Store Brands And Economic Recession:
What Is Next?

Maria.Puelles [*], Carmen.Abril [**], Roberto.Manzano [***]
Facultad de Ciencias Económicas y Empresariales; Universidad Complutense;
[*] mpuelles@ccee.ucm.es [**] cabril@ccee.ucm.es [***] rmanzano@ccee.ucm.es

Abstract

This paper focuses on one of the most important current trends in Consumer Good products (CGP) markets that is the strong store brand performance under current economic crisis and the consumer reaction in different countries and categories. First of all, we review the literature about store brands in recession periods. Second, we gather recent data on consumer reaction to economic crisis worldwide as well as manufacturers reaction towards store brands growth in this context including original insights from consumer research. And third, we provide insights about the implications of these results for manufacturers and retailers.

We will start by giving an overview of store brands global performance. After, we will do a review of previous literature of store brands and recessions. We put it into perspective collecting data from some countries in terms of manufacturer brand share and store brand share evolution in last twenty years, highlighting dynamics in previous recessions. Third, we gather the most newly-updated information from key market intelligence suppliers like Nielsen, Taylor Nelson and IRI latest figures concerning store brands evolution in the crisis worldwide and some key consumer behavior indicators specifically collected with the purpose to better understand consumer behavior in this context . Fourth we analyze the competitive reaction of manufacturer brands to this store brands growth in terms of pricing gap and communication strategy.

Finally, as a result of the market information analysis and from the original insights from consumers, we provide insights on implications for manufacturer brands and store brands as well as highlight the challenges and opportunities that this situation represents for manufacturers and retailers.

Introduction

Accordingly to Nielsen global store brand share is forecasted to reach 22% by 2010. Store brands growth is a global phenomenon being Europe the most developed region with a 30% store brand share forecasted by 2010 (Nielsen 2008).

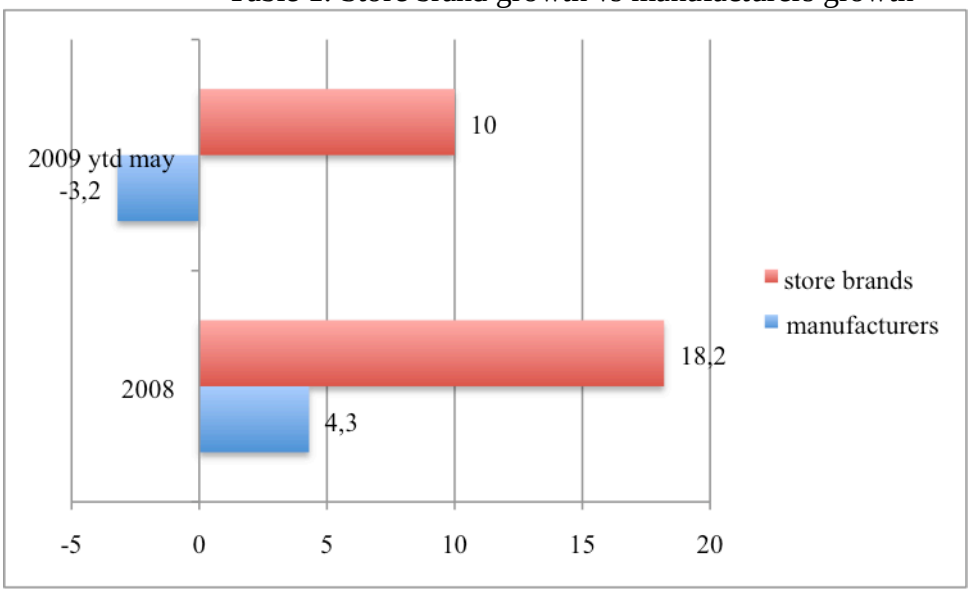
Store brands strength in Europe is very significant. There are countries like Switzerland with 54% store brand share or United Kingdom with 48% share. Rest of the countries are around 25% to 40% share ,with the exception of Italy and Greece around 18%.

