

WHITE PAPER

CLINICAL NUTRITION-DRIVEN PRIVATE LABEL CONVERSION

The Retail Profitability Case for Clinically Guided Own-Brand Switching

Executive Summary

Food retailers operate in one of the most competitive and structurally margin-constrained industries in the economy. Public financial information from grocers such as Kroger and Albertsons shows that merchandise-level gross margins can appear materially higher than the operating or net profit ultimately retained after operating costs. Kroger reported Q1 2026 gross margin of 22.7%, while operating profit was approximately 3.1% of sales and net earnings were approximately 2.0% of sales. Albertsons financial data likewise shows a large gap between gross profit and realized operating or net income. [1][2]

At the same time, major retailers, wholesalers, and distributors are expanding private-label and own-brand platforms. Public remarks and materials from Kroger, Albertsons, Costco, UNFI, and others consistently describe own brands as sources of margin enhancement, margin accretion, value, differentiation, pricing control, or increased margin dollars. A federal court record in the Kroger-Albertsons matter also states that private-label brands offer lower-cost alternatives, require less marketing, and capture higher profit margin. [4][6][8][9][11]

Conclusion

The evidence supports a publishable thesis: private label is not merely a lower-price alternative to national brands. It is a strategic profit-control asset in an industry where gross margin is substantially absorbed by labor, occupancy, logistics, shrink, distribution costs, trade spend, promotional funding, deductions, spoilage, and other operating expenses. Clinical nutrition intelligence introduces a new switching mechanism by allowing retailers to guide consumers toward owned-brand products when they are clinically preferable or clinically equivalent to national-brand alternatives.

The immediate opportunity is to use evidence-based clinical guidance to increase owned-brand conversion while preserving shopper trust. Future confidential retailer contribution-margin data can strengthen the quantitative case, but the public evidence already supports the core strategic conclusion that own-brand growth, when paired with trusted nutrition preference, can become a powerful retailer profitability and consumer-value engine.

Chapter 1: The Real Grocery Margin Problem

The grocery margin discussion is frequently distorted because gross margin, operating margin, contribution margin, and net margin are treated as if they are interchangeable. They are not. Gross margin captures the difference between sales and merchandise or product costs under the company's reporting methodology. Operating margin deducts operating expenses. Net margin deducts additional costs such as interest, taxes, and other items.

This distinction is central to board-level and CEO-level discussions. Grocery executives who describe the business as a low-single-digit margin business are generally speaking about operating or net economics, not simple shelf gross margin. Public company data supports that distinction. [1][2][3]

Margin Concept	Meaning	Why It Matters
Gross margin	Revenue after merchandise or product costs under company reporting methodology.	Often appears in the 20% range for large grocers but is not retained profit.
Operating margin	Profit after operating costs such as labor, store operations, logistics, occupancy, and corporate expense.	More closely reflects CEO-level operating reality.
Net margin	Profit after interest, taxes, non-operating items, and other deductions.	Often low-single-digit or lower in grocery.
Contribution margin	Product or channel economics after directly attributable costs.	Usually confidential at SKU/category/banner level and not publicly disclosed.

Chapter 2: Public Company Evidence of Gross-to-Net Compression

Kroger provides a clear example of the difference between gross margin and realized profit. In Q1 2026, Kroger reported gross margin of 22.7% of sales. The same reporting showed operating profit of \$1.407 billion on sales of \$46.121 billion, approximately 3.1% of sales, and net earnings attributable to Kroger of \$903 million, approximately 2.0% of sales. [1]

Albertsons provides a second example. Public financial data lists revenue of \$83.1725 billion, gross profit of \$22.6067 billion, operating income of \$715.4 million, and net income of \$217.4 million for the fiscal period reflected in the available financial table. Those figures produce gross economics in the high 20% range but operating and net economics below 1% in that period. [2]

Independent grocer testimony provides a third layer of evidence. Michael Needler, CEO of Fresh Encounter, testified before the U.S. Senate that independent grocers operate with a median net profit margin of about 0.7%, citing the 2020 Independent Grocers Financial Survey. [3]

Company / Source	Gross Margin Evidence	Operating / Net Evidence	Interpretation
Kroger	Q1 2026 gross margin: 22.7%.	Q1 2026 operating profit about 3.1% of sales; net earnings about 2.0% of sales.	Gross margin is materially higher than retained profit. [1]

