The downward slide

How long can national brand discounts eat away at private label share?

There are encouraging signs of economic growth in Europe, with almost all countries showing growth by the end of 2015. Industry figures show gross domestic product (GDP) at +1.7 per cent for 2015 and wage inflation and unemployment slowing or stabilizing.

The fast-moving consumer goods (FMCG) sector seems to be benefiting from this positive momentum. After several years of turmoil with large discrepancies between countries, most countries showed sales growth at the end of last year, with the exception of the UK, with its ongoing price wars, and Greece. Overall FMCG growth for 2015 was +0.7 per cent in volume and +1.0 per cent in value.

But even the prospect of higher wages, better employment and more money in their pockets has not stopped savvy shoppers from looking for a deal. What's more, they are looking for deals not among supermarket own-label products, as you might expect, but from national brands that offer the consumer perceived higher quality, as well as value for money.

According to IRI's new private label report, "Private Label in Western Economies — Losing Share" (June 2016), the trend towards buying national brands has negatively impacted sales of private labels. The figures show that private label value market share fell in 2015 — down 0.6 points to 38.3 per cent — as a share of the total FMCG market. Unit market share also fell, down 0.5 points to 47.4 per cent.

These figures show that the downward trend from 2014 is continuing, with all of the Western economies analysed in the report showing a decline, apart from the UK and Australia, although the context for these two markets is different due to the rapid growth of discounters in the UK and low penetration of private labels in Australia.

The report does highlight the challenging conditions that private label retailers and manufacturers across the world continue to face.

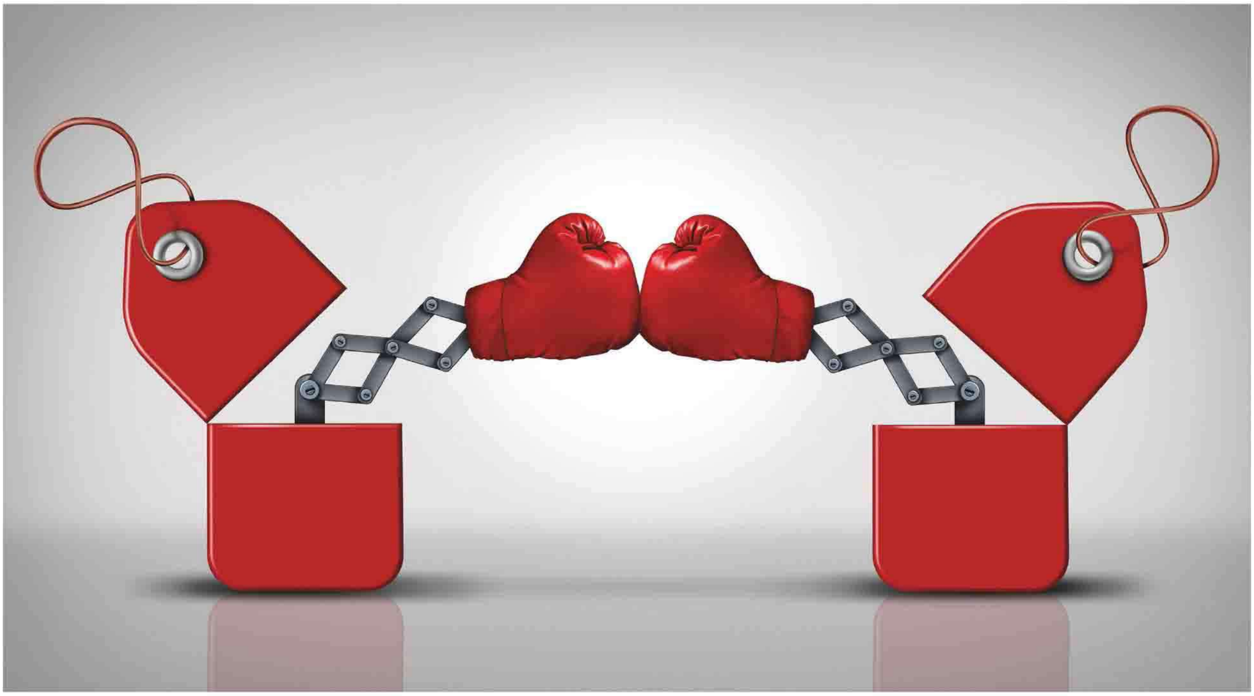
The challenge for private labels is that national brands are being heavily promoted to shoppers, who are attracted by quality, respected products at low prices. But heavily discounting national brands is a potentially dangerous strategy that could have possible long-term risks.

