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Economics

Report

“Private Label Products:
A Category Analysis”

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A Project carried out on the Management course, within a partnership with the
Portuguese retailer Sonae MC, under the supervision of:

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Abstract

The presented dissertation was developed within a partnership between Nova School of Business and Economics and the Portuguese retailer Sonae MC. The main objective of the study was to develop an analysis for the confectionary category to identify potential development opportunities for new Private Label products. In order to do so, the starting point was to understand how the confectionary market was behaving, followed by an understanding of Continente's performance in that market. Aiming to point out development opportunities, the analysis was split between the subcategories – Chocolate, Chewing Gums and Sweets. The Subcategory performance was assessed in terms of sales, number of SKU's, Private Label weight and its market position in terms of share. For the potential development opportunities a comparison between the top selling Branded Product and the competitors' position was developed, in order to establish a reasonable size and retail price for such products.

Key Word: Private Label, Branded Products, Continente, Sonae MC, Retail, SKU's, Sales, Price, Market Share, Confectionery, Chocolate, Chewing Gums and Sweets.

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1. Introduction

The following analysis was developed considering sales as the main factor for development, hence the cost structure should be analyzed in a further stage of the process.

In the highly competitive retail market, the continuous search for improvement and innovation is a crucial factor that differentiates a company's ability to thrive and to grow when compared to its peers. In a world where the average grocery product retailer carries 45.000 different Stock keeping Units (SKU's) in a single store, the ability to optimize and explore opportunities for development, besides the awareness as to when a product must be deprecated are seen as key factors to determine the success or failure of the retailer (Chiang and Wilcox, 1997).

Private labels or store brands are, in general, brands owned, controlled, and sold exclusively by a retailer (Sethuraman and Mittelsteadt, 1992, which according to research, account for more than 20% of global grocery sales worldwide and are expected to grow to 30% by 2020 (M+M Planet retail 2004). Additionally, according to a Deloitte & Touche report (2003), "private labels have typically experienced significant growth in times of recession, due to their low prices, and the reduced disposable income of households". Therefore, the situation that Portugal (and the world) is currently in, promotes a positive landscape for the development of this kind of products.

With the clear intention of remaining leader in the Portuguese market, Sonae MC has been doing a strong effort to develop its own brand. To do so, it is required to have completely optimized product categories. With that in mind, the present work-paper reflects a methodology analysis to a Private Label category with the intention of identifying potential development opportunities, exploring potential gaps that may exist.

2. Framework

If we take a deeper analysis about the beginning of the existence of “brands owned and controlled by an organization whose primary commitment is distribution” – Private Label brands- (Olser, Menichelli, Meyer and Naes, 2011) we realize that these Private Labels compared with national brands were thought to be inferior in terms of quality and appearance. Thus, the general idea was that we were mostly talking about “low cost copycat products”. (Belizzi,1981).

Even though the private label brands started as low cost generics, they evolved over time. Nowadays, they have a huge impact in the image and livelihood of all major retail companies. Therefore this kind of brands represent a self-interest of retailers and are seen as strong contributors to profitability and return-on sales of the companies. (Olser, Menichelli, Meyer and Naes, 2011).

These days this kind of product reflects the growing power that the retailers are able to achieve over the manufacturers, “and that power results from growing concentration among retailers, improved scanner information systems used by retailers manufactures, ineffective pull promotion, and the emergence of a competitive procurement market for private labels” (Chen, Chou, Hsiao and Wu, 2009). Furthermore, a store brand can be a strategic tool as it can attract more customers, make more marketing profits from attracted customers, and generate greater marketing profits from loyal customers (Bonfrer and Chintagunta, 2004).

Due to this significant growing power of Private Labels as a strategic tool for the greatest food retailers, Sonae MC has been doing an effort to increase the preponderance of Private Label brands. This emphasis led to changes in the weight of sales for this product’s category, with an increase of 11pp from 2008 to 2012 (Appendix A). The main reason behind this effort is the understanding that “own” brands are vital

to build and sustain a greater degree of loyalty with the consumer (Bonfrer and Chintagunta, 2004).

Furthermore, Private Label has been improving in terms of margin rates, which is increasingly contributing to Sonae MC's overall results. There was an increase of 2,7pp between 2011 and 2013, resulting in a rate of 25% margin, however it is still below the 29,2% presented by branded brands (Appendix B).

Regarding the Portuguese market, over the last years, Private Label penetration had increased achieving levels that can be compared to the levels presented by the most penetrated markets. In terms of units sold and reported net sales at Sonae MC, Private label accounts for 48% and 33%, respectively, representing an increase of 2,2 and 3,8pp, values that are aligned with the growth in the overall internal market (Appendix C). This enables the Portuguese market to get closer to other markets such as the Spanish market and the United Kingdom market, which are more developed in respect of the Private label.

Although there was a positive development of the Private Label in terms of market share and margin rates, there are still indicators showing that there is space for more improvement. In profitability terms, Private Label brands are still struggling to achieve the level of performance of name brands. For example, Private label has an average of 24.5%, which is significantly less comparing with the 27.2% of profit achieved by the Name brands.

In addition, comparing with international markets, the Portuguese market has a high level of discount when compared with branded products. This low price ratio can be one of the reasons why there is more space for the Private Labels to grow and reflects the competitiveness of the market, which is driven by price. Thus the profitability is lower in this category of products. (Appendix D).

To sum up there is a huge potential to expand Private Labels. Its market share increased through the last years, national and internationally, and it is seen as strategic tool and important a factor to an insignia's image. Sonae MC is a Portuguese retailer and, by comparing with other Portuguese private labels and through market studies its own Brand has a lot of space to growth. In order to achieve the goal of improving Sonae's "own" Brand it is crucial to innovate. For that it is important to identify potential development opportunities that will allow the company to attract more customers, increasing the market share and optimizing the potential profits.

For all these reasons, the present work-paper reveals of great importance, by developing a complete category analysis aiming to understand potential opportunities to explore within that category, there will be an opportunity to provide a real contribution to the company with the intent of develop an applicable and meaningful outcome.

3. Methodology

Due to confidentiality issues the names of other retailers and brands were omitted.

Secondary data was collected for the elaboration of this analysis, with focus in the Confectionery category, with the purpose of understanding the current position of a category in the Portuguese market, highlighting opportunities for the development of new products or brands. In order to obtain data about the Portuguese market, Nielsen database was used. Nielsen is a global information and measurement firm that studies the consumer behavior. This analysis is focused on two different sources, market-track and home-scan.

1. The market-track was used to collect parameters regarding the overall category, including the value of the market in terms of sales, price's variation and market share.
2. The home-scan is a tool that allows to develop a segmentation of the market by the main players. From a sample of 3.000 households, metrics such as market share, market share in Private label brands and the weight of private labels in each player within the category were collected.

For the study of the evolution of the category within Continente, Sonae internal data based was used. With this information an analysis was developed for parameters as:

1. Reported net sales;
2. The performance of each subcategory was assessed regarding the main competitors performances, additionally collecting data of the evolution of sales and market share for each base unit;
3. Developing a price and number of SKU's analysis between Sonae's and the main national competitors to understand the possible gaps that could exist in the market, followed by the same typology of analysis between Sonae's Private Label and Branded Products to explorer gaps within stores.

4. Market overview

In order to perform this analysis, the starting point should be an overview of the overall Confectionery market. This stage is critical to understand the behavior of the market and its value, and thus evaluate if the current market trend is whether adequate for the introduction of new products or is a static one.