Despite US market importance it is interesting to highlight that top 20 countries are european (Puelles & Puelles 2009). However, since 2003 the US private label market has expanded by almost 60% compared with around 23% for the US retail food and drinks industry as a whole. As a result, private label now accounts for over 19% of market value in the US.

In 2008, private label food sales grew in US by 9.3% versus 4.5% for manufacturer food product sales. Mintel reports that private label food sales are expected to grow another 8.1% in 2009 (Mintel 2009).

This trend is also confirmed in Europe. In Spain store brands growth has been doubling that of manufacturer's growth, widening even more the gap in the first semester of 2009 as it is showed below in table 1 (TNS, 2009).

Table 1. Store brand growth vs manufacturers growth



Source: Nielsen Scantrack june 2009

These results show a clear growth of store brand share , however there are some specific factors that have accelerated store brands growth in the last months, one of the most important being the economic recession.

Value for money is one of the main reasons for buying store brands. Store brands usually offer a price gap vs manufacturer brands around 30% (Nielsen 2008).

Lead retailers like Walmart and Mercadona among others, declare to have contributed significantly with their pricing policies to households savings and country productivity due to "everyday low prices" , store brands offer and discount pricing policies (PLMA 2009).

Obviously pricing and consumer savings are a good reason for store brand growth but there is evidence that consumer´s mindset is changing under current crisis. This re evaluation of consumer habits and repertoire is benefiting store brands as consumers are looking for more rationality and functionality in their purchases (Interbrand 2009).

Accordingly to Swissinfo (2009), retailers with broader store brand portfolio and better image will be those benefiting from the crisis.

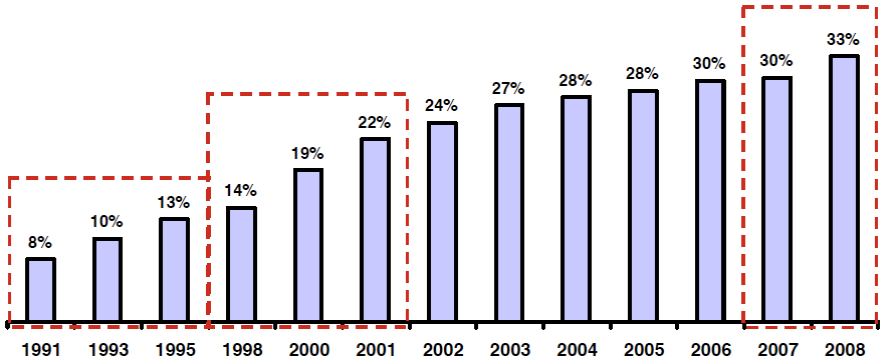
Store brands and recession

Concerning current economic crisis store brands have been very proactive. In fact, they have been the first ones on reducing prices and communicate to the consumer their decision to help them in current economic circumstances. Some of them have launched even more economic lines like "Carrefour Discount" and " Discount Brands " from Tesco.

In fact, some authors have linked the success of store brands to recession times. Lamey (2007) suggested that business cycles contribute to the growth of store brands. Lamey studied the aggregated market share evolution in some countries over multiple decades. Results seemed to lead to the conclusion that store brands behave countercyclical, however capturing and retaining after the recession some of the incremental growth achieved during the recession.

We can see this trend in graph 1 which represents store brand share in the last seventeen years in Spain. We can observe that the share growth under recession periods is asymmetric (Abril, Boehm 2009).

Graph 1. Store brands share evolution in Spain under recession periods



source: Nielsen Scantrack 2008, (Abril, Boehm 2009)

This trend is similar in other countries like US. Accordingly to Private Label Manufacturers Association, in the 2001-2003 recession, private label's unit market share in the US climbed from 20 percent to 21.8 percent.

Other data sourced by several market research companies confirm Lamey's results.

The Institute of Grocery Distribution declares that 27% of european consumers are changing habits under current crisis and forecast that 71% will carry on these new habits once the crisis will be over.

The crisis is leading consumers to rethink on their habits, thus including store brands in consumer´s repertoire that didn't include before store brands. In fact, accordingly to Nielsen data store brands increased 7 points of share in the first semester of 2009 accelerating previous growth trend (Worldpanel 2009).

