required quickly, and this often brings additional costs for suppliers.

There are also short-term challenges around the availability of some raw materials and packaging, e.g. drinking straw alternatives. These issues make it difficult for suppliers to hit the ambitious deadlines set by retailers. Another controversial issue is that some retailers continue to launch new individual and single-use format products. These are considered a contradiction of the sustainability policies but are demanded by certain cohorts of consumers. Close cooperation between all the parties involved is the best way of solving these issues.

Nevertheless, we strongly believe that the sustainability agenda is here to stay and that the manufacturers and retailers who take the most assertive and integrated actions now are the companies that will succeed in the long term.



Biodegradable plastic bags for fruit and vegetables at Lidl

CONCLUSION

Governments, consumers and all the players involved in the supply chain have to play their role in the development of sustainability policies. We are far from achieving the objectives in the short/medium term but many efforts have been made in recent years to develop and implement a variety of sustainability programmes in the retailer chains.

Private label products are an important ingredient in the successful implementation of these sustainability policies. And, one of the best ways to guarantee continuous progress is by leveraging the shared understanding and collaboration between retailers and manufacturing companies and there are few better ways to do this than by developing private label products.

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GLOBAL INTRODUCTION

The Dutch food retail landscape has changed considerably since 2010. On the one hand, Jumbo's aggressive growth strategy has resulted in its market share almost quadrupling from 5.5% to 21.0% over the past ten years. This growth came at the expense of various players such as Konmar, Super de Boer, C1000 and Emté, all of whom were successfully taken over and merged into the Jumbo format. On the other hand, in this same period, Lidl almost doubled its market share from 5.6% to 10.7%. The combined market share of discount retailers Aldi and Lidl is now 16.6%.

Online retail represents a turnover of around 4% and is expected to show continued double-digit growth. The main players: Jumbo, Albert Heijn and newcomer Picnic are making significant investments into new distribution centres to facilitate their ambitious online growth plans.

According to Nielsen and IRI, private label market share in the Netherlands is around 27% (not including Aldi and Lidl). As Aldi and Lidl sell predominantly private label, IPLC estimates the total private label value share that includes these discounters to be around 41%. The volume share is likely to be even higher as private label products are sold at lower prices than branded products.

SUSTAINABILITY HOT TOPICS

All retailers are committed to the Plastic Pact. By signing this agreement, the organisation is committed to a 20% reduction in plastic by 2025, more recycling and sustainable alternatives. The Netherlands has a good recycling network in place and many households are familiar with sorting plastic, paper, cartons, glass and cans from their waste as all these items are collected from their homes separately.

With their often brutal and graphic communication tactics to influence public opinion, NGOs such as Wakker Dier (Animal Aware) and Varkens in Nood (Pigs in Distress) have had a significant impact on both consumer awareness of animal welfare and the subsequent retailer response. The Dutch market for plant-based meat alternatives

increased by 30% to €170m in 2019. An impressive 44% of value growth was generated by private label and discounters. Nielsen observes an increased number of vegan, vegetarian and flexitarian consumers.

Besides these issues, food waste reduction, local sourcing, energy saving and eco-conscious behaviour have become important to consumers and are now explicitly and visibly addressed by retailers.

RETAILERS IN ACTION

Sustainability is becoming increasingly important for consumers in deciding which foods to buy. This requires more transparency and retailers have been very active in responding to this. Albert Heijn, as the dominant player in the Dutch market, has clearly taken the lead with Jumbo following in close pursuit. Some retailers have even more ambitious objectives than are outlined in the Plastic Pact such as making all packaging recyclable, e.g. by discontinuing the use of coloured plastic. Moreover in 2019, Albert Heijn and Lidl launched the first bio-based, fossil-free 2-litre fresh milk container in Europe (container, cap and label are produced from sugar cane and are fully recyclable).



Vomar offers multi-use plastic nets for fruit and vegetables



Jumbo offers a 70% discount on products with only one-day shelf life left

While only a small proportion of total food waste in the food supply chain originates from stores, retailers are making concerted efforts to reduce waste. For example, end-of-life products, that would otherwise have gone to waste, are now offered to food banks. And Albert Heijn has a separate private label Buitenbeentjes (misfits) that are vegetables and fruit that look different to what consumers are used to. Until recently Albert Heijn also had a few jam products under the Buitenbeentjes label.

To respond to concerns over animal welfare the 'better life' scheme for meat was introduced in 2007. In the meantime, the scheme has grown into the largest quality mark in Dutch food retail. Meat is granted up to three stars according to the conditions under which the animal was kept. All pork sold now complies with a minimum of one star under the 'better life' scheme. Lidl has signed a five-year contract to sell Kipster eggs. In this unique concept, hens lay eggs on an animal friendly and environmentally friendly chicken farm and male chicks are allowed to mature for meat production.



Bio-based, fossil-free fresh milk container at Albert Heijn

Sourcing as near as possible and as far as necessary has become important to retailers as consumers are increasingly concerned about the food miles of a product before it lands on their plate. Regional private labels such as Streeckgenoten (Albert Heijn) and Streek (Hoogvliet) offer sliced meat, cheese, dairy and fruit with fewer food miles. In the perception of the consumer, locally produced food is fresher and more sustainable and preferred over products that have travelled from far away.

In 2019, Lidl opened its first energy circular supermarket in the Netherlands: Lidl Zero. By innovative coupling of climate technology, product cooling, energy storage and solar panels, the store is energy neutral. All of Lidl's 430 stores will be disconnected from the gas grid and have a fossil-fuel free heating system. Albert Heijn opened its first circular supermarket in 2018, using recycled and recyclable materials as much as possible in the construction and design of the store. It expressed the ambition to be completely CO2 neutral by 2025. More and more cooling and freezing cabinets in Dutch stores are now fitted with fully closed glass doors. The new kid on the block, online retailer Picnic, delivers grocery products in 800 electrical mini trucks. The system is set up highly efficiently to reduce food miles and delivery time.

The trend of eco-friendly consumption is gaining ground in the Netherlands. Both Albert Heijn (Puur and AH Eco) and Jumbo (ECO Logisch) have separate private labels in the washing, cleaning and paper tissue category.



Regional private label Streeckgenoten at Albert Heijn

CHALLENGES FOR SUPPLIERS

Sustainability is clearly high on any retailer's agenda and ambitious and often quantified objectives are communicated on their websites. Accountability is achieved by reporting on progress and achievements in the annual reports. For private label suppliers it is important to have a good understanding of the sustainability agenda of their retail clients and to know their specific KPIs. This knowledge will enable PL suppliers to be better prepared and address their customers' most important issues.

More importantly, suppliers should connect not only with the buying department of their retail client but also include the sustainability, product development and quality departments. Notably, at the value-added spectrum we see interesting opportunities for private label innovation.

CONCLUSION

Continuing consolidation of the Dutch food retail market will result in even more intense competition. The perception a consumer has on the image of the store has an important impact on shopper loyalty. Sustainable living is a key trend and shoppers incorporate this in their everyday lives and decision making. Therefore, retailers are placing ambitious long-term sustainability objectives at the centre of their strategy because they acknowledge that this will enhance shopper loyalty.

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