

Endangered Species or Survival of the Fittest? Co-Existence of Brands Required

by Steve Steutermann

In the face of the 22nd month of the largest recession since World War II, consumers have fundamentally changed, with national brands losing market share to private brands as consumers seek “value.”

In fact, we are in value’s jaws:

- **Loss of income**—On one hand, consumers have less discretionary money. Personal incomes were unchanged in July, and this is the eighth month out of the past 10 in which incomes have either fallen or failed to grow. Americans’ purchasing power has been battered by the 6.9 million jobs lost since December 2007. Faced with the continuing prospect of layoffs, falling home values, and struggling investment portfolios, the consumer has retrenched.
- **Rising savings**—On the other hand, they’re spending less. The savings rate is rising and expected to top 6%. Compare this to early 2008, when the savings rate sunk below 1%. Consumers are stretching their wallets by planning purchases and seeking value from the products they buy.

At the shelf, the pressure is on. There’s more competition. To gain some insights on the market, we reached out to Thom Blischok, president of consulting and innovation, at **Information Resources, Inc. (IRI)** and a leading industry expert on consumer and shopper trends at a syndicated data provider to get an update.

AMR Research: Will private brands emerge as a dominant player like they did in Europe, or will it be different in the U.S. marketplace?

Mr. Blischok: Private brands, also known as “retailer” brands, are carrying more weight in the shopping basket. Private-brand share in the U.S. marketplace now stands at 19% in categories where private brands are present, up from 15% in 2008 and growing at

a share point per quarter. In past recessions, private brands have topped out at 15% market share and have risen and fallen with economic times. IRI projects private-brand shares will grow to the mid-twenties in the U.S. market by mid-year 2010, making private label in the United States the second largest market behind Europe at 28% to 30% share.

AMR Research: So will private brand shares return to historical share levels?

Mr. Blischok: The short answer is no. There’s no time in history we can measure that resembles the sea change in consumer behavior we’re seeing today. The consumer is fundamentally changed. We’re not navigating in smooth waters, but through turbulent times.

Consider these facts from our panel groups:

- Three out of 4 Americans now believe private-brand quality is as good, or better, than national brands.
- Retailer brands have become “trusted” brands, with 84% of shoppers saying they trust store brands.
- Shopping has moved from “wants” based to “needs” based, with consumers tightening their belts in response to falling home prices, the banking crisis, and 2008 gas prices.
- Consumer rituals have changed. Consumers are eating and entertaining in the home as well as making shopping lists and using coupons.
- Consumers have had nine months to trial private-brand products. Private brands now represent 20%

of the household pantry, up from 7% to 10% a year ago.

- A new conservative shopper has emerged, consuming 6% to 10% less when compared to 2007.

The shopper now makes brand decisions through a “lens of affordability” criterion, with nearly all consumers and income levels impacted. Household incomes under \$55,000 are most impacted and can be characterized as a group that’s redefining life’s basics. Households with \$55,000 to \$100,000 in income are also impacted and can be summarized as the group that is “selectively deselecting” products and services, realizing that indulgence is a want and not a need. Even household incomes in excess of \$100,000 are making trade-down choices in frequently shopped categories.

AMR Research: Has the role of private brands in the category changed or will it change?

Mr. Blischok: The leverage retailers use to negotiate with manufacturers hasn’t changed, but leading retailers have done a much better job understanding the role of private brands within categories and are differentiating themselves in a challenging marketplace, where converting shoppers is essential. The typical consumer shops seven or more retail outlets.

AMR Research: What are private brands doing differently? Are branded manufacturers lagging in response? What can they do?

Mr. Blischok: Private brands have invested in product quality and are building trust with consumers. They have built new factories, increased their automation, improved their efficiency, and are driving costs out of their systems, allowing private brands to become the low-cost provider in many categories. Retailers are investing in shopper understanding for their store brands and driving pricing and promotional decisions through shopper insights.

Branded manufacturers aren’t lagging yet, but they must realize nothing parallels the sea change we see today. The CP industry is at a critical junction. Branded manufacturers that understand the shopper change and the role of brands in the category will be better positioned to react. To keep up, branded manufacturers will need to invest in factory retooling and process controls to lower costs so that they can better manage price gaps versus private brands. They’ll also

need to improve leadership in delivering new product innovation designed for a value-driven marketplace. Leading national brands are still relevant to the shopper because they’re “trusted” brands. Without strong national brands, retailers still cannot optimize category profit across most CP categories.