A steady decrease in reported sales and quantities in a given market is a trend that can be understood as a sign to discourage further investment. However, by looking into the development of the Confectionery market in Portugal it is possible to infer that this specific market is not an example of a stagnated one. The Confectionery market had increased over the last years, which means that it can be seen as an opportunity to gain market share and improve revenue.

In terms of reported net sales, between 2013 and 2014 the market grew 3.4 Million €. This is represented by an increase of 2.1%, from around 161 Million € in 2013 to 165 Million € in 2014 (Exhibit 1).

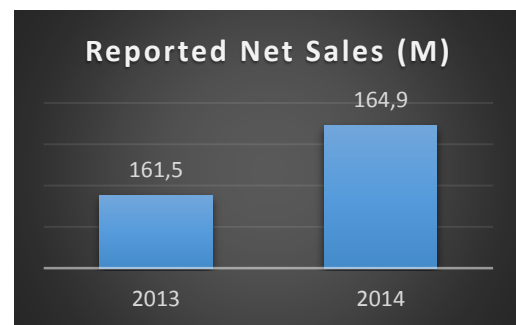


Exhibit 1; Source: Nielsen- Market Track, 2014

In addition, there was an increase of the sales' quantities. From 2013 to 2014 the sales quantities went up by 1.5%, with 367 Million in 2013 and around 373 Million in 2014 (Exhibit 2).

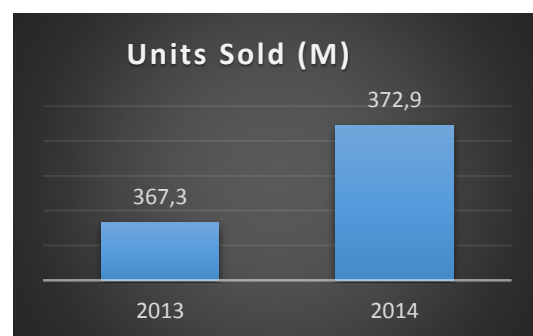


Exhibit 2; Source: Nielsen- Market Track, 2014

A deeper understanding of the market development requires an analysis of the price's evolution. The general trend in the Portuguese retail market is a fearless competition in terms of price between the main retailers, which leads to a reduction of margins and profitability.

This extreme competition happens in the Confectionery too. Being notable that in 2014 the increase in price has softened when compared to the previous year. This trend means that although the price is still increasing, it is expected to generate a lower income per

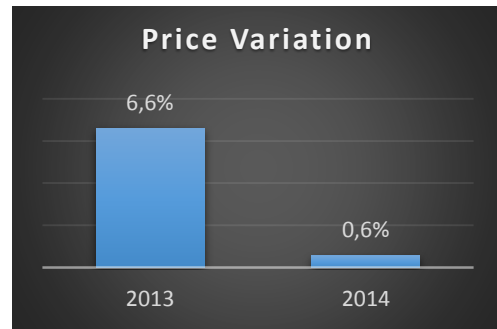


Exhibit 3; Source: Nielsen- Market Track, 2014

unit sold. Thus there is a need for an effort to increase products margins (Exhibit 3).

By looking at each subcategory in a separated way, it is possible to understand what kind of products are contributing in a more positive way for the current performance of the market, and additionally, understand if this increase in sales is being mostly supported by Branded products or by Private Label products.

Exhibit 4 represents the net sales of subcategories, showing that there is a dominance of the Chocolate subcategory, contributing with 70% of the overall sales in the category. In terms of evolution it is notable that Chocolate went up in both 2013 and 2014, with a growth percentage of 4.6 and 3.5 accordingly. Furthermore, it is important to point out the increase in the net sales despite the rise of 1.2% of price, which is seen as positive trend in this market. Moreover, Sweets subcategory has also shown a growth in both years, however mainly due to a price reduction. In contrast with this tendency is the Chewing gums subcategory, which even with a price reduction it is struggling to improve its net sales, presenting a decrease in both years.

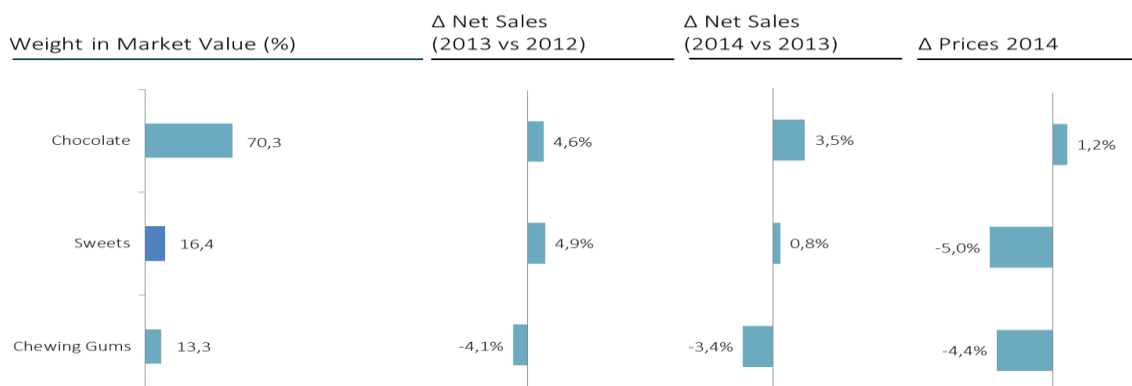


Exhibit 4; Source: Nielsen- Market Track, 2014

The analysis of the performance of each subcategory is not enough, thus there is a need to understand the performance of both Private Label and Branded Products. In this particular case we can see that the overall performance of the subcategory Chocolate, is mainly driven by Branded products, which contributed for an increase of 5% of sales in value when compared to 2013, and for an increase of 7% in quantities. By analyzing the pricing variation, both the rise in Private label and the decrease in Branded products are the main drivers of the verified changes.

Regarding the Sweets segment, in spite of a decrease in the price of Private label, with increased quantities, there was a decline in the sales' value. This shows that this is a highly competitive segment, where the price competition is so fearless that an increase in sales in quantities culminates in a decrease in value

In addition, by seeing the penetration of each subcategory, it is possible to understand that Private label has space for improvement and growth, representing only 11% of chocolate's sales, 30% of sweets' sales and 9% of chewing gums' sales (Exhibit 5).

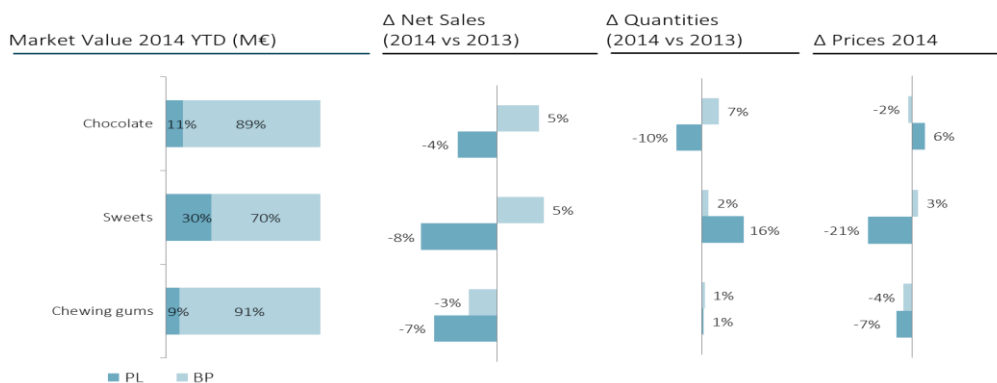


Exhibit: 5; Source: Nielsen- Market Track, 2014

5. Continente Performance

After developing the performance of the Category in the market, it is essential to understand how the Confectionary segment behaves within the insignia, which means analyzing the overall performance inside Continente.