"Store Brands and the recession" , a survey concerning US consumption trends done by PLMA and GfK US, shows that US consumers are changing their habits favouring store brands in order to better face economic crisis .

Three out four consumers say the recession is important to the way they shop and more than 30% say they are buying more private labels. Also frequent store brand shoppers have increased sharply. The study indicates that 91% of respondents will keep buying store brand products after the recession ends, while only 8% say they will stop buying these products once the economy turns around.

In addition, the study indicates private label shopping habits will outlast the current recession. It also reveals that as the recession continues, consumers continue hardening their private label buying habits. More than half of respondents (54%) say the recession is an important factor in their decision-making, and 32% say it is very important.

It is important to mention that 35% of respondents are trying store brand products in categories where they had previously only purchased manufacturer brand items, thus offering new opportunities to expand store brand consumption to other categories. However economic crisis is not the only reason for store brand growth. Store brands perception and penetration has significantly increased in last 10 years (Steenkamp 2007). Moreover, store brands have significantly sophisticated their brand portfolio leading many categories and developing significant innovation and imitation of lead brands. This has led the consumer to perceive store brands "as good in quality" as manufacturer brands in the majority of consumer minds accordingly to recent research in Europe performed by Bord Bia Periscope. (see table 2).

Table 2 Store Brands quality perception in Europe

“Store brands are as good quality as manufacturing brands	
	% Agreement
France	63
Switzerland	51
Spain	56
Germany	68
Netherlands	67

Source: Bord Bia Periscope 2008

This data is coherent with a recent study from GFk US and PLMA concerning store brands and the recession. Three out four shoppers now say private label are as good as national brands as can see in table 3.

Table 3 Store Brands quality perception in US

“Store brand quality improvement vs last year”		“Store brand quality is as good or better than manufacturer brands”	
They have improved	38%	Agreement	77%
They haven’t improved	7%	Disagreement	21%
They are the same	54%		

Source: PLMA 2009 “ Store Brands and the Recession in US”. 2009.

This perception of similar quality results is backed up with some “blind tests “ performed in some countries where consumer can hardly see any product difference between manufacturer and store brands (Mendez 2008).

It is important to highlight that while price is the most important reason to buy store brands , it is not the only one. In fact store brands have been in general quite active on adding value to their brands and increasing their portfolio range.

Lead store brands from Walmart, Tesco, Carrefour, Auchan among others are following a three tier approach offering value, regular and premium store brand lines (Tarnowsky 2008). Moreover, store brands are leading the offer on ecological products (Tesco “organic”, Carrefour “eco”) , Fair Trade, “Free From” and Kids special food . They are

also offering “deli” lines and regional products like “Productos de nuestra tierra” and “Reflets de France” from Carrefour as an example.

According to Bord Bia (2009) recent developments of store brands are around smart shoppers, “deli”, “health and wellness”, and “Life on the Go”, reflecting consumers new lifestyles and adapting their portfolio at the same speed than manufacturer brands.

Store brands have also improved their design and increase their mass advertising budget involving celebrities and reaching agreements to cobrand with lead brands like Disney and Carrefour.

It is interesting to notice that despite this improvement of store brand quality, manufacturers have widen the price gap towards store brands during last years in many countries (Abril, Boehm 2009) making store brand offer even more attractive.

Thus, all these factors together: store brand quality improvement, multiple price tier approach and price reaction under current crisis, have contributed to an above expectations growth of store brands in the last six to twelve months.

Manufacturers have reacted in several ways. Their first reaction has been to complain towards store brands growth arguing that “store brand low quality” (accordingly to manufacturers) allow store brands to reduce their price. Manufacturers have also decided to communicate this argument directly to consumers in recent advertising campaigns arguing that manufacturer brands have better quality control, better ingredients, and invest more in R&D (Expansion 2009).

They also accuse store brands for being guilty of manufacturers crisis and lay offs, supporting these claims with strong advertising campaigns and PR. Strong companies like Danon, Kellogg’s and Nabisco have dedicated significant advertising budget to this objective.

