

# How to get through the recession with a smart Private Label's strategy



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# Tough recession times...

## Recession meaning:

- A significant decline in economic activity spread across country, lasting more than a few months, normally visible in real GDP growth, real personal income, employment, industrial production, and wholesale – retail sales.
- Reduced demand, lowered sales, lowered cash flows, tighter credit and increased accounts receivables.
- Crucial period that influence firm's survival and profits.
- Pressure to cut spendings especially R&D and advertising budgets.
- Delayed launch of new products and services leading to a downward cycle.

# Recession changes consumer behaviour

- Price sensitivity increases
- Delayed purchase of durable goods
- Frequent, but smaller size purchases
- Decline in service consumption
- Consumers stay at home and connect with family and friends
- Conspicuous consumption declines
- Must have products become live without products
- Loyalty to brands erode
- Purchase decisions become value based

# Value becomes the key driver

$$\text{Value} = \frac{\text{Price}}{\text{Quality}}$$

# Brands in recession times:

## Manufacturer's brands

- High equity brands are more resilient to crises, recovering sooner from recessions.
- High equity brands possess higher switching costs for consumers.

Two major questions define the outcome:

1. How strong they enter in the recession?
2. What they do during recession?

“Much of the loss of the market shares of manufacturer's brands are initiated in economic downturns and consumers who discover store (retailer) brands in recession never return to manufacturer's brands when the economy improves again”.

# Possible branding strategies

		Brand investment in recession	
		Reduction in Brand investment	No reduction / increase in Brand investment
Brand equity entering the recession	High	High loss potential	Recession is an opportunity
	Low	Survival game	Double or nothing

# Brands in recession times:

## Private labels (PL)

- Looking for lower priced products to meet their budgetary constraints consumers discover private labels.
- PL is any brand that is owned by the retailer or the distributor and is sold solely in its own outlets.
- Preference of PL vs. manufacturer's brands in downturn times.
- Preference of value retailers vs. full service retailers.
- Between 2006-2008, 78% of retailers increased the percent of PL goods in their merchandising mix
- US – 30% of spendings goes to PL
- EU – 50% of spendings goes to PL

