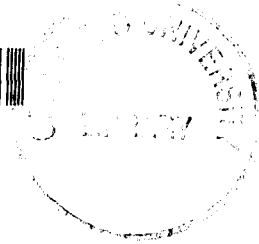




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SWP 27/88 OWN LABELS - AN ADJUNCT TO BRANDS?

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INTRODUCTION

With grocery brands manufacturers trying to respond to the increasingly concentrated retailing environment and the significant investment in own labels by retailers, a less than healthy future has been reported for some brands (eg Leahy, 1987). To succeed, grocery brands manufacturers should not only take into account consumer buying behaviour, but also recognise and respond to retailers' strategic objectives. However, brands manufacturers have to strike the right balance between satisfying consumers' needs and helping retailers achieve their corporate goals. Warnings have been sounded about the dangers of brands manufacturers shifting their attention too much to retailers, with the consequential cut in consumer related activities, and during the first part of this decade there has been speculation about whether own labels and brands were becoming more alike. This paper is concerned with the problem of similarities/dissimilarities between brands and retailer labels and by reporting on a major consumer research programme provides insight as to the way consumers perceive the competitive tiers of brands, own labels and generics.

BRANDS - OWN LABELS SIMILARITY HYPOTHESIS

What evidence was there to support the brand-own label similarity hypothesis? It could be argued that an analysis of the deployment of marketing resources (the marketing mix) may clarify why this view was adopted. A Mintel (1984) report on advertising expenditure showed that retailers' advertising spend rose in real terms by 105% between 1970 and 1982, while manufacturers' consumer advertising increased by only 20%. Clearly retailers commitment to advertising support has become much more apparent - observe from MEAL data during 1987 that 12 of the top 20 brand advertisers were retailers. Furthermore, retailers advertising themes have shifted from the "low prices" platform of the 1970's to the "personality of stores" during the 1980's. Yet this shift to increase retailer advertising should be put in perspective by noting that retailers share of total advertising spend during 1982 was 16% compared with 42% for manufacturers' consumer advertising.

During the late 1970's some of the weaker brand manufacturers felt their profit margins being squeezed by the powerful multiples and some responded by relaxing their brand quality (eg Monopolies and Mergers Commission, 1981). At the same time retailers became increasingly concerned with the quality of their own labels and imposed more stringent standards on their quality levels. To support their own label standards, multiple retailers became increasingly committed to test kitchens (eg Tesco). However, it should not be thought that there was a

universal reduction in quality standards of brands - firms such as Heinz, Nestle and United Biscuits are only too proud of their production investment.

To match the competitive prices of own labels, instances have been reported where brands were priced at levels usually close to own labels (eg Risley, 1981). If one considers the physical availability of brands and own labels it can be seen that with the geographical expansion programmes of multiples throughout Britain, and the increasing level of car ownership, own labels are as widespread as brands. One study even reported that in-store, own labels were given on average double the shelf space allocation of the equivalent brands (Thermistocli and Associates, 1984).

Thus by looking at the changing allocation of marketing resources between promotional, product quality, pricing and distribution elements, it might be thought that brands and own labels have become more similar. This perspective of brands-own labels similarity may have been erroneous though in light of retailers' abortive experience with generics.

POSITIONING OF GENERICS

Generic groceries were first introduced into the United Kingdom in 1977 by International (ironically also the first to pull-out) and 9 years later generics were withdrawn by all the multiples. The term generic implies retailer controlled items which are packed in such a way that the prime concern with packaging is product protection and not aesthetic appeal. Without careful reading, the generics from different grocery retailers would be virtually indistinguishable. No promotional support would be evident. Consideration of generics in the United Kingdom shows that this concept in grocery retailing was not enacted. Eye-catching, multicolour packaging was used, with branding evident ("BASICS"). Each retailer adopted a corporate pack design, emphasising association with their particular range of generics. Promotional packs appeared (eg BASICS aluminium foil flashed "10% extra free") and some advertising support was given.

The positioning adopted for generics would appear to be closer to own labels, rather than being an innovative tier in grocery retailing. Thus the changing approach behind brands and own labels and the positioning of generics compounded the debate about similarities between these three tiers. Consequently, a consumer study was undertaken to assess how consumers perceived the competitive structure of packaged grocery markets.

THE CONSUMER STUDY

Six packaged grocery product fields were selected, where in each product field there were three brands, three own labels and two or three generics. For each of these product fields consumer research was undertaken to identify the main criteria that consumers use to evaluate these competing items (using the three most often stocked brands, the major own labels and the generics on sale). A "brands" - attribute battery was then designed for each product field and in a postal survey, householders were sent a colour photograph of the eight or nine competing items in a particular product field with a questionnaire. A 49% response rate was achieved in Hertford during September 1985. Data from the 829 usable replies were analysed using cluster analysis - a technique which shows how consumers have grouped the competing items into different groups or clusters. This technique is particularly informative since it shows how the clusters gradually formed.

Table 1 shows that at the level where consumers have grouped the eight or nine items into three clusters, brands were never categorised into the same cluster as own labels. Instead there is evidence of the own labels and generics forming similar groups. In only the washing up liquid market did consumers perceive a pure branded, a pure own label and a pure generic cluster.

PRODUCT FIELD	PERCEIVED STRUCTURE (3 tier)		
Aluminium Foil	(3B)	(20L)	(3G+10L)
Bleach	(3B)	(30L+1G)	(1G)
Disinfectant	(3B)	(30L+1G)	(1G)
Kitchen Towels	(2B)	(1B)	(30L+3G)
Toilet Paper	(3B)	(20L+3G)	(10L)
Washing Up Liquid	(3B)	(30L)	(3G)

B = Branded item, OL = Own Labels item, G = Generic item. The numbers indicate how many of each type there were in each cluster, the cluster being represented by brackets.

Table 1: Perceived Market Structure at 3 Cluster Level

Confirmation of brands being perceived as a distinct category was further reinforced by examining consumers' perceptions at the 2 cluster level. In each of the six product fields consumers always categorised the competing items as brands versus retailer labels (own labels plus generics).

CONCLUSION

This work has shown that while there may be an argument to support the view of consumers perceiving brands and own labels as similar, generic groceries were too closely positioned to own labels and consequently consumers perceived greater similarities between own labels and generics, rather than between own labels and brands. Brands were always recognised as a distinct competitive tier.

As perceptions influence consumers purchasing, one consequence of these findings is that consumers would have been more likely to switch from own labels to generics. When considering the larger margins on own labels than generics this could have damaged multiple retailers profitability. Furthermore, in terms of the down market image of generics, this perceived similarity would be detrimental to the overall image some retailers were attempting to portray.

The true generic grocery item, as pioneered by Fine Fare's Pack Your Own range, is now becoming more common through dedicated generic outlets (eg Weigh and Save). This new approach has positioned generics as being distinctly different from own labels.

The wealth of experience retailers have gained from own labels and generics and the types of the competitive tiers presented to consumers in 1988 should encourage brands manufacturers to evaluate how much they are investing in their brands and how they are presenting these to their consumers - after all, adventure is the result of bad planning!

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