To be able to develop a deeper analysis on each subcategory it is of major importance to have a clear picture of the situation, which will allow to understand whether there is space for improvement and development of the Private Label or not.

By looking at the net reported sales, we can see that, in general, this category is increasing by value, having grown from around 52 Million € in 2013 to 54 Million € in 2014, which reflects an increase of 2.8% (Exhibit 6).

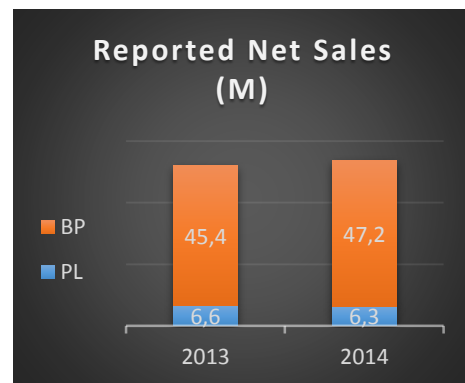


Exhibit 6; Source: Sonae MC DataBase, 2014

However, this rise is entirely justified by the impact of Branded Products, which grew by 3.9% between 2013 and 2014, unlike the decrease of 4.8% shown in Private Label.

By segregating this information for each subcategory it will be possible to create a deeper insight about the category. In exhibit 7, it is possible to see that Chocolate subcategory, as well as the seasonal confectioneries, represent the biggest slice of the reported sales, contributing for nearly 70% of the overall sales. Additionally, all subcategories are increasing its value in sales, except for Chewing gums.

Comparing Private Label with Branded products, we can see that Continente own brand still have space for further development as it only has 15% of penetration of the main subcategory and it does not have presence in seasonal and impulse subcategories.

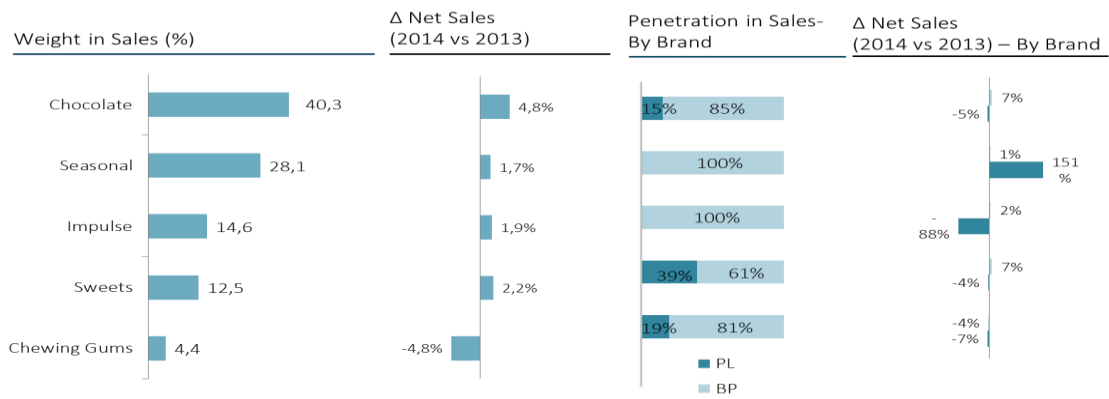


Exhibit 7; Source: Sonae MC DataBase, 2014

At this point it is important to state that the structure presented above, with five subcategories- Chocolate, Seasonal, Impulse, Sweets and Chewing gums- is different from the structure provided by the market database-Nielsen, which includes the Seasonal and the Impulse subcategories within the other subcategories according to the nature of each product, thus it has a total of three subcategories – Chocolate, Impulse and Chewing gums. Hence, the further analysis will be done taking into account the market structure with three subcategories, in order to compare in a more representative way the values obtained with the market values.

In conclusion, by looking at these values, it is remarkable that Private Label still have low influence in the confectionery category, however, due to the overall performance, it is fair to conclude that there is space for these products to grow and improve. We can see that the value created by Private Label products is reaching the results of Branded products, which may be interpreted as a positive trend for the upcoming future. For that reason, the following steps for this analysis will consist in doing a detailed analysis of the subcategories for the purpose of identifying the gaps in which will be possible to empower Continate’s own brand. The empowerment of Continate’s own brand can be done by introducing products that will increase the return of private label.

6. Subcategory analysis

Taking into account the work developed until this stage, now it is time to analyze the performance of each subcategory in Continente. To do so, the Confectionery category will be divided between Chocolates, Chewing gums and Sweets – following the structure used by the market database. For each of the three subcategories the study will start with an exposure of the performance in the market, followed by the segmentation between the base units, and, additionally, a comparison with the main competitors regarding the sku's number (when applicable). For the most relevant subcategories and for the ones with a stronger development opportunity, an additional analysis will be developed comparing variables such as price and variety.

6.1 Chocolate subcategory

6.1.1 Market Position

By analyzing Exhibit 8, it is clear that this subcategory is the one playing the most important role in terms of sales in the Confectionery category, with almost 77% of the sales, in market average. Looking at Continente position, it is possible to state that the weight of the Chocolate subcategory is both below the overall market by 0.5pp.

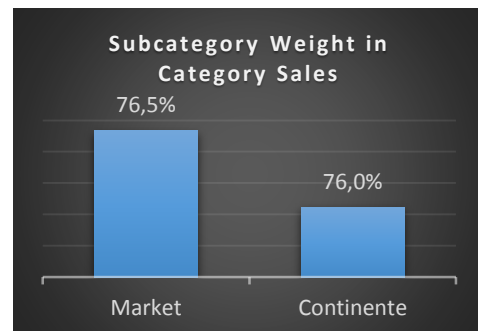


Exhibit 8; Source: Nielsen- Market Track, 2014

Regarding the weight of Private Label inside the subcategory, it is clear that Continente is still beneath the overall market. In terms of market average, Private Label brands account for more than 19% of the total sales, however regarding

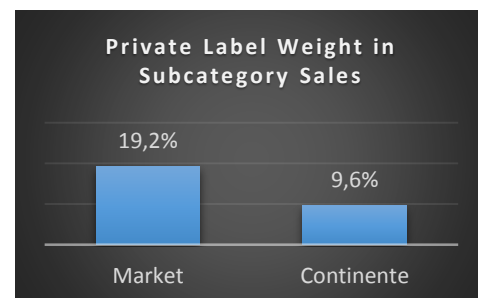


Exhibit 9; Source: Nielsen- Market Track, 2014

Continente, this value is less than 10%, showing that there is space for improvement to follow the tendency of the market and for empower the own brand.(Exhibit 9).

By looking into the Market share, Continente is still the market leader in overall terms. However, taking into account the market share of Private Label products, we can see that there is a change in the market leader, with “Retailer C” assuming that position, with 47% of share against only 14% showed by Continente. Considering that Sonae MC long term strategy is to increase its Private Label value, it is clear that there is an opportunity to strengthen within this category. (Appendix E)

6.1.2 Base Units performance

In order to identify opportunities within this subcategory, it is required to segregate the chocolate subcategory into base units, for the purpose of understanding which ones have the most value and with that decide where to put effort to gain more value.

By analyzing exhibit 10, the first conclusion is that in overall, the Private Label penetration is still small in the most profitable base units.

By looking at the five most important base units we can see that only in two of them – Tablets and Chocolate drops – Private Label sales account for more than 10% of overall sales.

It is clear that tablets and boxed chocolates represent the biggest share of sales within the subcategory, with around 70% of sales. In addition, it is also noticeable that sales, in this typology of products, have dropped in terms of Private Label when compared to 2013. However, in terms of branded product, the sales have increased.