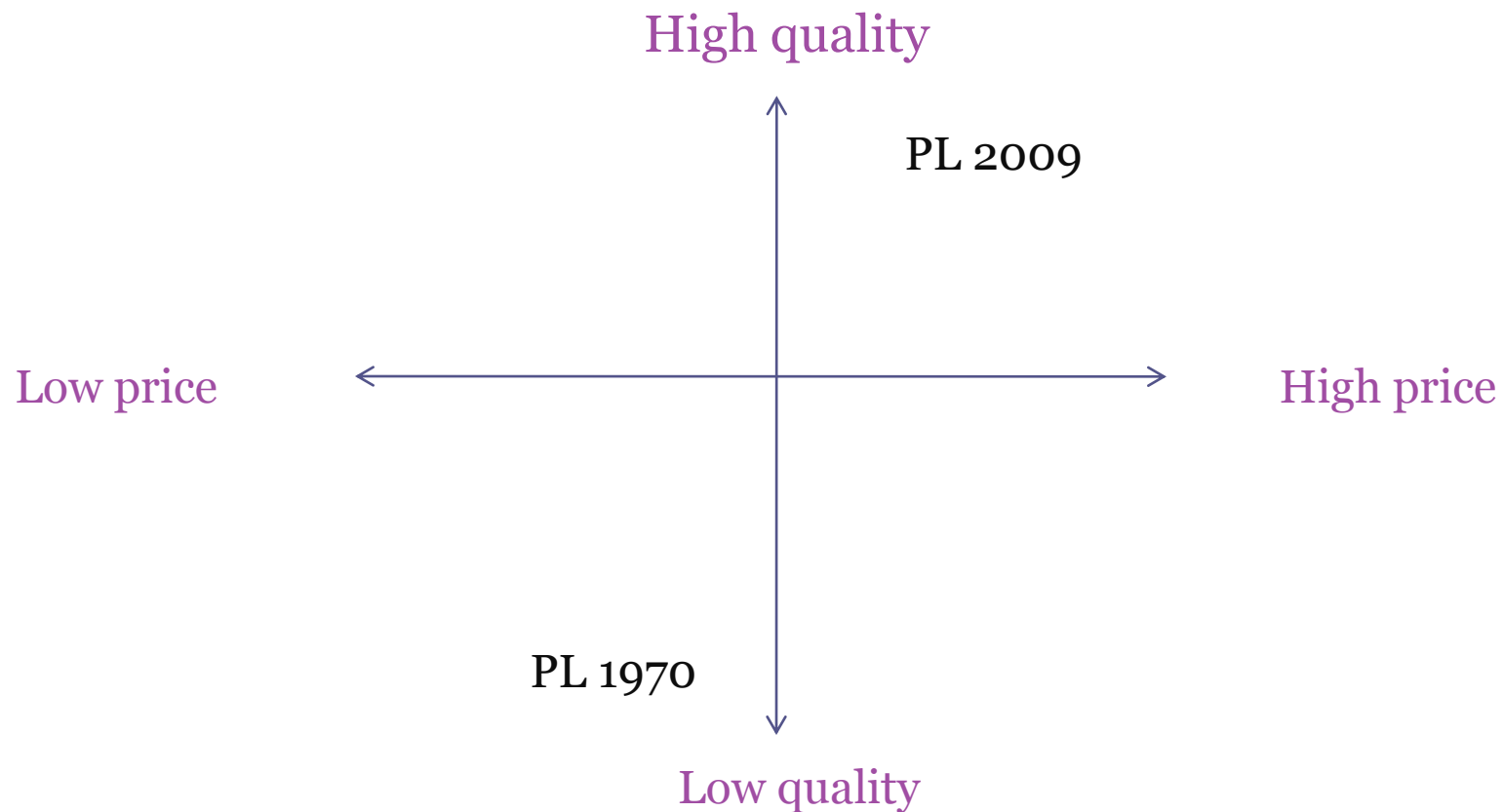
# The market driven changes

- “The global economic downturn is changing the retail landscape in Europe. Consumers are paying more attention to discounters and supermarkets and hypermarkets are fighting back on price. Value-for-money is now at the top of consumer shopping lists and that is always good news for private label. Retailers recognize, however, that even in recession shoppers expect quality and assortment” – Sharoff B. PLMA President
- The store brands occur in all countries, from the richest and most developed to developing countries. General assumption that PL are for low income households or those that need to economize by buying bigger sizes is no longer true.
- EU PL market share across revenue levels:
  - Low income households 32%
  - High income households 28%

