Private label penetration in China is lagging. However, we’ve recently seen upward momentum in China’s food & beverage private label market, led by major convenience retailers FamilyMart and 7-Eleven. Combined with the ever-rising popularity of imported products, this could mean hard times ahead for branded food manufacturers in China, but it also creates opportunities for convenience stores and private label manufacturers.

Despite continuous efforts by large retailers to introduce private label products, private label penetration in China remains at 1% to 3%, depending on the category. This is much lower than the world average and even falls below that of adjacent East Asian economies (see Figure 1). However, there is a large demand for new and premium products, which is not being met. As large manufacturers and retailers are slow to innovate and small players find it costly to launch new products, opportunities arise for convenience stores to tackle this space through premium private label.

Figure 1: Packaged Food in Developed Markets—Private Label Value Share 2015 and Value Growth, 2010-2015

Source: Euromonitor, 2016
1. Private label can help convenience retail stand out from the crowd and improve margins

Private label is an important differentiator for convenience stores. Unlike the often-seen copycat private label products, private label foods & beverages in convenience stores are premium and innovation-driven products. In FamilyMart’s Shanghai stores, private label snack brands feature novel and premium ingredients, along with attractive packaging. Products are also rotated frequently to keep the offerings novel and seasonal, ensuring customers stay engaged and loyal.

In addition, private label products can significantly improve retailer margins, as they are often sold at a 13% to 18% premium compared to mainstream brands.

2. PL provides a key piece of branding strategy

Private label foods & beverages receive strong marketing and merchandising support from convenience retailers. Often, one whole shelf is dedicated to private label snack brands, featuring over 40 stock-keeping units (SKUs). In the limited shelf space that convenience stores have, this can add up to as many as half of all packaged food offerings. With private label’s growing territory and competition from premium imported products, mainstream branded manufacturers may find the battle over shelf space heating up in China’s convenience stores. Only the best survive.

3. The convenience channel is expanding rapidly—and so will premium private label

In 2015, the convenience channel grew 9.1% in value sales YOY, exceeding the average growth rate of modern trade at 5.6%. Its expansion is especially prominent in southern China’s first- and second-tier cities, which are densely populated and full of middle-class consumers expecting to be surprised.

Among the major convenience retailers in mainland China, FamilyMart and 7-Eleven are entering the private label space with full force. Headquartered in Taiwan, both companies have strong emphasis on private label in recent years. First launched in 2013, FamilyMart’s private label line in Taiwan is expected to grow by 18% in 2016, reaching USD 900m in annual sales. 7-Eleven has redefined its private label strategy, which now focuses on premium snacks and beverages.

With the expansion of convenience stores, penetration for private label foods & beverages is expected to increase. While mainstream branded manufacturers may face volume pressure, private label manufacturers should seize the opportunity to grow.