However as we said, most of consumers believe that store brands and manufacturer brands have similar quality. Main reason is the general belief that store brands are manufactured by the same companies that sell brands with the same ingredients 50% more expensive.

Consumers argue that the reason for the price difference is not the lower quality but lower store brand expenses in advertising and promotions. Manufacturers like Danon, Nabisco, Coca Cola, Nestle among others have reacted trying to counterattack this belief investing on strong advertising campaigns claiming they do not indeed manufacturer for store brands, trying to break this consumer perception.

The consumption of store brands is also sustained by a significant social trend concerning the meaning of “low price products” consumption to consumers. In one hand “smart shopping” trend has favored store brands (Ailawadi 2008). In the other hand “back to basic” and “reevaluation of brand offers” are emerging as strong trends due to economic crisis (IRI 2009).

One interesting reaction that has occurred in UK and Spain has been to start considering possible antitrust practices of store brands. Some European courts have already published some recommendations about this situation (Expansion 2009).

Discussion and managerial implications

Store brands have not yet reach maturity as their growth is forecasted to reach 527bn euro by 2012 (Just-Food Study ,2009). Growth is forecasted to happen in all product categories.We believe that all these circumstances could significantly alter retailers and manufacturers dynamics leading to some implications for both players.

Retailers have a great opportunity to strengthen now their relationship with consumers on trust and empathy as opposite as the current relationship more based in value for money and convenience.

For retailers this is an opportunity to position their brands in a distinctive and relevant way in order to create strong emotional bonds with consumers based on emotional attachments that many of them currently lack. The message sent by some retailers " we are here to help you in the difficult times" have the potential to strongly position some store brands with an advantage versus manufacturer brands in terms of preference.

Should retailers succeed in doing this, they could build a stronger trust in their brands that could led an expansion of consumers penetration in product categories where consumers don't traditionally trust store brands.

On the other hand, the tense relationship with manufacturers is leading to a dangerous situation for retailers. Discussion around antitrust practices like limiting competition, setting prices and exclusivity could lead to more aggressive European regulations that will limit their scope of activity and future growth.

Another challenge for retailers will be to balance their consumer proposition to avoid that the "price discount" will be the only attribute perceived by consumers in their positioning as this could make them vulnerable when the crisis will be over. In fact , some retailers are starting to build their store brand "heritage" like Walmart, or even looking for new distribution channels to expand their brand demand like Mark and Spencer in BP gas stations, or Top Value in Japan currently being sold in Aeon, Jusco or Daiei retailers.

Store brands are leading some product categories which will mean that they will have the responsibility of the category growth , thus demanding retailers for a more proactive market development , relying less on manufacturer imitations. This will pose an extraordinary challenge for retailer´s employee profile and company processes.

After many years of significant price increases above inflation now is time for manufacturers to redefine their value proposal for consumers.

Manufacturers will need to set prices not based on activity cost but on consumer value, thus redefining their processes and portfolio strategy. Some of them are starting to react including in their ranges "basic" products, more on line with current consumer demand. This is the case of Procter and Gamble "Ariel Basic" new detergent which has reduced its price vs standard Ariel by 20%.

Manufacturers need also to reflect about their so-called innovation strategy. If innovation is perceived as an effective way to stop store brands, it seems is not working. The reason for these is that new products in the market place are not really delivering relevant innovation. In many categories more than product innovation we have seen a high level of proliferation of new products with low consumer relevance. Current situation is a great opportunity for manufacturers to review their brand portfolio and redefine their offer accordingly to new consumers segments and demand. It will be an opportunity to re-evaluate the efficiency of their innovation strategies and react accordingly.

Another consequence of the fight between store brands and manufacturer brands has been the high social interest and debate that the growth of store brand has created.

Current manufacturers strategy of comparative advertising, especially functional comparisons, could be a double edge weapon for manufacturers that at the end of the day could become a boomerang against them.

Like in other stages of market development, "best practices" agreement between both agents should be needed to avoid a lose-lose situation.

In terms of geographical development, the crisis could favor store brands growth in Asia where consumers have been traditionally more reluctant to consume store brands.

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