Grocery shelf wars

Supermarket own-label products have prospered in the recession, but brands should stop focusing on price and promotion and fight back through innovation

By Rod Street, *SymphonyIRI Group*

Private label is still helping cash-strapped consumers across Europe cut the cost of their weekly grocery shop. But as the recession drags on, shopper behaviour is changing permanently – and the balance of power between brands and retailers' own labels is shifting as a result. Both brands and retailers should be aware of these trends as they plan their strategies in the coming year.

The uncertainty and squeeze on household incomes that can be seen across much of Europe is making consumers more price-driven than ever. They are now buying nearly as many private label products as they do national brands, and still stand to make significant savings by doing so: on average, they are 30% cheaper.

This has notched private label's value up 0.5% to 35.6% across Europe in the last year. Unit share is also up 0.5%, making the European share 45.1%. Differences still abound within this. Share varies from 16.8% in Italy to 41.5% in Spain and 50.5% in the UK. Even in France, where consumers are more reluctant to turn their backs on their favourite brands, private label value share rose slightly from 29.7% to 30.0%. In Germany, Europe's strongest economy, nine out of 10 shoppers buy private label once a week and 30% of consumers are buying retailer brands more often than they were a year ago.

Private label value share of food has increased in all countries in 2012 with the UK, Spain, the Netherlands, Italy and Germany having the largest share. Spain is also leading the way in unit share growth, also up 1.2%.

Shoppers cutting back on non-essentials is hitting non-food brands hard. As a result, the share of value sales for retailers' own label non-food brands is increasing only in the Netherlands, Italy and Spain, despite average price rises across Europe of 3.3% that is causing lower volume sales. In household products, however, private label is strengthening its position as shoppers are more reluctant to pay for top names in the recession.

The changes are also being fuelled by the activity of retailers. Retailers have been improving the quality of their own brands in terms of taste, range and performance – and shouting about this in their marketing. Consumers, eager for more than just low-cost alternatives to national brands, are being persuaded by their arguments. In the UK, for example, Walmart-owned Asda promotes its collaboration with food experts, and around 50% of its food sales are private label. The result is that in some countries and categories, retailers' own label products are viewed as equal to, or even better than, many branded products.

As this happens, they are becoming strong brands in their own right. In Spain, a survey by IESE Business School discovered that market leading retailer Mercadona's Hacendado brand is one of the country's most loved brands.

People are paying more attention when they shop. They buy what they need when they need it, purchase less each time they shop, but buy more often, and reduce the food they waste. They also look more carefully at what they buy, and this is having an effect on brand loyalty. In Italy, for instance, 57% of shoppers now change their brand 'very often', up from just 16% in 2004. But consumers are not turning their backs on their favourite brands altogether.

Retailers, recognising that 'the same thing for less money' is not enough for consumers, have already eased back on mimicking the leading brand and invested in their own label ranges instead – responding to the needs of varying income levels and shopping modes, and customers' desire for true value and more responsible shopping.

They have moved their own products upmarket, creating value by bringing new brand identities, attributes and quality within people's reach – at every price point. They have also developed alternative products in categories traditionally dominated by national brands. In Spain, for example, leading retailers such as Mercadona and Eroski have increased their ranges in non-food areas such as perfumery, introduced more own-label ranges at different price points and launched new lines that are healthier and greener.

Retailers are also being creative, developing product assortments to address niche market needs to further build and broaden customer loyalty. In Italy, for instance, Conad is extending its Alimentum line with a range of products for people with special nutritional needs, and a gluten-free offer across its pasta and bakery lines. In the

UK 'free from' ranges abound across the multiples.

Multi-tiered private label offerings with different pricing strategies are now well established, and proving successful. If retailers can continue to meet consumers' expectations with their own-label products, they will boost loyalty levels. As the economy improves, however, they will need to be ever more innovative to retain this loyalty – consumers need to see true differentiation to change their buying habits or spend money they might not have budgeted for.