# From private labels to store brands

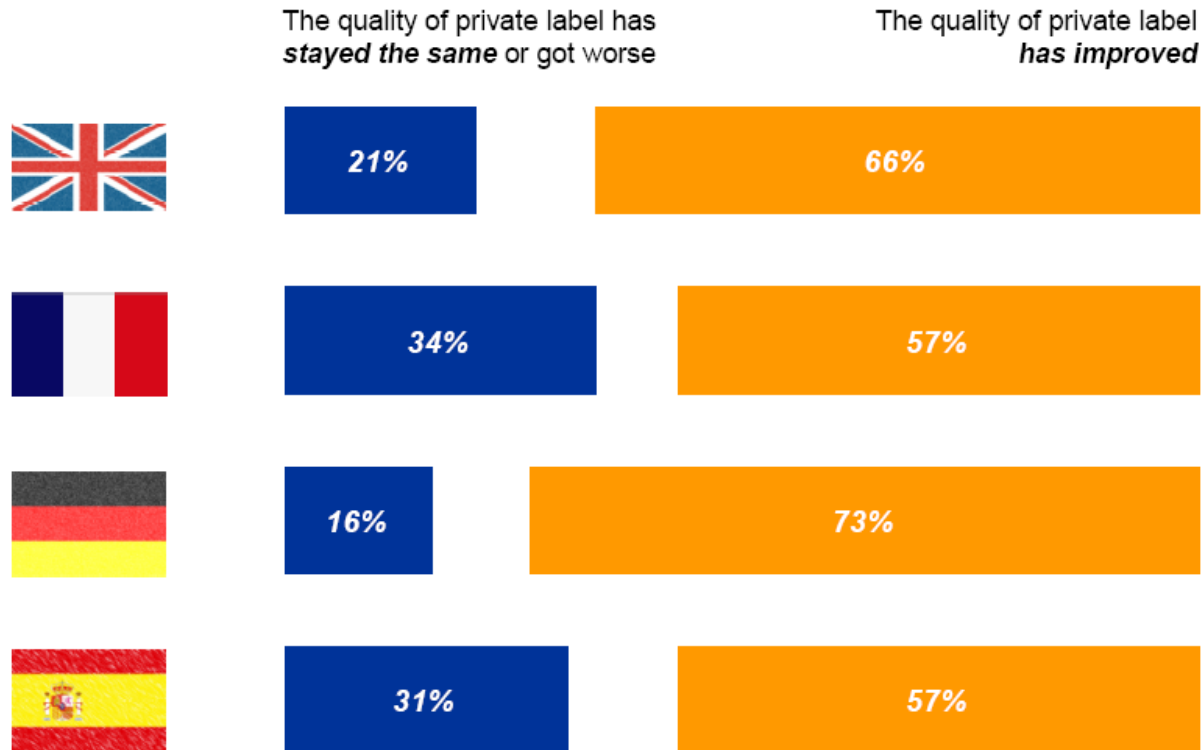
- First real known PL product – smoked bacon, Sainsbury UK, 1882
- 1920 – real rise in PL. Retailers noticed a shrinking profit margin for branded goods
- 1970 – real revolution with PL. Retailers started to develop national chains and to work on successful PL programs.
- Once PLs ment fighting strong manufacturer's brands, now they are real store brands in the eyes of consumers, who are becoming loyal to them.
- Today, well managed store brands contributes to store's reputation. They are not just pure copycat anymore, as they become like real brands that innovate and build awareness and loyalty.

# The changing nature of PL



# PLs Changed Quality Perceptions

## Private Label – Quality Perceptions are improving



# Reasons why having PL

1. Simple financial evaluation (maximizing turnover and margins)
2. Offering a price driven assortment toward customers and hereby opening this consumer segment while fighting with competition
3. Building loyalty and image to the retail chain
4. Creating an alternative to brands and getting more manufacturers insights, thus increasing the negotiating power.
5. Covering special segments which could otherwise not be offered
6. Export

# Building strong PL

- Strong control over sourcing: stable partners, clear tender procedures, competitive offers, product safety, ethical sourcing-fair trade, meeting regulations
- Promotional activities to communicate products quality and personalities.
- In store positioning and merchandising
- Attractive pack designs reinforcing store's image
- Service innovations that spark off word of mouth

