PL Developments Heats Up Private Label Market With Aaron Deal

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Executive Summary

Acquiring liquid product manufacturer Aaron Industries expands solid-dose firm PL Developments' presence in the field at a time when competition for OTC market share already is fierce. "We think this is a game changing transaction for us and the industry," says PL Developments exec Evan Singer.

Solid-dose product manufacturer **PL Developments** improves its outlook for gaining OTC private label market share with its acquisition of liquid and first aid product firm **Aaron Industries**.

"We've been looking for a while to transform our portfolio and this was our opportunity," said Evan Singer, executive VP of Westbury, N.Y.-based PL Developments.

PL Developments acknowledges building private label market share means targeting **Perrigo Co.**

"Now, other than Perrigo, we are the only manufacturer of store brands with a full line of OTC solid and liquid products," Singer said, adding, "We think this is a game-changing transaction for us and the industry."

Both PL Developments and Aaron are private, so the terms of the Nov. 18 deal were not disclosed. Singer says both businesses have been growing substantially. Each already serves most of the largest U.S. retailers, including Wal-Mart Stores Inc. Sam's Club, Costco, Walgreen Co., CVS Caremark Corp., Target and Dollar General.

PL Developments had a compound annual growth rate of 22.5% from 2010 to 2012, and Clinton, S.C.-based Aaron's most recent CAGR is 15%, according to PL Developments.

This creates lots of new opportunities for" PL Developments, says market researcher Laura Mahecha of Kline & Co. “Most children’s products, for example, are liquids, so that alone is a big new market for them.”

Post-merger, the firm is expected to generate $400 million in sales supplying products in categories that exceed $1 billion in sales. Still, the company will be dwarfed by Perrigo, which had more than $3.5 billion in sales in its previous fiscal year.

However, PL Developments does not plan to stop at expanding with Aaron’s capabilities.

“There are still lots of aisles in the store where we don’t have product. I don’t know where the next big opportunity comes, but we are evaluating the alternatives,” Singer said.

OTC switches could be one area of opportunity for PL Developments, as they are for Perrigo.

“Switches are seen as a crucial lever to control health costs. That will positively impact our long term growth strategy,” Singer said.

FDA’s NSURE initiative is “expected to increase the number of switches,” Mahecha said. “And there are some very attractive potential switches ahead.”

NSURE, the Nonprescription Drug Safe Use Regulatory Expansion, outlines a more flexible paradigm to encourage more switches. Although the initiative has not generated proposed changes from FDA, the agency is encouraging drug firms to make innovative switch proposals under current regulations ("FDA Encourages Novel Switch Ideas, Though NSURE Remains Unsure" — *"The Tan Sheet,"* Nov. 7, 2013).

OTC Sales Flat, Private Label Grows

While acquiring Aaron will expand PL Developments’ business, the deal will not make current competition for market share in the OTC drug space any less daunting, particularly with market data showing U.S. manufacturers’ sales were flat in 2012.

Kline reports that U.S. manufacturers’ sales of OTC products in 2012 were $22.5 billion, up only 0.1% from the previous year. Manufacturers’ sales of private label OTCs account for 26.4% of the total market, or $6 billion in 2012, up 3.9% from 2011.

The private label sector grew substantially during the recession, and consumers who moved to private label products for the first time largely have stuck with them.

During the Private Label Manufacturers Association trade show Nov. 17-19 in Chicago, Neilsen executive Todd Hale presented data showing that medications and remedies are among the top five categories of private brands to show increases during a 12-month period ending in August 2013.

Susan Viamari, editor of market research firm IRI's Times & Trends monthly report, said private label comprised 14.4% of all consumer packaged sales in 2011. "We have found that there are pockets of growth and some areas where brands are winning market share," she said in an interview.

Private label firms now are competing both at the value and premium ends of the price spectrum. "Companies are winning share by innovation," Viamari said. "After all, even at the premium end it's still cheaper than the brand offerings."

Even with private label firms encroaching in the premium realm, OTC brand firms remain particularly watchful on the value end. Matthew Mannelly, CEO of **Prestige Brands Holdings Inc.**, said recently that the firm expects to retain market share with its products, which include *BC* and *Goody's* in pain relief, *Little Remedies* children's products, *Clear Eyes* eye drops and *Chloraseptic* throat remedies.

"The last thing you want to do is get to a price as low as private label. Your job is to provide something to the consumer, functional and/or emotional, that private label cannot provide," Mannelly said at the Morgan Stanley Global Consumer & Retail Conference in New York.