Albertsons	Gross profit of \$22.6067B on revenue of \$83.1725B.	Operating income \$715.4M; net income \$217.4M.	Public financials show major compression from gross profit to realized earnings. [2]
Independent grocers	Not the focus of testimony.	Median net profit margin of about 0.7%.	Supports low-margin operator reality. [3]

Chapter 3: Private Label as a Margin-Enhancing Asset

Retailers and wholesalers increasingly describe own brands not merely as value products but as strategic economic assets. Kroger management has described Our Brands products as priced well below national brands at equal or greater quality and as a margin enhancement mechanism because of the price spread with national brands. [4]

Kroger's 2024 gross margin improvement was reported by Store Brands as primarily attributable to the sale of Kroger Specialty Pharmacy, Our Brands performance, and lower shrink, partially offset by lower pharmacy margins. [5]

Albertsons CEO Susan Morris publicly connected own brands to margin accretion through improved mix and merchandising, and Albertsons has discussed growing private-label penetration from approximately 25% toward 30% over time. [6][7]

Costco's Kirkland Signature commentary provides supporting evidence from a membership-club model. Reported management commentary described Kirkland Signature as typically offering 15% to 20% value compared with national-brand alternatives, with equal or better quality. [8]

UNFI, which serves retailers rather than operating as a single national grocery banner, markets its Brands+ private-label portfolio to retailers as a way to grow sales and increase margin dollars. It describes the portfolio as spanning eight core brands and more than 5,000 SKUs. [9]

Source	Evidence	Strategic Relevance
Kroger	Our Brands described as priced below national brands, equal or greater quality, and a margin enhancement mechanism. [4]	Direct retailer management support for own-brand margin advantage.
Albertsons	Own brands described as contributing to margin accretion through improved mix and merchandising. [6]	Direct retailer management support for own-brand profitability.
Costco	Kirkland described as offering 15% to 20% value versus national-brand alternatives with equal or better quality. [8]	Supports controlled-value positioning.
UNFI	Brands+ marketed to retailers to grow sales	Shows the thesis extends

	and increase margin dollars. [9]	beyond mega-banners into wholesaler-supported retail.
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Chapter 4: Federal Court Evidence

The federal court opinion in the FTC challenge to the Kroger-Albertsons merger provides litigation-grade support. The court described Kroger and Albertsons as offering national brands and exclusive in-house private-label or own brands. It further stated that private-label brands offer a lower-cost alternative to national brands, require less marketing, and capture a higher profit margin. [11]

The same opinion discussed the role of private label, manufacturing facilities, data, technology, and related divestiture assets in the competitive infrastructure of grocery retail. The opinion addressed Kroger and Albertsons private-label manufacturing capacities and identified private-label brands within the divestiture package. [11]

This court record is important because it is not a marketing document. It summarizes evidence and testimony in a federal antitrust proceeding involving two of the largest grocers in the United States. [11]

Chapter 5: UNFI, KeHE, and Distributor Economics

UNFI is a critical piece of the evidence stack because it occupies the wholesale layer between brands and retailers. UNFI's 2025 Form 10-K states that it is a leading distributor of grocery and non-food products and support services, serving over 30,000 customer locations and offering approximately 230,000 products consisting of national, regional, and private-label brands. [10]

UNFI's private-label Brands+ materials explicitly tell retailers to grow sales and increase margin dollars with its exclusive portfolio. This provides non-banner evidence that private-label margin enhancement is embedded in the wholesale infrastructure serving independent and regional retailers. [9]

KeHE's supplier practices add direct evidence of the cost and risk transfers that can compress national-brand economics. KeHE supplier materials address setup fees, introductory allowances, free fills, slotting programs, payment terms, marketing and promotions, retail marketplace expenses, and unsaleable products. [12]

SPS Commerce and Confido provide additional detail on KeHE-related deductions and supplier economics, including categories such as KeHE fees, unsaleables, invoice adjustments, promotional processing fees, manufacturer chargebacks, extra performance promotions, retailer deductions, and retailer-originated placement or slotting charges. [13][14]

Eightx models the broader retail-distribution economics and states that retailers may take roughly 25% to 30% of shelf price, distributors such as UNFI run around low-teens gross margin, and trade spend may consume 15% to 25% of gross wholesale revenue. Eightx

presents this as an illustrative model and identifies UNFI's reported gross profit rate as part of the basis for the distributor layer. [15]

Economic Layer	Evidence Found	Effect on Brand / Retailer Economics
Distributor margin	UNFI/Eightx evidence points to a low-teens distributor gross margin layer. [15]	Separates brand invoice economics from shelf economics.
Trade spend	Eightx describes trade spend as 15% to 25% of gross wholesale revenue. [15]	Reduces national-brand net revenue.
Free fills and slotting	KeHE materials describe free fills and retailer slotting programs. [12]	Transfers shelf-access costs to suppliers.
Deductions and unsaleables	SPS Commerce describes fees, unsaleables, invoice adjustments, retailer deductions, and chargebacks. [13]	Creates cash and margin leakage for suppliers.
Introductory allowances	Confido reports KeHE launch economics including introductory allowances and ongoing costs. [14]	Reduces initial margin and increases launch risk.