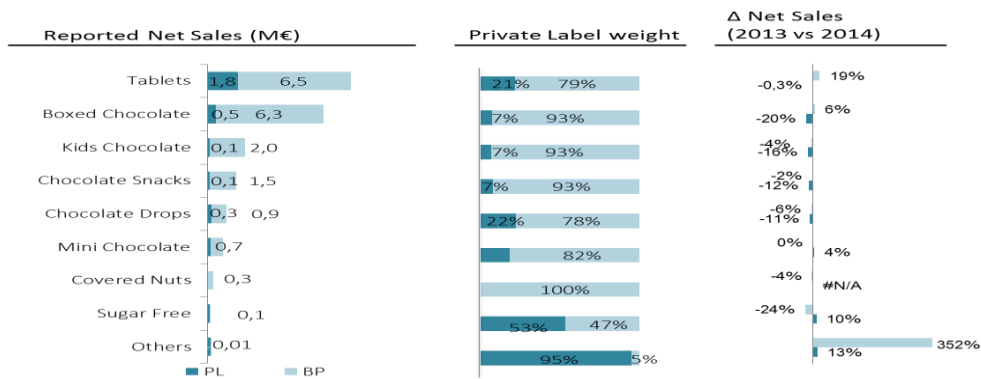


Exhibit 10; Source: Sonae MC DataBase, 2014

With these values in mind, it is reasonable to assume that Private Label needs to improve the subcategory in order to increase its sales and with that gain bargain power towards the supplier and obtain stronger economies of scale with the goal of increasing profitability.

After analyzing the situation of each base unit inside Continente, it is important to develop a comparison with the main players in the market, in terms of number of SKU's. This analysis allows to identify where the other retailers may have a stronger position than Continente, by having a wider range of products.

The following graphic (Exhibit 11) shows the number of SKU's, or in other words, the number of products that each of the other insignias in Portugal have in this subcategory. With this data, we are able to understand where the focus should be for the development of new products. By looking into the Private Label (PL) constitution it is possible to see that Continente has a wider range of products than most of its competitors, excepting "Retailer D" and "E". However, it is perceivable that there are base units where an effort to increase the range should be done, and our focus will be on those situations. Although other base units may provide opportunities for development, the focus in this report is the boxed chocolate and tablets. Not only because we are talking about the two base units with higher sales, as showed above, but also because on the one hand, Continente has only one reference in boxed chocolate, and on the other hand, Continente has a smaller range of tablets than all other retailers.

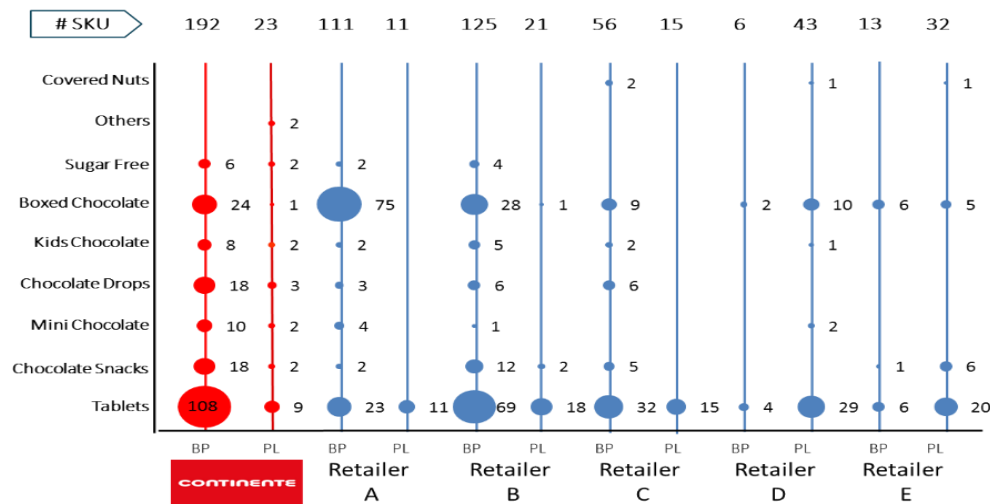


Exhibit 11; Source: Sonae MC DataBase, 2014

6.1.3 Development Opportunities

Tablets

Exhibit 12 shows a comparison between the Private Label Products and the Branded Products in Continente. This graphic represents the net sales of the tablets base unit, by splitting it between Brands (X-axis) and variety (Y-axis). In addition, it is represented the share in sales for both axis. This exhibit enables to understand which varieties Continente is not present, and with the sales we can also perceive where it should be. It is clear that there is more than one development opportunity, with the possibility of creating tablets with different varieties such as hazelnut, oreo, caramel, strawberry or bitter dark chocolate, which combined represent nearly 24% of the base unit total sales, meaning that, Continente Private Label is not acting in a considerable share of the revenue.

However, for the present work the focus is on the development of the variety that has a bigger impact on sales, which in this case is Hazelnut with whole nuts. This variety, alone, accounts for almost 11% of sales, which reflects a strong opportunity.

In that sense a target is defined in order to establish the quality standards that the product is intended to be. In this case it is the “Brand A” hazelnut tablet.

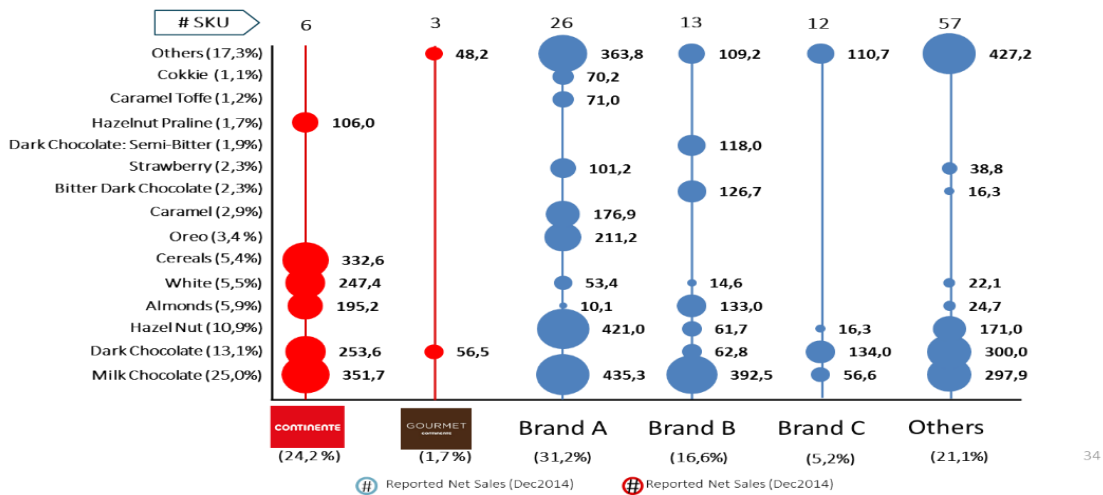


Exhibit 12; Source: Sonae MC DataBase, 2014

With that in mind, exhibit 13 represents a comparison between “Brand A” – considering the best seller product which accounts for nearly 256.000 euros in sales -

Brand	Sales Price	Size	Price-Kilo
“Brand A”	3,99€	300 GR	13,30€
Pingo Doce	1,49€	200 Gr	7,45€
Auchan	1,59€	200 Gr	7,95€

Exhibit 13; Source: Sonae MC DataBase, 2014

and two main competitors, which have a similar Private Label product in their shelf. This comparison is done in terms of price per kilo and the main goal is to define where Continente hazelnut tablet chocolate should be positioned in terms of sales price.