CLOSING THE PROMOTIONAL GAP

It's interesting to see that the promotional gap is closing. IRI data for the UK, for example, in 2016 indicate the highest levels of deal depth for branded products, making national brands more price-competitive and more attractive to shoppers. On the other hand, private label items in the UK, which has the highest value share of any of the countries at 51.8 per cent, are getting closer to national brand prices as trade promotion is significantly reduced.

This is not restricted to the UK, either. In France, which had the highest private label share decrease last year, retailers have focused on a price war among national brands, with private label being downgraded in terms of promotion and price competitiveness. While in Italy, clever tactics by manufacturers and retailers mean that, under promotion, brands are often cheaper than their private label counterparts.

In Spain, national brands have been much more successful (value sales up 2.5 per cent compared to only 0.9 per cent for private label), as private label becomes more expensive and so affects consumption. It's interesting, though, that in Spain, while the price gap increased only slightly between brands and private label, shoppers are still choosing manufacturers' brands over own label, even if ▶



it means spending a few more Euros. This is largely driven by the fact that Spanish shoppers perceive national brands to be higher in quality and are prepared to spend a little bit more.

ASSORTMENT SHRINKING

But our report data suggest that price discounts and promotions by national brands are not the only concerns for manufacturers.

After years of assortment increases, as manufacturers look to increase choice for consumers and competitiveness across key categories, we are now seeing a slowdown as FMCG retailers and manufacturers focus on cutting their ranges and assortments for a higher performance of categories, brands and point of sales.

Major retailers such as Tesco in the UK have undertaken high-profile campaigns to cut their ranges to remove slower selling items, and in the case of Tesco, it resulted in 1,000 fewer packaged grocery items on the shelves, a drop of 6.3 per cent, according to IRI's 2016 "New Product" study.

But while assortment reduction strategies have impacted supermarkets' own label products, the trend has also impacted national brands, indicating that a fight for shelf space among both private label and national brands is set to continue for the foreseeable future.

OPPORTUNITIES FOR GROWTH

In Europe, value share of all categories in private label is in decline or stable. We are seeing the biggest drops in chilled and fresh food, non-alcoholic drinks and frozen food, with the first two categories down due to high promotional activity from national brands, and frozen food the victim of huge reductions in promotional activity within own label.

Coupled with this, private label confectionery, personal care and alcoholic drinks struggle to compete with national brands, which have built up huge brand equity with shoppers. Although we have seen some successful innovations in recent years — for example, Mercadona face cream in Spain — it will continue to be tough to find ways to grow within these particular categories.

So with manufacturers and retailers looking for new paths to growth, there are opportunities for growth within private label ranges. Economy ranges are facing big challenges — not least from the discounters, but also in the minds of shoppers who tend to equate "economy" with "low quality" — but it seems that the premium private label sector is growing. Retailers in France, Italy and the Netherlands, as well as in the UK, are seeing a rising trend in the popularity of premium ranges.

Private label, it seems, needs to build on more than just price to differentiate its positioning against national brands — it's no longer the only differentiator. Retailers and manufacturers need to put into place the right strategies to help them focus on what shoppers really want.

Private label manufacturers must start to work more closely with retail partners to enhance the shopper experience. Using assortment optimisation, for example, to assess the true value of each item based on its attributes (pack size, format, price band, etc.) can help them identify and understand crucial elements that influence shopper decisions and ultimately lead to growth. ■

Tim Eales is director of strategic insight for IRI, a Chicago-based market research firm.

**IRI's private label report (June 2016) is available at: http://tinyurl.com/z2dplp3*