Chapter 6: Independent Grocer and Buyer-Power Evidence

Michael Needler's Senate testimony is useful because it reflects real-world independent grocer experience rather than a consultant abstraction. He testified that independent grocers operate with a median net profit margin of approximately 0.7%. He also described margin pressure, acquisition-cost disadvantages, buyer power, discriminatory terms, packaging discrimination, less favorable payment terms, and reduced promotional allowances for independent grocers. [3]

His testimony connects the national-brand issue to retailer control. Large retailers can use buyer power to obtain more favorable terms from suppliers, while smaller operators face materially different acquisition and promotional economics. [3]

The strategic relevance is that owned brands can reduce dependence on national-brand bargaining structures. When retailers control contract manufacturing, specifications, pricing, and merchandising, they gain more direct control over the economics of the product portfolio. This sentence is a strategic implication drawn from the cited public facts and is not a separate disclosed metric. [3][10][11]

Chapter 7: The Clinical Nutrition Switch

Traditional private-label conversion is usually driven by price, value, promotion, availability, or retailer trust. Clinical nutrition intelligence adds another basis for switching: product preference based on an individual shopper's health profile, dietary objectives, medical conditions, or nutrition goals.

The retailer-facing opportunity is to guide consumers toward owned-brand products when those products are clinically preferable or clinically equivalent to national-brand products. The cited evidence establishes the profit-control and margin-enhancement logic of own brands; the clinical switching mechanism is the strategic application proposed in this white paper.

[4][6][9][11]

Traditional Conversion Lever	Clinical Conversion Lever	Retailer Opportunity
Lower price	Clinically preferable alternative	Own brand can be positioned as both better value and better fit.
Promotion	Personalized nutrition recommendation	Reduces reliance on discount-only switching.
Shelf placement	Health-guided decision support	Moves switching from visual discovery to guided selection.
Retailer trust	Evidence-based preference logic	Strengthens the credibility of own-brand substitution.

Chapter 8: Retailer Value Creation Model

The value creation model has two components. The first is the proven retailer-owned-brand model: lower consumer price, higher retailer control, reduced national-brand dependence, stronger differentiation, and improved margin dollars. The second is the clinical nutrition overlay: personalized consumer trust, health-relevant recommendations, and increased confidence in switching.

This model does not require claiming that every owned-brand SKU produces higher penny profit than every national-brand SKU. The better-supported claim is that retailers and wholesalers describe own brands as margin-enhancing, margin-accretive, margin-dollar-driving, and operationally controllable assets in an industry where realized net margins are thin. [4][6][9][11]

Value Lever	Public Evidence	Strategic Implication
Margin enhancement	Kroger described Our Brands as a margin enhancement mechanism. [4]	Clinically guided switching can emphasize higher-control products.
Margin accretion	Albertsons linked own brands to margin accretion through mix and merchandising. [6]	Private-label penetration growth can become a health-guided revenue strategy.
Margin dollars	UNFI Brands+ promises retailers the opportunity to increase margin dollars. [9]	The thesis extends to regional and independent grocers.
Higher profit	Federal court record states private-	Gives the private-label

margin	label brands capture higher profit margin. [11]	economics claim a litigation-grade anchor.
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Conclusion

Food retail is structurally margin constrained. Public grocer financials, independent grocer testimony, distribution evidence, supplier manuals, and federal court findings all point to the same conclusion: gross margin is not the same as realized retailer profit, and private label gives retailers a more controlled economic architecture.

The next frontier is not simply more private label. It is intelligent private-label conversion. A clinical nutrition recommendation engine can convert owned-brand products from lower-price alternatives into clinically preferred choices. That shift can preserve consumer trust, increase owned-brand penetration, and strengthen retailer economics at the point of decision.

This paper should go live now with the public evidence assembled here. A later V2 should add confidential retailer contribution-margin data, banner-level category economics, and pilot conversion results when available.

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