With the presented values we are able to conclude that Continente should follow the typology applied by its main competitors and it should introduce this new tablet with 200 Gr. Regarding price, the strategy should be the one used in the overall categories and it should match Pingo Doce’s strategy, meaning that the retail price should be 1.49€.

Boxed Chocolates

In exhibit 14, that shows the net sales by variety and brand, it is possible to see that Continte Private Label is not well developed yet, which means that there is opportunity to introduce new products. The focus should be on the replication of Branded products that worth more sales, with the aim of empowering the own brand.

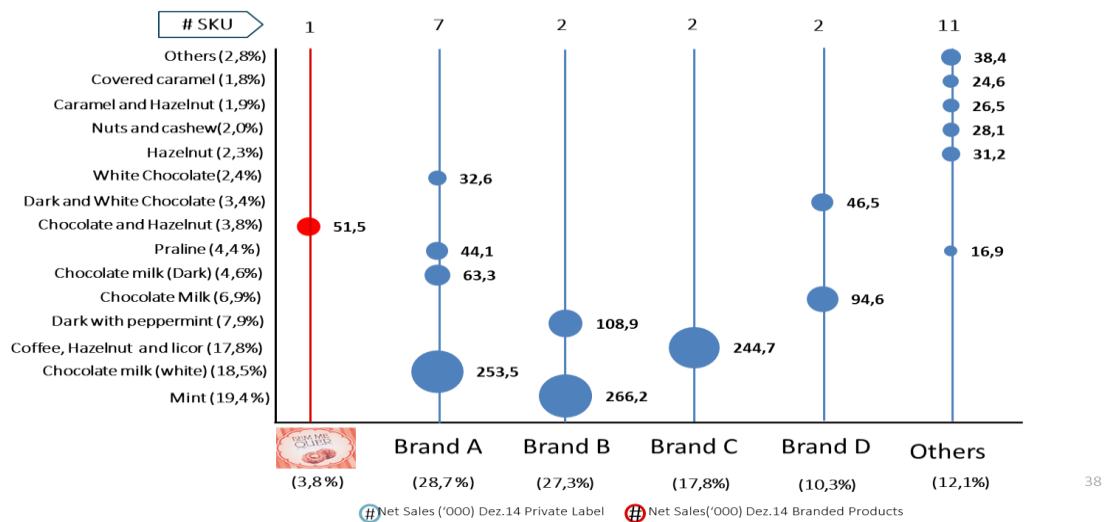


Exhibit 14; Source: Sonae MC DataBase, 2014

In this case, although there are others that could have a closer look, the strategy is to develop a white and milk chocolate similar to “Brand A” seashells chocolate. It is important to state that the focus is not on the Mint-Chocolate because Continte is currently deactivating a Private Label similar to this. “Brand A” seashells chocolate product represents nearly 19% of the overall sales in the base unit. This value shows us that the product has a successful concept and quality, which means that a replication would presumably result in higher sales for private label.

Exhibit 15 allows us to understand where Private Label – “Brand A” Seashells - should position in what price concerns. By comparing the top selling size (250Gr) branded product

Brand	Sales Price	Size	Price-Kilo
“Brand A”	5,99€	250 GR	23,90€
Lidl	2,99€	250 Gr	11,96€
MiniPreço	1,99€	250 Gr	7,96€

Exhibit 15; Source: Sonae MC Database, 2014

inside Continte –over 144.000 euros in sales - with the main competitors, who have a

similar product in its own brand, we are able to project what should be the selling retail price for Contimente Private Label. Following the pricing strategy that Contimente has in these situations, when Pingo Doce does not have a product, the Private Label product should be 30% below the price of the top selling branded product, provided that it does not stay under its competitors. Meaning in this case that the retail price for this new product should be around 4.19€, however, giving the tendency in the pricing strategy the price would be 3.99€ for a 250Gr boxed chocolate.

6.2 Chewing Gums subcategory

6.2.1 Market Position

Following a similar structure that was used for the development of the Chocolate subcategory, it is possible to see in Exhibit 16 that in overall terms the Chewing gums category in Contimente has a bigger influence in the Confectionery sales than in the overall market, with more almost 1% for the category sales.

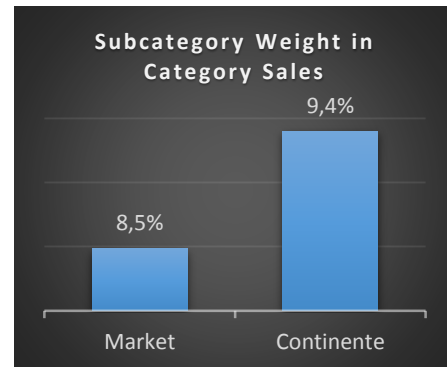


Exhibit 16; Source: Nielsen- Market Track, 2014

However, by looking exclusively at the dominance of Private Label, it is clear that Contimente own brand has less preponderance than the market, with less 7pp of weight in sales. (Exhibit 17).

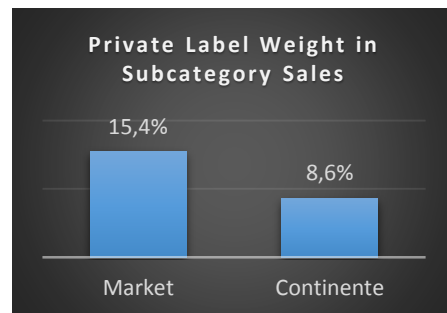


Exhibit 17; Source: Nielsen- Market Track, 2014

With that in mind, the behavior in what market share concerns is understandable. In Appendix F, it is possible to see that Contimente position itself as the market leader in overall terms, with 31% of share. Although, regarding Private Label share the situation is different, with “Retailer C” and “A” as market leaders, with 36% and 30% of share respectively, positioning Contimente 13pp and 19pp below its competitors, with only 17% of market share.

6.2.2 Base Units performance

By segregating the Subcategory between base units, it is clear that this market is heading to a single tendency – Sugar Free gums. These base units – both in packs and in impulse (added in this subcategory for the launching decision purpose) – account for almost 100% of the sales within the subcategory, meaning that every decision to launch new products should be done taking into account this consumption tendency. Regarding the sales evolution, when compared to 2013, it is noticeable that they are decreasing. In exhibit 18, it is possible to see that Contimente Private Label is only performing in one of the five base units, this low influence of the Private Label reveals itself as a serious concern, but also as a strong opportunity for improvement. At this point, Contimente does not have any presence in the main base unit, which contributed with almost 5 million in sales in 2014. Thus the launching decision should focus firstly in changing the strategy and starting to introduce products at the selling point in order to increase sales and exploit the potential profits that could emerge from this decision. And secondly, to introduce new products that would allow to compete strongly with the other insignias.

