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**SWP 19/88 WHY GENERICS FAILED IN THE UK:
LESSONS FOR LESS DEVELOPED
COUNTRIES**

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WHY GENERICS FAILED IN THE UK: LESSONS FOR LESS DEVELOPED COUNTRIES

ABSTRACT

Generics, through their low prices, should be attractive to low income consumers and less developed countries, but if incorrectly positioned can damage retailers' profitability and image. Drawing on the UK experience of generics, lessons for their marketing in less developed countries are noted. The positioning strategy for generics is questioned and the initial attraction for retailers and consumers considered. From a sample of 829 householders, cluster analysis showed that generics were perceived as similar to own labels. The consequential withdrawal of "neo-generics" is considered and the revised launch of true generics by smaller multiple retailers is described.

INTRODUCTION

In 1976 Carrefour in France pioneered an alternative competitive tier to brands and own labels, which gave consumers the choice of buying acceptable quality groceries without the surcharge of promotional or excessive packaging frill (Hawes, 1982). The advent of generics soon became apparent throughout the developed world (Fitzell, 1982) with retail sales of generics in the USA in 1984 exceeding \$2.5 billion or approximately 2% of supermarket sales (Harris and Strang, 1985). Yet while generics are in the maturity stage of the product life cycle in the USA, they quickly passed into the decline stage in the UK. Ironically a new competitive tier had been developed which would enable low income consumers achieve more with their limited budget, however in the UK in 1984, when 12.5% of the working population were unemployed (Advertising Association, 1986), International became the first retailer to withdraw from generics and by January 1987 none of the multiple retailers stocked generics. This paper is concerned with understanding why UK retailers withdrew their generics and considers how this experience might help retailers develop generics in less developed countries.

The first part of this paper develops an argument proposing that generics in the UK did not represent a unique tier, but were instead an extension of the own label concept. Stocking

generics might harm the retailer's image and some of the reasons for and against generics are presented. The low price of generics may benefit the consumer faced with a limited household budget (albeit this is shown not to be the main buying group), however if the positioning of generics is too close to own labels, this would encourage own label purchasers to switch from a more profitable to a less profitable range. The research design to assess consumers' perceptions of the competitive tiers is described and from the conclusion that generics are perceived as being an extension of own labels, the implications of this positioning are considered as experience to guide the marketing of generics in less developed countries.

GENERIC AS A REAL ALTERNATIVE?

While Carrefour are credited with challenging the conventional brands and own labels tiers (Faria, 1979), Carson (1976) was one of the first authors to question whether this represented a new approach to own labels, rather than being an innovative third tier. During 1975 in France, own labels only accounted for 7.5% of packaged grocery sales (Sheath and McGoldrick, 1981), compared with 21% in the UK (Simmons and Meredith, 1983). Furthermore as Davies et al (1985) reported, French consumers were confused by product prices, due to the proliferation of price promotions, and they desired simpler, informative labelling. Within this context Carrefour launched "Produits Libre", positioned to match the quality of brands, packaged in white packs with the tricolour CF logo, supported by £3m advertising and priced 10-30% lower than brands. In my opinion, these characteristics come closer to describing an extension of the own label concept and not true generics.

The term generic implies retailer controlled items which are packed in such a way that the prime concern with the packaging is product protection, with minimal concern for aesthetic appeal and displaying only the legal minimum amount of information. Without careful

reading, the generics from one grocery retailer would be virtually indistinguishable from those of another grocery retailer. No promotional support would be given to generics and in view of the cost savings on packaging and promotion, they should be cheaper than own labels.