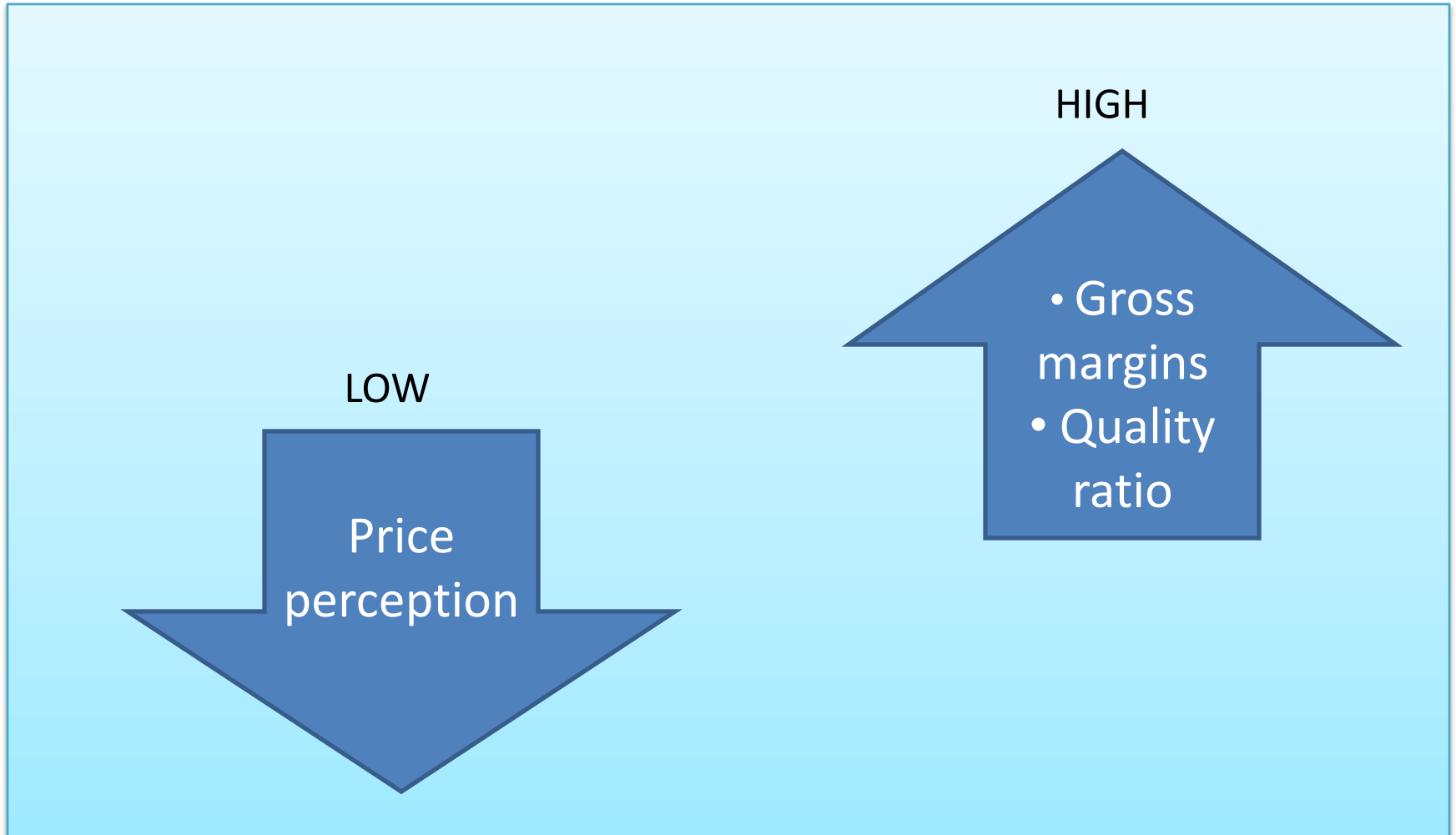
# Building store brand's equity

## Private label plays a central role in marketing campaigns



- » Private label is central to **Migros'** strategy and reinforces the retailer's value and quality credentials
- » Following the launch in March 2009 of its new slogan 'M comme Meilleur', Migros has embarked upon a new and innovative advertising campaign across Switzerland which runs for the rest of 2009
- » It builds on the strong identification which the Swiss already have with the Migros brand, highlighting:
  - Quality/Price
  - Freshness
  - 'Localness'
  - Sustainability
  - 'Swissness'
- » The orange 'M' is central to the campaign; Migros wants to say that anything which carries the Migros logo has added value
- » As well as TV and print advertising, a section of the Migros website ([www.migros.ch/campagne](http://www.migros.ch/campagne)) is dedicated to the campaign and includes the TV advertisements, games and information

# Retailer goals



# The financial equation of PL

- In times of tough competition and decreased consumer purchasing power, store brands drive retailer's growth.

**Net margin = gross margin – costs**

**Stock rotation = Sales per m<sup>2</sup>/Investment per m<sup>2</sup>**

**ROI = Net margin x Stock rotation**

- The margins on PL are better than that on manufacturer's brands.
- Manufacturer's decrease margins in order to persuade retailer not to go further.
- Increase in the number of manufacturer's innovations, contribute to ROI.
- Store brands increase the loyalty to the store itself.