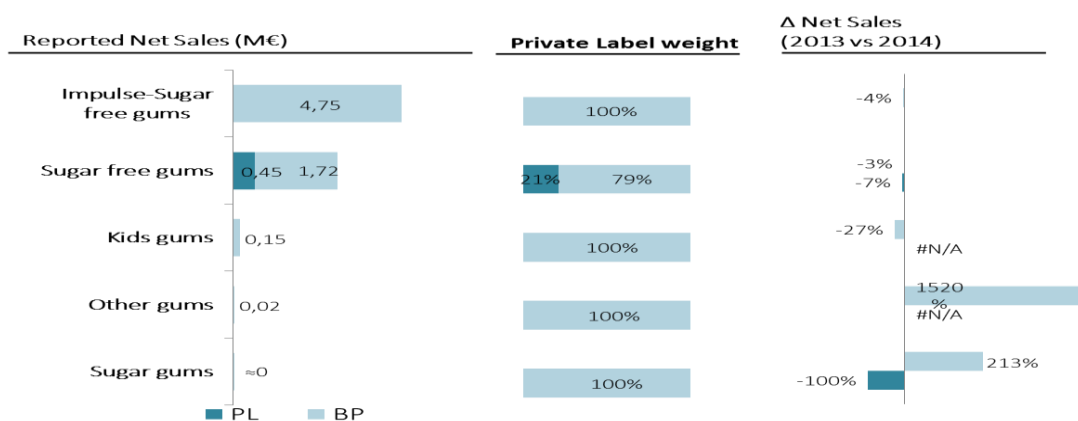


Exhibit 18; Source: Sonae MC DataBase, 2014

6.2.3 Development Opportunities

In this subcategory, the approach towards development opportunities is slightly different from the one used in Chocolates subcategory. Here, the differentiation factor is not about flavor, since all the insignias and brands typically have the same flavors, but more about the typology of Chewing gums and where to sell them. Like we have seen above, the first order of business should be to introduce Private Label chewing gums at the selling point – impulse sells – like all the main competitors currently do. Secondly, it should be to understand what kind of Chewing gums are our competitors selling and we are not, and hence point out a development opportunity.

At this point, Continate range of chewing gums is only composed with the standard boxed chewing gums, however, if we look into the competition and into branded products, we can see that both of them are diverting their range of products. Taking that into account, it is perceivable that there are two kinds of chewing gums that should be developed: sugar free mini sticks chewing gums and sugar free boxed chewing gums with filling (liquid center).

For the first kind of chewing gums, Continate's quality target should be the "Brand A", which contributed with a total of 1.6 million euros in sales in 2014 (Sonae MC Data base), taking into consideration the whole range of flavors and sizes. However, for the purpose of this report the initial development should focus on replicate the three top flavors – watermelon, spearmint and tropical – which account for 936.800 in sales (Sonae Mc Data base).

In exhibit 19, was developed a comparison between “Brand A” and Lidl, which is the main competitors having this product as a

Brand	Sales Price	Size	Price-Kilo
“Brand A”	1,29€	27 GR	47,78€
Lidl	1,49€	52 Gr	28,66€

Exhibit 19; Source: Sonae MC DataBase, 2014

Private label in its shelves, and which will allows to position Continte’s new product in the market in what price and size concerns.

By looking into the sizes and price per Kilo, it is understandable that Continte could not apply the retail price and size that Lidl has. Hence it would stay above “Brand A” which, even though the price per kilo is inferior, would discourage the consumer purchase. For that reason, the strategy should be to position this new product at the price per kilo of Lidl , but with a size 35% above the Branded Product, based on historical data. Concluding, this new range of chewing gums should have a retail price around 0.79€ and a size of 37 grams.

Regarding the sugar free boxed chewing gums with filling (liquid center), the target should be,also, “Brand A”, which accounts for more than 280.000 euros in sales. In an early stage the idea should be to replicate the two top selling flavors: strawberry and mint. In comparison terms, Continte’s main competitor, Pingo Doce, has this product as a Private Label one bearing also this two proposed flavors in it shelf.

In terms of pricing and size strategy, this product should have the same position that Pingo Doce has, meaning that should be a 22 grams box with a retail price of 0.63€.

Brand	Sales Price	Size	Price-Kilo
“Brand B”	0,68€	13 GR	52,31€
Pingo Doce	0,63€	22 Gr	28,64€

Exhibit 20; Source: Sonae MC DataBase, 2014

(Exhibit 20).

In conclusion, Continte should develop two types of free sugar gums, mini sticks chewing gums and boxed chewing gums with filling (liquid center), not only because they are top sellers branded products in this subcategory inside Continte, but also because the competition already has it on its shelf space.

6.3 Sweets subcategory

6.3.1 Market Position

Regarding the behavior of this subcategory in the confectionery market, it is possible to see that it has a bigger impact on the overall market than it has within Continente, although only by 0.4pp of difference. (Exhibit 21)

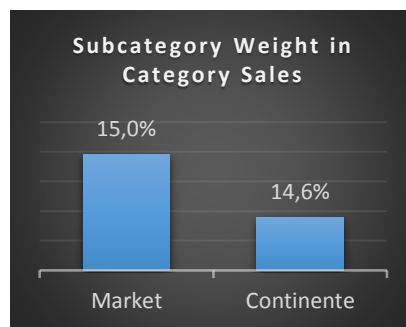


Exhibit 21; Source: Nielsen- Market Track, 2014

Taking into account only the weight of Private label within the subcategory sales, it is noticeable that it has more influence than in the other two subcategories, with a market average of almost 40%, and nearly 30% inside Continente, which leads to two conclusions. First, it is a subcategory where the Private Label products are capable of selling at a similar level as

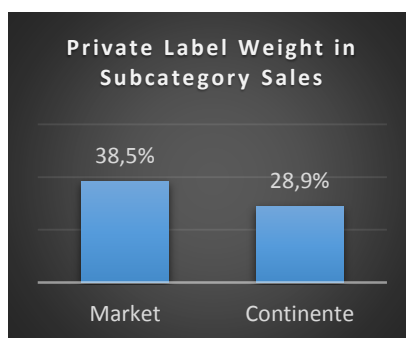


Exhibit 22; Source: Nielsen- Market Track, 2014

Branded Products. Second, taking that into account there is space for Continente to put even more effort in this Subcategory to grow its Private Label, since it still is almost 10pp behind the overall market. (Exhibit 22).

By looking into the market share composition of the market, we can see that Continente owns the biggest share of the overall market, 2pp ahead of “Retailer A”. However, it is not the case regarding Private Label only, and, in addition, “Retailer C” assumes the leadership of the market. However, this change in the leadership is not surprising since this retailer puts almost all its efforts in this subcategory in the Private Label, meaning that the presence of Branded Products in its shelf is significantly inferior to the one presented by the other retailers. (Appendix G)

6.3.2 Base Units performance

With the usage of Exhibit 23, it is possible to see that sugar gums, refreshing sweets and fruit caramels are the base units with more impact on the subcategory sales. However, it is also understandable that the sales are well distributed between base unites, meaning that there is not a clear preponderance of one typology of products over the others. By looking into the variation in terms of sales, it is clear that there is a negative path in what Private Label concerns, since all the base units, except for sugar free, have reduced its sales when compared to the previous year. Regarding the percentage of Private Label in sales, this exhibit shows that the average is nearly 35%, having its higher expression in sugar gums with 56% and lower in Lollipops with 15%. Taking that into account, the focus for the development of new products should follow one of two possible paths. Increase the line of products in the most significant base units, where Private Label has already meaningful sales, or, analyze the base units where the Private is weaker and develop products that will increase sales and differentiate from competitors. For the purpose of this work, although the two alternatives are acceptable and in both scenarios there is room for improvement, the focus will be on the second option.

This means that the idea should be to introduce a product that will allow to differentiate Continte and empower the presence in a weaker base unit. In this case, the proposed product will be a caramel, not only because the Private Label only accounts for 18.4% of sales, but also because it has a greater value than Lollipops.

