


PepsiCo, Conagra are losing the battle against private labels

Article



The insight: CPG companies' efforts to win back cost-conscious customers may be too little, too late, as years of price hikes take their toll and private brands capture shoppers' interests.

- **PepsiCo** flagged softer demand in North America for its snack and drink offerings, causing the company to narrow its full-year revenue outlook to 4% growth, compared with its
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previous expectation of at least 4%.

- **Conagra** expects organic sales to be flat or down 1.5% in FY2025, falling short of LSEG's consensus estimate for 1.54% growth. The company's forecast for earnings per share (EPS) of between \$2.60 and \$2.65 also missed expectations of \$2.69.

Consumers vote with their wallets: Both companies blamed the challenging consumer environment for their difficulties, with Pepsi CEO **Ramon Laguarta** emphasizing that the “need for value...is impacting every household in the US,” including high-income shoppers. While many are certainly looking for deals, **frustrations over shrinkflation** are complicating CPGs' efforts to retain customers and fueling the rise of private labels.

- **Private label sales grew more than twice as fast as national brands in the first six months of 2024**—2.3% year over year (YoY) to the latter's 1.1%—and achieved record unit (22.9%) and dollar (20.4%) market share, per Circana.
- More than half (52%) of US adults say they would stop buying an item or switch brands if faced with either higher prices for the same-sized product or the same price for smaller packaging, according to CivicScience.
- **Retailers are also making a significant effort to premiumize their store brands**, which in addition to attracting younger and wealthier shoppers is helping to narrow the quality gap between national and private labels.

That trend is clearly reflected in CPGs' performances.

- PepsiCo's Frito-Lay North America division reported a 4% decline in sales volumes, while its beverages business saw a 3% decline.
- Conagra attributed its Q4 sales miss to a 1.8% YoY decrease in volumes, despite lowering prices, while **General Mills**' North America sales volumes fell 6% in the quarter ended May 26.

The big takeaway: Consumers' frustrations over higher costs of living are fueling their dissatisfaction with CPG brands and the broader state of the economy—despite the fact that inflation is easing and real wages are rising.

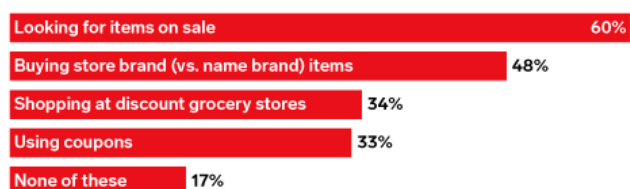
- Inflation fell to 3% in June, helped by falling gas prices, per the Labor Department. While food prices rose slightly month over month, annualized grocery inflation stood at just 1.1%.

- It now takes the same number of hours (3.6) for the average worker to earn enough money to buy a week's worth of groceries as in 2019, per a [White House](#) analysis.

While PepsiCo and others are hoping that an increase in promotions and marketing spend, along with better products, will bring customers back into the fold, they face an uphill battle as retailers take advantage of consumers' rebellion against shrinkflation to boost their private label sales.

Cost Saving Measures That US Adults Have Recently Taken While Grocery Shopping, April 2024

% of respondents



Note: ages 18+

Source: Civicscience as cited in blog post, Apr 9, 2024

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