Yet in the UK, while they were referred to as generics, the generic concept was not widely enacted by the major multiple retailers who entered the arena (excepting Fine Fare's trial of Pack Your Own). The reality was that eye-catching, multicolour packaging was used, with one retailer even branding their "generics" (BASICS from Argyll). Each retailer adopted a corporate pack design further emphasising the association of specific generics with certain retailers. Promotional packs appeared (eg: BASICS aluminium foil flashed "10% extra free") along with a small amount of advertising support (McGoldrick, 1984). The once Marketing Director of Fine Fare (Allan, 1981) even went as far as saying:

"Incidentally I deliberately said brands for two reasons. First of all we have more than one brand, Yellow Pack as well as Fine Fare Brand. Secondly, we see both of these product ranges as Brands adding value to the shopping experience Fine Fare customers get at Fine Fare." (p 9)

It would appear that "neo-generics" (following Hawes and McEnally's (1983) terminology) had been introduced into the UK, since this new tier had, from a marketing perspective, more in common with the own label concept. Likewise in the USA, retailers were aware of the potential damage that poor quality generics might have on their image and the metamorphosis into neo-generics occurred with some retailers branding their generics (Kono, 1985). These lower cost groceries may be attractive to some groups trying to stretch their household budget, but their down market image may weaken retailers' images. It is, therefore, illuminating to consider why retailers started to offer this range.

WHY WERE GENERICS INTRODUCED?

From the retailer's perspective there were several reasons for launching generics. Some regarded this new range as adding value to the stores total mix, of creating a new image, increasing their share of labels under their control and enabling a more price competitive position to be adopted. Other retailers were less keen on this concept, fearing it might damage their image (Simmons and Meredith, 1983), and worrying that total shelf space profitability may fall with these lower margin items (Harris and Strang, 1985).

The consumer benefit that retailers were striving to satisfy with generics was good value for money. A Nielsen survey (1982) showed that on average generics in the UK were 40% cheaper than the brand leader and 20% lower than the equivalent own label. Lower prices were an attractive feature to consumers, with Gardner (1982) and McGoldrick (1984) reporting price as the main reason for consumers buying generics, albeit there is evidence of poor consumer awareness of grocery prices (McGoldrick and Marks, 1986). Yet these lower prices were not obtained primarily from the plainer packaging (Euromonitor, 1986). Instead a combination of factors lead to the lower prices, ie reduced product quality, accepting lower margins, more flexible approach to product sourcing, minimal promotional activity, one pack size only and more skilful negotiation (Shircore, 1983; Burck, 1979; Murphy and Laczniak, 1979; McEnally, 1980).

WERE LESS AFFLUENT CONSUMERS BUYING GENERICS?

When considering the profile of the generic purchaser, previous surveys have presented contradictory data (Yucelt, 1987). Murphy and Laczniak (1979) found no difference between the generic and non-generic buyer in terms of income, Strang et al (1979) and Zbytniewski and Heller (1979) reported them to belong to middle income groups while

Wilkes and Valencia (1985) found generic purchasers having lower incomes. Different methodologies impede comparison, however in view of low income purchasers taking a greater financial risk when buying unknown generics, it is thought more likely that low income consumers were reticent in trying this new tier. The lack of any "guarantee" through branding (Morris, 1979) may conceivably have initially deterred low income consumers.

While there are difficulties obtaining a view on the profile of the generic purchaser, clearly such a range of groceries should be of economic significance to low income groups. But while retailers stocking generics may feel there are benefits to these groups (as well as to themselves), they would need to balance these benefits against their cost (particularly the impact of generics on the retailer's image and the rest of the product range). If, as the early part of this paper explained, the positioning of generics was too close to own labels, then this perceptual similarity may have detrimental consequences for multiple retailers stocking generics. As perception is a mediating variable influencing purchasing decisions (Engel et al, 1986), the way consumers perceive the competitive structure of grocery markets was investigated. Specifically the following hypothesis was to be tested:

H1: People do not perceive the competitive structure of grocery markets in the same manner as marketers (ie: pure brands vs pure own labels vs pure generics).

RESEARCH DESIGN

To provide a good test of this hypothesis, six product fields were sought which each had to have a minimum of three branded, three own label at at least two (preferably three) generics. The product fields selected were aluminium foil, bleach, household disinfectant, kitchen towels, toilet paper and washing up liquid.

To evaluate respondents' perceptions, image-attribute batteries were developed specifically for each product field and respondents were asked how much they agreed or disagreed with each statement describing each of the items on display in their product field. To obtain consumer relevant attributes Kelly Grid tests (Fransella and Bannister, 1977) were used in conjunction with other statements derived from advertisement claims. For each product field, approximately 15 householders in the North London area were interviewed (95 interviews in total). In excess of 80 statements resulted for each product field and a further exercise was undertaken to reduce these to more acceptable lengths.