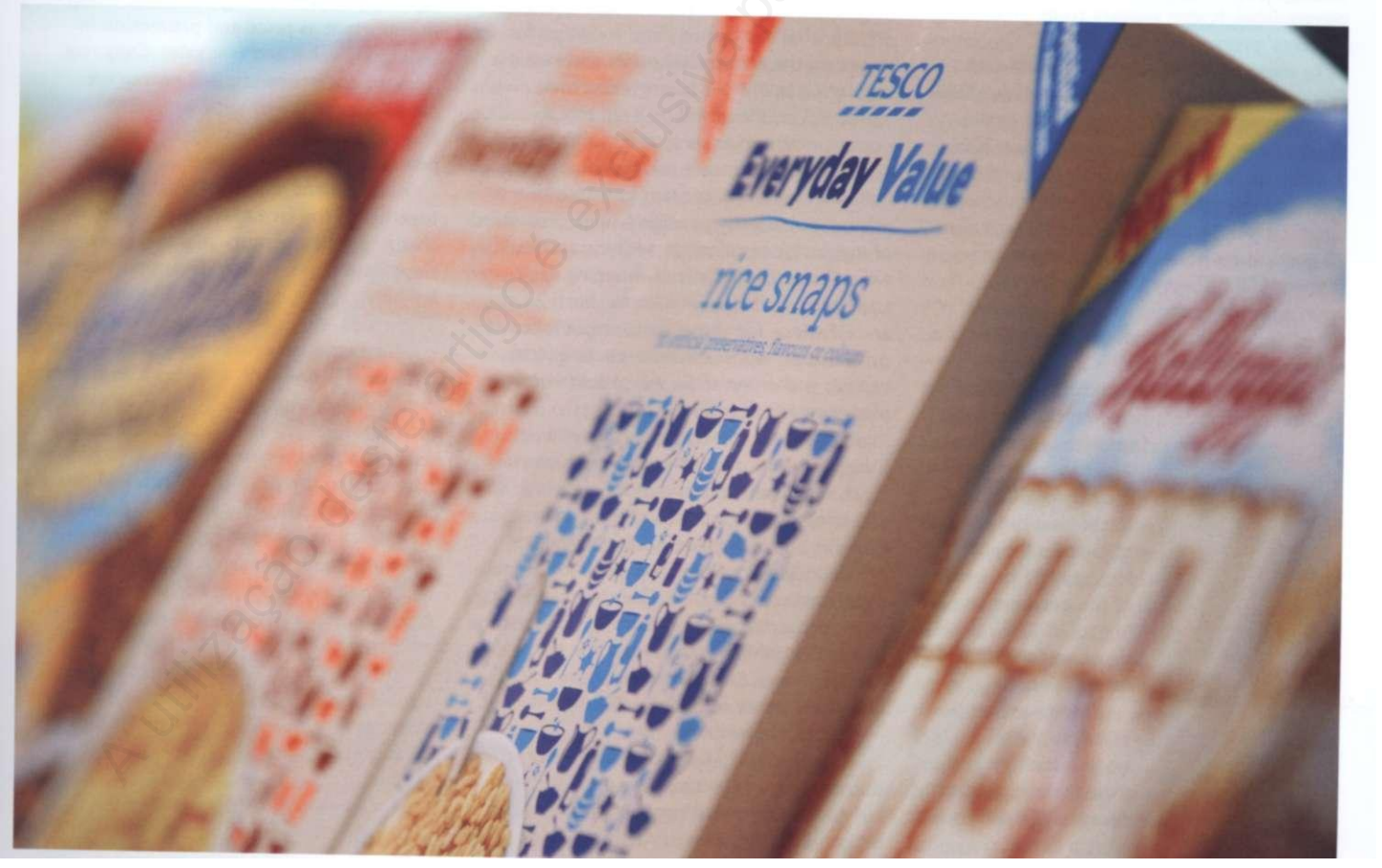
The major goal for retailers is to differentiate their stores from their competitors and secure greater loyalty. The reality is that the competitive arms race in private label has simply stepped up a gear – in response to recession, competitors and fundamentally more engaged and savvy shoppers.

However, it is not all about private label success. It is national brands that are driving growth in many categories – especially in France – by tempting customers to try something new. In Germany, private label unit sales are still not outperforming those of national brands. Sales are down in other countries for some categories too – in the Netherlands, for instance, there has been a fall in sales in coffee, frozen fish and personal care.

In choice-driven markets, there's a natural 'ceiling' in terms of market share beyond which retailers' own labels struggle to rise, even if they are cheaper, promoted or given disproportionate shelf space. Shoppers may be unwilling to compromise on the health benefits they perceive their toothpaste brings, for example, or on the taste of their favourite soup. And people will always occasionally want to treat themselves, even in the darkest recessionary times. The ceiling may vary between categories but brands repeatedly prove their attractiveness to shoppers, especially when the price gap narrows.