The management of categories must move from aggressive competition to aggressive cooperation. There must be strong adherence to joint planning that views the category from a holistic sense, rather than a national brand or private brand position. The goal of the total category must be understood in terms of profit, store traffic, and assortment offering.

Assortment changes are coming to categories. Manufacturers need relevant assortments to attract a fickle shopper. The shopper today seeks value and simplicity, knows how to shop deals (51% of volume is sold on promotion, with 58% of shoppers using coupons), and doesn’t want 200 facings of ketchup or 150 facings of salad dressing to choose from. Manufacturers that are armed with this knowledge and offer assortment solutions will benefit.

AMR Research: What do branded manufacturers need to do to grow share where private brands compete?

Mr. Blischok: The most important realization is that branded manufacturers must understand that private brands are here to stay. There is a new “normal.” Rituals have taken hold, with purchase decisions now made through the lens of affordability. To win, companies need to drive granular-level, actionable store insights. It’s about quality, price, and trusted products that provide value to the shopper, regardless of brand type.

AMR Research: Are their examples of branded manufacturers doing it right?

Mr. Blischok: There are great examples. **Clorox** has a strong understanding of how to serve the retailer. Its assortment offerings work for the retailer, and the company fully understands the role of its brands within categories. **Campbell’s** has redesigned the shelf, delighting shoppers in the process and providing assortment solutions for retailers. **Smucker’s** understands how to compete and co-exist with private brands to optimize category results. A lot can be learned from these companies.

AMR Research's take

Manufacturers must take note that changes in consumer behavior aren't temporary—it's a changed state. Hard choices must be made to improve the value offering in product portfolios or risk further share erosion to private brands.

Seven action items are required:

- **Drive the right brand portfolio mix**—Portfolio's need to be readjusted to add value where needed. Manufacturers must add value by either repositioning brands through marketing efforts, discontinuing brands that no longer are a good fit, or acquiring brands that deliver against a value-seeking consumer.
- **Establish rigorous consumer/shopper understanding**—Shopper insights, at a granular level, are critical to delivering actionable pricing, promotion, and assortment solutions that work for the category. Broad-brush marketing just won't work in today's market.
- **Innovate at lower cost**—Manufacturers must innovate effectively and bring to market trusted brands at affordable prices that meet needs and better manage price gaps to private brands. This brings more pressure to innovate in shorter cycles, reduce waste, and deliver lower priced products that don't reduce margin (see "Consumer Products: Five Actions to Take for Improved Innovation Success" and "Want To Reduce Artwork Approval Time by 30%? Try Collaborative Artwork Management" for more information).
- **Execute a pricing strategy**—Manufacturers must define what pricing means in their categories and work with retailers to develop joint plans that optimize against retailer objectives. The ability to execute a pricing strategy is critically important.

Manufacturers should invest in the optimization tools available to target and reach shoppers. In the past, they've focused on the other 3 Ps of marketing—promotion, place, and product—but not the fourth, pricing. It's time to get it right.

- **Manage price gaps**—Price gaps within the category must be managed aggressively, but it's important to take a fresh look at the new role of the brand within the category. It takes a thorough customer segmentation analysis to drive the right decisions.
- **Optimize assortment planning**—Retailers want to decrease a category by 10% to 15%. The goal shouldn't just be item reduction. Instead, it should be SKU optimization. Use analytical tools to optimize shelf assortments and align promotional activity based on the new reality. Manufacturers can differentiate themselves by offering solutions that maximize category profit objectives that includes retailer private brands.
- **Reach the mobile consumer first**—Manufacturers can't drag their feet—those that enroll control the shopper. The mobile consumer is an attractive shopper to most retailers. Assisting with targeting and reaching shoppers will grow in importance in most categories.

So no, we don't feel national brands will go the way of the dinosaur, but private-label brands are here to stay. Survival of the fittest translates to co-existence and making decisions based on actionable, granular insights.

The curtain has gone up—meet the new shopper. It's a new realm, where brand value is newly defined by a wiser and more conservative consumer. Meeting this need will be the difference between extinction and survival.