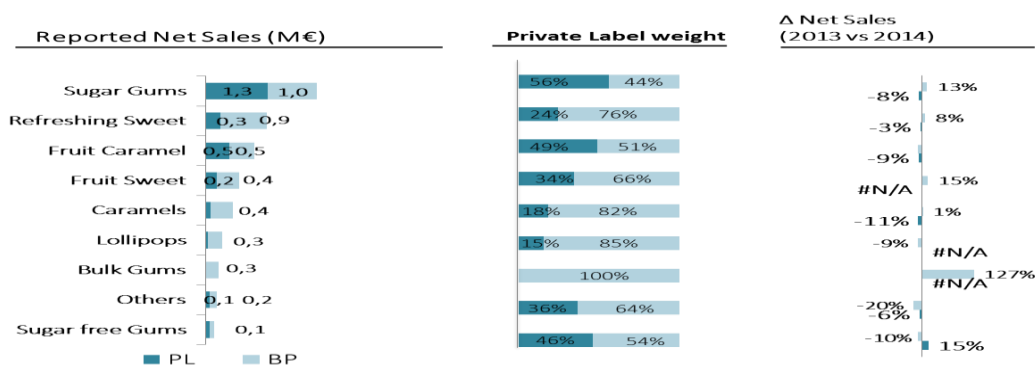


Exhibit 23; Source: Sonae MC DataBase, 2014

6.3.3 Development Opportunities

Although other development opportunities could be pointed out, the focus will be, as stated above, on the caramels base unit. And for that, the starting point should be to understand where Contimente Private Label is performing. The following exhibit shows a comparison by flavor (y-axis) and brand (x-axis) in terms of sales and number of SKU's inside Contimente. With this evidence is possible to see that Contimente is present in the top selling variety, which is the cream-milk caramel. However, an opportunity for

development arises in the second most sold variety – coffee caramel– which accounts for more than 20% of the sales inside the base unit.

Having established that, develop a Private Label

coffee caramel, the idea is, like was done before, to determine the target product to follow. In this case, it is clear that the top selling product of this variety is the coffee-caramel sold by “Brand B”, which accounted for more than 95.000 euros in sales in 2014, thus the standards of quality and image should be as close as possible to this product. This caramel is classified as a sugar-free coffee caramel that is sold in 90 grams packs at a retail price of 2.19 euros. (Exhibit 24)

In order to determine the Private Label positioning in terms of price and quantity, it is essential to understand how our competitors are positioned, in this case the only retailer that offers a similar product in it shelf is Jumbo, and hence providing the chance to Contimente differentiate itself from the other retailers.

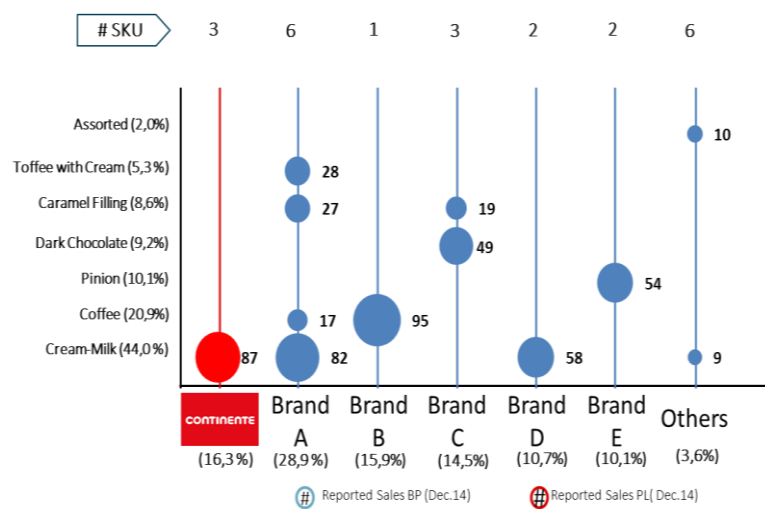


Exhibit 24; Source: Sonae MC DataBase, 2014

By analyzing exhibit 25, where was developed a comparison between the target and Jumbo, it is understandable that in this situation the position in

Brand	Sales Price	Size	Price-Kilo
"Brand B"	2,19€	90 GR	24,33€
Jumbo	1,39€	400 Gr	3,48€

Exhibit 25; Source: Sonae MC DataBase, 2014

terms of price and size between Branded Products and Private Label is completely different. The focus of own brands is to provide a larger product at a more affordable price, in fact this situation is also common in other sweets. For that reason, the release of this new product should be in accordance with the pricing strategy and size that Continente uses in this typology of products, and not in accordance with the strategy used by competitors.

At this moment, Continente has three main products in this typology sold as a first price brand –“É” Continente – which are fruit-sweet, spearmint-sweet and fruit caramel. The three of them are sold at 500 grams packages at a retail price of 1.99€. For that reason, the new coffee-caramel should keep this track and be developed with this size and retail price.

Conclusions and Recommendations

The aim of this study is to identify potential development opportunities of the Private Label category in Sonae MC, which can be accomplished by using separate parameters. These parameters encompass the sales, the Private Label strength in each subcategory, competitors' position in the market, market behavior and the cost structure of the new products, among others. For the purpose of this project the cost structure was not taken into account, since it would require a strict analysis, which is not the objective of this report.

In this analysis, five different products were identified in order to increase the Private Label sales in the Confectionery category. These include: hazelnut tablet, white and milk seashell boxed chocolate, sugar free mini sticks and sugar free boxed chewing gums with filling, and ultimately, a coffee caramel.

Estimating the impact of these products is significant because it will allow to have a deeper insight regarding the expected outcome that such products may have in sales. The methodology applied to do so was the current methodology that Sonae MC uses. It assumes that the sales in the first year are defined by applying the Private Label weight in the subcategory sales and it multiplies the value obtained by the sales of the target Branded Product. According to this analysis, these products are expected to generate an outcome of over 360.000 euros in sales, as follows:

Development Opportunity	Target Reported Sales (2014)	PL Weight Subcategory	Projected PL Sales
Hazel Nut Tablet	256.000	23%	58.880
Seashell Boxed Chocolate	144.000	23%	33.120
Mini Stick Chewing gum	936.800	19%	177.992
Filling Chewing gum	280.000	19%	53.200
Coffee Caramel	95.000	42%	39.900

Exhibit 26; Source: Sonae MC DataBase

Nevertheless, this methodology does not entirely reflect the reality and it holds some important flaws. The first one is that, although we are projecting the expected sales in

new products, we are not taking into account the impact of cannibalism towards Branded products neither other Private Label products. Meaning that, even though a new product may be a success in terms of sales, it is also important to understand what would be the impact in other products that are currently in the shelves. Secondly, in some cases, this methodology may be seen as a limited perspective of the actual expected sales. This circumstance occurs, for instance, in the new hazel nut tablet. By the presented model, we are projecting sales of under 60.000 euros for the first year. However, if we analyze the result of current tablets that Sonae MC sells, we can see that each of them accounts for an average of 280.000 euros (Source: Sonae Internal Data, 2014). Thus, assuming that this new tablet will only sell 60.000 euros is probably under the actual value.

In conclusion, with the presented study we were able to identify potential strong development opportunities in the confectionery segment, which are expected to have a positive impact in the Private Label performance. However, it is crucial to understand the cost structure and determine the profitability of such products before having a final decision. As an additional note, would be significant for Sonae MC to develop a proper projection model that will allow to have a more trustworthy image of how these products will impact the sales. This model should take into account historical data and previous launches that occurred to determine, if possible, a clearer tendency.

