

# Private labels help retailers like BJ's Wholesale Club appeal to value-oriented shoppers

Article

**The trend:** Private label brands are offering retailers an opportunity to appeal to US consumers who are feeling squeezed by rising gasoline and food prices and looking for value.

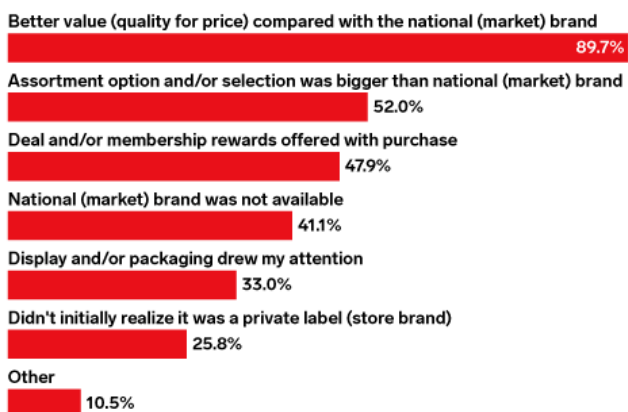
- **BJ's Wholesale Club's** private label brand penetration rose two percentage points year-over-year (YoY) in Q1 to 24%. That growth, along with a surge in gasoline sales, helped drive a 16.3% increase in sales and a 20.8% increase in adjusted net income on a per-share basis.
- One bright spot for **Target** amid a **challenging quarter** was that its \$30 billion private label brand portfolio grew faster than the retailer's total sales in Q1, which is a trend that has continued for several years.

**The opportunity:** Inflation, which grew **8.3% in April**, is having a noticeable impact on consumers' wallets.

- That presents an opportunity for retailers given that nearly **90% of US adults who had decided to switch to a private label brand did so because they found it to be better value**, measured by quality for price, per our Private Label Flash Survey conducted in January 2022 by Bizrate Insights.
- For example, BJ's Wholesale Club in March introduced private label coffee pods, which it sells for about 40% less than branded competitors. Eight weeks after the product launch, the retailer has already seen strong repeat rates.

**Top Reasons US Adults Initially Decided to Switch from a National Brand to a Private Label Brand, Jan 2022**

*% of respondents*



Source: Insider Intelligence, "Private Label Flash Survey" conducted by Bizrate Insights, March 1, 2022

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**Better margins:** Private label brands help boost retailers' bottom lines and give them control over the price, product cost, and marketing of the brands.

- **Boxed's private label products have a roughly six-point margin advantage** over branded products, CFO **Mark Zimowski** said during the retailer's earnings call. That's why the company is investing to improve the penetration of those items.
- **Bed Bath & Beyond**, which **increased its private label penetration from 10% in 2020 to 25% at the end of FY21**, is looking to those sales as a key piece of its turnaround strategy.
- In addition to better margins, retailers such as **Trader Joe's** have long used private label products to differentiate their offerings and build long-term loyalty.

**The challenge:** BJ's has long carried a smaller assortment of SKUs than its competitors, which enabled it to benefit from consumers' shift to private label products.

- But retailers such as **Walmart** don't have that agility because they can't simply replace branded products with private label items without irritating consumers. That puts the onus on the retailer to optimize its product mix or risk having excess inventory (which, in the case of Walmart in Q1, also stemmed from items arriving late due to supply chain issues).

**The big takeaway:** Amid a challenging and competitive retail environment, private labels can help retailers demonstrate value to new and existing consumers.

- That can help boost their margins and, at the same time, build customer loyalty.