Within each product field, approximately 25 statements were frequently observed. These statements were viewed as being important evaluative attributes, but it was thought that there might still be some repetition between these statements. Inspection of the correlations between attributes, in conjunction with principal component analysis (Jolliffe, 1973) is an ideal way of reducing the number of attributes. Consequently six image-attribute batteries were produced and for each product field 15 different householders were asked to state how much they agreed or disagreed (five point scale) with each statement describing each of the items on display (91 further interviews). Undertaking this analysis for each product field resulted in eight to ten statements adequately portraying the majority of the information. Thus image-attribute batteries of a size unlikely to cause respondent fatigue and yet incorporating those attributes important to respondents had been developed to measure perception of market structure.

DATA COLLECTION

Questionnaires were designed and piloted for the six product fields. Using a systematic sampling procedure 2,196 householders in Hertford (population approximately 20,000) were selected using the February 1985 Electoral Register. To reflect buying behaviour, preference

was given to selecting the female in the household. One of the six questionnaires was sent to each person along with a 16 cm x 10 cm colour photograph showing the eight or nine competitive offerings relevant to the specific questionnaire. A covering letter explaining the purpose of the study was enclosed as was a Business Reply Paid envelope. Each envelope was handwritten and a handwritten salutation used on each covering letter, which was personally signed. A second class stamp was stuck to each envelope.

Questionnaires were mailed during August and received during September 1985. With the use of a reminder letter 1,065 questionnaires were returned, a response rate of 48%.

DATA ANALYSIS

Attention was focused on those 829 respondents who had correctly completed the appropriate image-attribute battery. Several ways exist to assess how people perceptually group items into categories which exhibit internal cohesion, eg cluster analysis, Q-type principal component analysis, multi-dimensional scaling and discriminant analysis (Everitt, 1986). Cluster analysis appeared most appropriate for this research and to observe the order in which clusters had evolved, a hierarchical agglomerative method was selected. Recognising that the clustering algorithm selected defines what is meant by a cluster (Cormack, 1971) it was decided to use the single link algorithm.

Respondents' agreement-disagreement batteries within each product field were first standardised and each converted to a squared Euclidean distance matrix. For each market the mean standardised squared Euclidean distance matrix was calculated which was then subjected to single link cluster analysis using the CLUSTAN computer package (Wishart, 1978). The results of the cluster analysis were displayed on a dendrogram. This is a hierarchical clustering tree which shows, for example, at the bottom of the tree there are

nine unclustered items, at the next level moving up the tree there are seven unclustered items with two items forming a shared cluster, etc. By examining each level of the dendrogram the way that clusters evolved could be seen.

CONSUMERS' PERCEPTIONS OF MARKET STRUCTURE

Inspection of table one shows how respondents perceived the competitive structure of each product field at the three cluster level. Only in the washing up liquid sector do respondents perceive the market as pure brands versus pure own labels versus pure generics. At the three cluster level the brands never merged with the own labels in any product field and it is interesting to see the start of the own labels and generics merging. At the two cluster level, clear evidence exists of consumers' perceiving generics and own labels as being similar. In all six product fields, the generics were always seen to be similar to the own labels.

PRODUCT FIELD	SAMPLE SIZE	3 CLUSTER COMPOSITION	2 CLUSTER COMPOSITION
Aluminium Foil	135	(3B) (2OL) (1OL + 3G)	(3B) (3OL + 3G)
Bleach	148	(3B) (3OL + 1G) (1G)	(3B) (3OL + 2G)
Disinfectant	143	(3B) (3OL + 1G) (1G)	(3B) (3OL + 2G)
Kitchen Towels	130	(2B) (1B) (3OL + 3G)	(3B) (3OL + 3G)
Toilet Paper	129	(3B) (2OL + 3G) (1OL)	(3B) (3OL + 3G)
Washing Up Liquid	144	(3B) (3OL) (3G)	(3B) (3OL + 3G)

B = Brand, OL = Own Label, G = Generic

Table 1: Perceived Market Structure

The findings at the two tier level are similar to those in the USA of Hawes and McEnally (1983) and Wilkes and Valencia (1985).