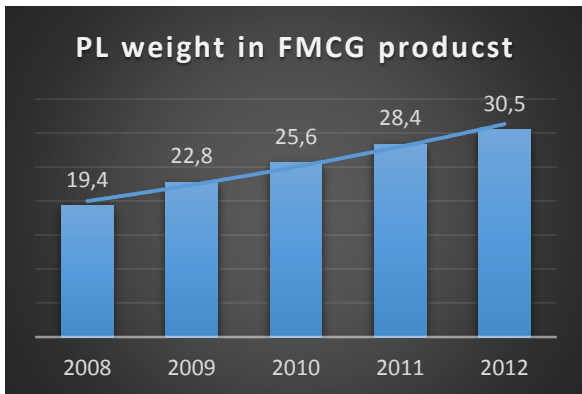
If Sonae MC decides to introduce one of these new products, the process will unwind as follows: it will be developed a procurement process, which will allow to identify who are the suppliers that would be able to develop such product. Then, for the chosen suppliers it will be asked to provide samples that will enable to develop a quality test, to determine if those products have the required quality. If so, it would be asked for the supplier to provide a price offer. Ultimately, the category manager, will decide which supplier provides the best price/quality ratio.

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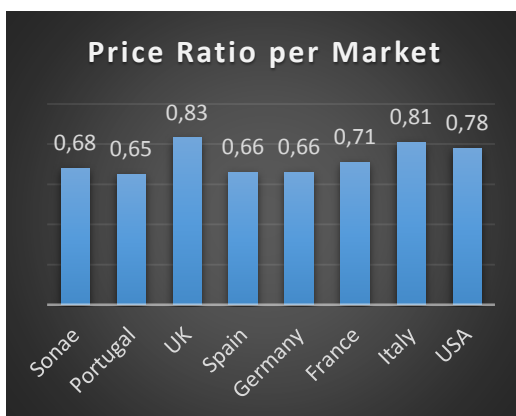
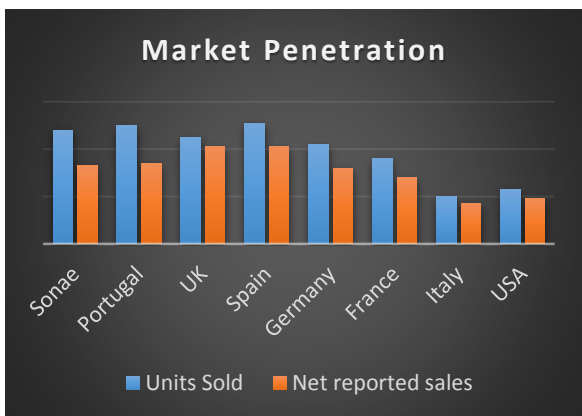
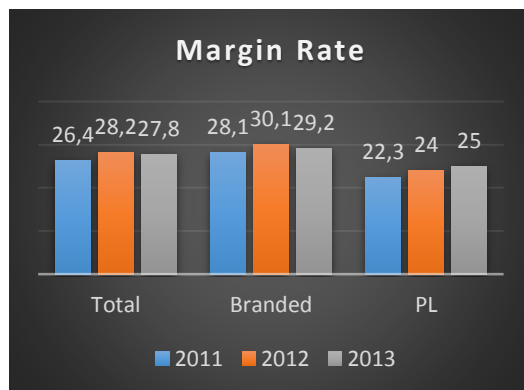
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Appendix

Appendix A; Source: Sonae MC, DCA department.

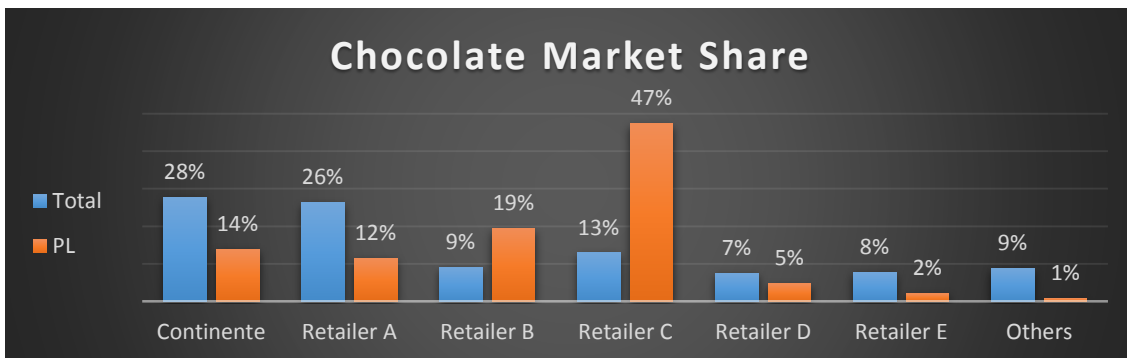


Appendix B; Source: Sonae MC, DCA department.

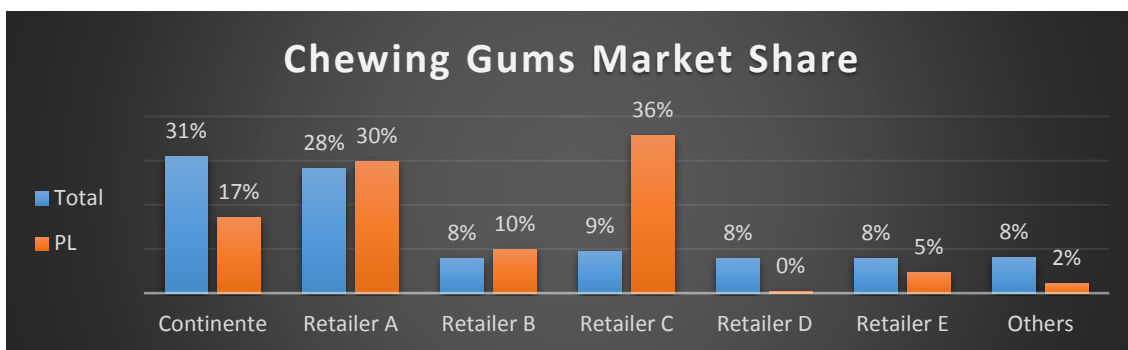


Appendix C; Source: Sonae MC, DCA department, International private label year book

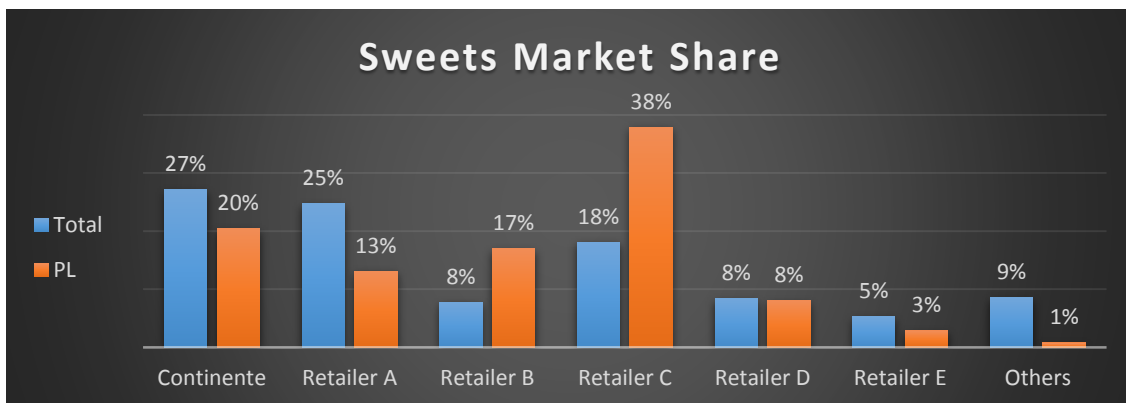
Appendix D; Source: Sonae MC, DCA department, International private label year book



Appendix E; Source: Nielsen – HomeScan, 2014



Appendix F; Source: Nielsen – HomeScan, 2014



Appendix G; Source: Nielsen – HomeScan, 2014