Most consumers buy a repertoire of brands at different times throughout the year. The vast majority buy a mix of private label and brands, and will continue to do so – almost nobody buys only one or the other, as people are price or quality sensitive depending on their personal circumstances. This creates opportunities for both retailers and manufacturers to grow sales.

Branded suppliers are fighting hard to



protect their value and unit market share in the face of private label growth by promoting more clearly and aggressively, developing more sophisticated pricing strategies, re-engineering some lines and launching new variants.

With consumers still cautious about the cost of their shopping basket, brands must continue to respond with strong trade promotion activity – analysing what is happening in each category and responding accordingly. Promotions to reignite purchase will tempt consumers back to manufacturers' brands but price rises cannot be avoided if raw material costs, particularly in food, keep moving up. However, this affects both private label and brands.

The increase in brand promotion is fuelling a slight and continuing trend towards closing the price gap between brands and private label. It also appears to be influencing retailers' promotional activities.

In most countries, including Spain and France, promotional support for private label has declined over the last year, and in the Netherlands it was at its lowest since 2008. Volume on deal is consistently lower than the average in every country except Italy, the UK and Germany, with the differential typically 10 percentage points. Despite the ever present EDLP (Every Day Low Price) approaches in grocery retailers like Asda, Mercadona, Carrefour Express and Aldi, this is unlikely to change significantly.

Stores must also be careful, however, not to alienate shoppers who want to buy their favourite brands. Even Aldi has recognised the power of this. Retailers must remain resolutely shopper-focused and be aware of the detrimental impact of tightening the offer inappropriately.

During a recession, retailers quite understandably push their own labels heavily because of the higher margin return they deliver. But they still need to make high-profile brands prominent in-store – without these effectively acting as category sponsors and shopper signposts and providing excitement and meaning to consumers, many private label ranges would suffer.

> "Creativity is a powerful sales driver, especially in such a long economic slump – as important as price and promotion"

Only when retailers are routinely able to establish the identity of their brands in consumers' minds around key category dimensions other than price will they really be able to drive share even further. This will need even more focus and resource than private label has had to date. It takes a lot to get on the shoppers' agenda and retain a regular place in their buying repertoire.

However, there will be even more opportunity to do this as the mobile web continues to permeate shoppers' actions. Full ranges and transparent clickstream activity can already provide a huge reservoir of insight for retailers. In addition to these, we will see the growth of shopping apps and social media as vehicles for both insight and influence for those that remain focused on shopper needs. Reviews, recommends, recipes and other tools will provide new platforms for all brands.

In order to respond assertively to Europe's continuing love affair with own label, brands must spend more time assessing the competitive risks in each category, developing and adjusting their portfolio and how they approach individual retail chains in response. This involves being more proactive with retailers to devise innovative solutions that work for both parties as well as the shopper. This will ultimately boost sales and store brand loyalty – a win for both sides.

It is clear that innovation must stay at the very top of the agenda – products in the UK such as Belvita, Maggi So Juicy, Colman's Season & Shake, Monster Energy Drink, Lynx Attract For Her, Cadbury's Twirl Bites and Regaine have all contributed to category growth in the last year. Even though it may seem prudent to 'play it safe' in the downturn, and tighten the belt on investment in new product development and packaging, this will not work.

The latest SymphonyIRI innovation monitor shows innovation among national brands is the worst it has ever been in 12 years. Manufacturers need to be braver. Creativity is a powerful sales driver, especially in such a long economic slump – as important as price and promotion in generating value and unit sales. Only real, relevant distinctiveness will encourage consumers to try to stick with new products that provide suppliers with premium returns.

Retailers and suppliers need to work together in the face of rising input prices, changing consumer attitudes and sustained, slow, economic growth. The opportunities for both to succeed are there for the taking. The prizes will go to those who are proactive.

The battle between brands and own-label is one that provides a sure victory only for the consumer. There is opportunity for both retailers and suppliers, however, as most consumers will continue to fill their baskets with a mix of own labels and national brands. The spoils of victory will flow to whichever manages to get close to the consumer and, through creativity, disciplined execution and effective engagement, persuade them to trade ever more valuable euros for product.

In this respect, a deep, shared understanding of what makes the grocery shopper tick has never been more strategically important.

more on grocery shopping at www.warc.com

Fonte: Admap, Washington, v. 48, n. 1, p. 10-12, Jan. 2013.