RELIABILITY AND VALIDITY OF RESULTS

The reliability of results was tested by randomly dividing the samples in each of the six markets into two halves and seeing whether similar results occur in each half (Everitt, 1979). Visual examination of each pair of dendrograms showed that at the three cluster level, four of the product fields maintained a consistent structure across the random pairs, while at the two cluster level, five of the product fields showed similar structure pairs. Furthermore within each product field the cophenetic correlation coefficient (Sokal and Sneath, 1963) between the random half sample pairs never fell below 0.94. It is therefore concluded that the perceptions were reliably measured.

Construct validity was assessed by applying complete link, average link and minimum variance clustering algorithms to the six product fields. In only the kitchen towels and disinfectant samples do the single link results go against the other three algorithms, but even then at the two cluster level there is perfect agreement. It is therefore believed that the single link method had construct validity.

DISCUSSION OF RESULTS

These results show that because of the way retailers in the UK virtually "branded" their generics, consumers saw considerable similarity between generics and own labels. As the neo-generic, rather than the generic concept, was enacted in the UK, respondents categorised own labels and generics as similar. One consequence of this perception is that consumers are more likely to switch from own labels, rather than brands, to generics. As generics partially achieved their low prices through low margins (Shircore, 1983) and as own labels are more profitable than brands (Euromonitor, 1986), this had an impact upon

retailers' profitability. This was believed to be one of the contributory factors leading to the poor profit levels achieved by International after the launch of their generic range.

Another potentially damaging effect from the perceived similarity of own labels and generics is their down market image. Some UK retailers, eg Tesco, have been using their own labels as a means of shifting their image up market (Bond, 1985), yet the perceived similarity between own labels and generics would have hindered such positioning strategies.

Supporting this view, Jacoby and Mazursky (1984) showed that there was an interaction effect between a retailer's image and the image of the "brands" stocked; the party with the more favourable image was found to be adversely affected. This may explain why Tesco eventually restricted their original generic range to the Limited Line Discount Store they once owned (Victor Value) and why they finally withdrew from the generics arena.

Thus in the UK this research indicates that one of the reasons for retailers withdrawing from generics was because they had positioned them too close to their own labels. Ironically the reassurance consumers obtained from the retailers branding of generics, worked contrary to retailers long term objectives.

The generic concept has an appeal to the less affluent purchaser and within the UK the true generic concept has been revived. This approach in the UK was pioneered by Fine Fare (now part of Gateway) with its Pack Your Own range. Shoppers are able to go along to bins of produce, select the quantity they want by weighing and packing the item themselves. Gateway have been expanding their Pack Your Own department (*The Grocer*, 1987a) and several smaller multiple retailers dedicated to selling only true generics (eg: Food Factory, Weigh and Save, Pick n' Pack) have started to thrive in the UK (*The Grocer*, 1987b).

For less developed countries, the UK experience with neo-generics provides certain lessons. In terms of benefits to the local population, generics offer a lower cost alternative to

competing tiers. Retailers considering adopting a generic range should be aware of the importance of consumer perceptions and recognise the implication these may have on both short and long term objectives. Some degree of reassurance will be sought by consumers considering the purchase of generics, however, this should not be achieved through a positioning strategy likely to affect the profitability and image objectives of the retailer. Instead reassurance should come from aspects such as cues within the store indicating high levels of hygiene and supportive work of mouth from innovators and early adopters.

CONCLUSIONS

This research has shown the importance of marketers properly understanding consumers' perceptions of the competitive tiers. The neo-generic concept failed in the UK because it was positioned too close to the current range of own labels. Retailers adopting a generic range in less developed countries need to ensure that the positioning strategy of their generics is sufficiently thought through and consumer research undertaken to assess consumers' perceptions. Researchers are exhorted to consider how other developed nations (eg USA) have fared with generics and consider what else could be learned to enhance the standard of living in less developed countries through better marketing of generics.

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