# Difference in cost composition between PL and branded equivalent

<b>Suppliers cost savings</b>	<b>10,6%</b>
Lower supplier margin	18,8%
Retailers purchase savings	29,4%
Lower retailer price	19,3%
Higher retail margin	10,1%
Source: UK Competition commission 2000	

# The optimum PL share for a store

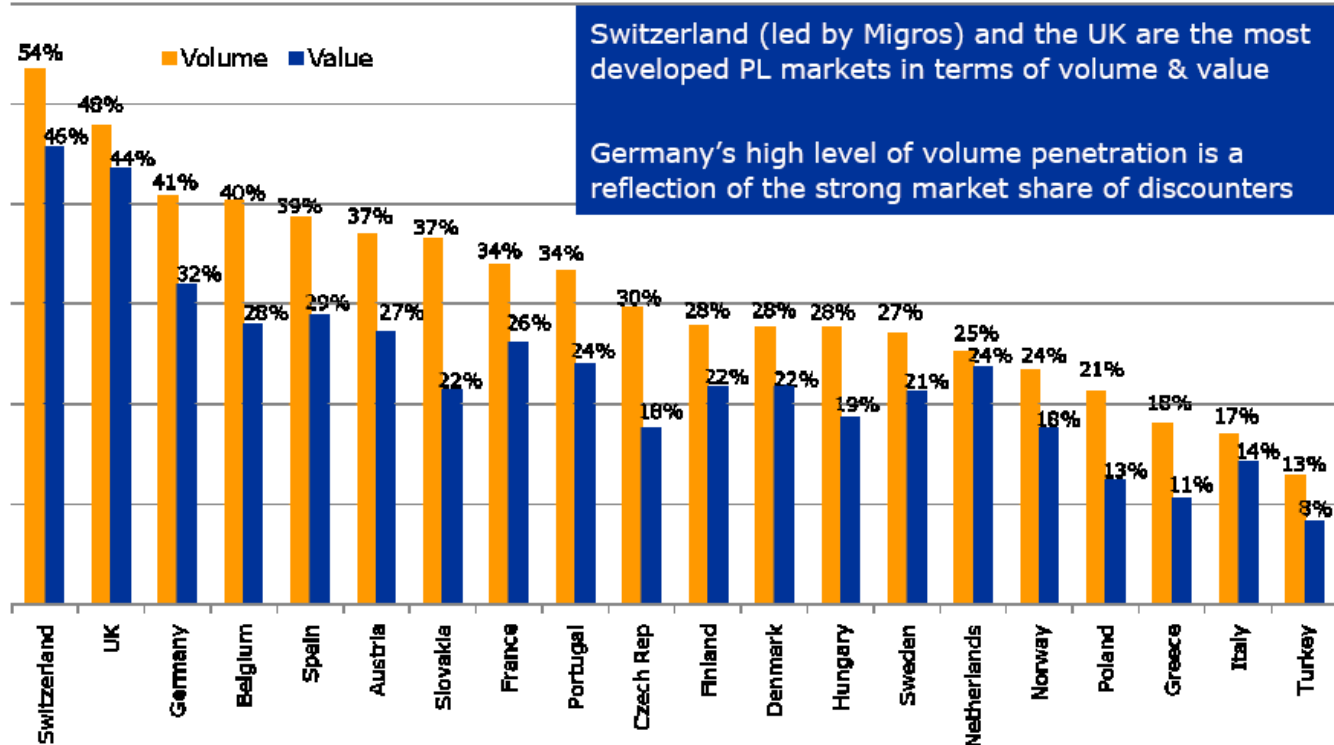
- The part devoted to PL is a retailer voluntary strategy, thus measuring the increase of the PL share of the offer on the frequency (average number of purchases per week in relation to the number of referencess offered)
- 19% - the best frequentation index for large hypermarkets
- 25% - for small hypermarkets
- 30% - for small and large supermarkets

# Average PL volume share

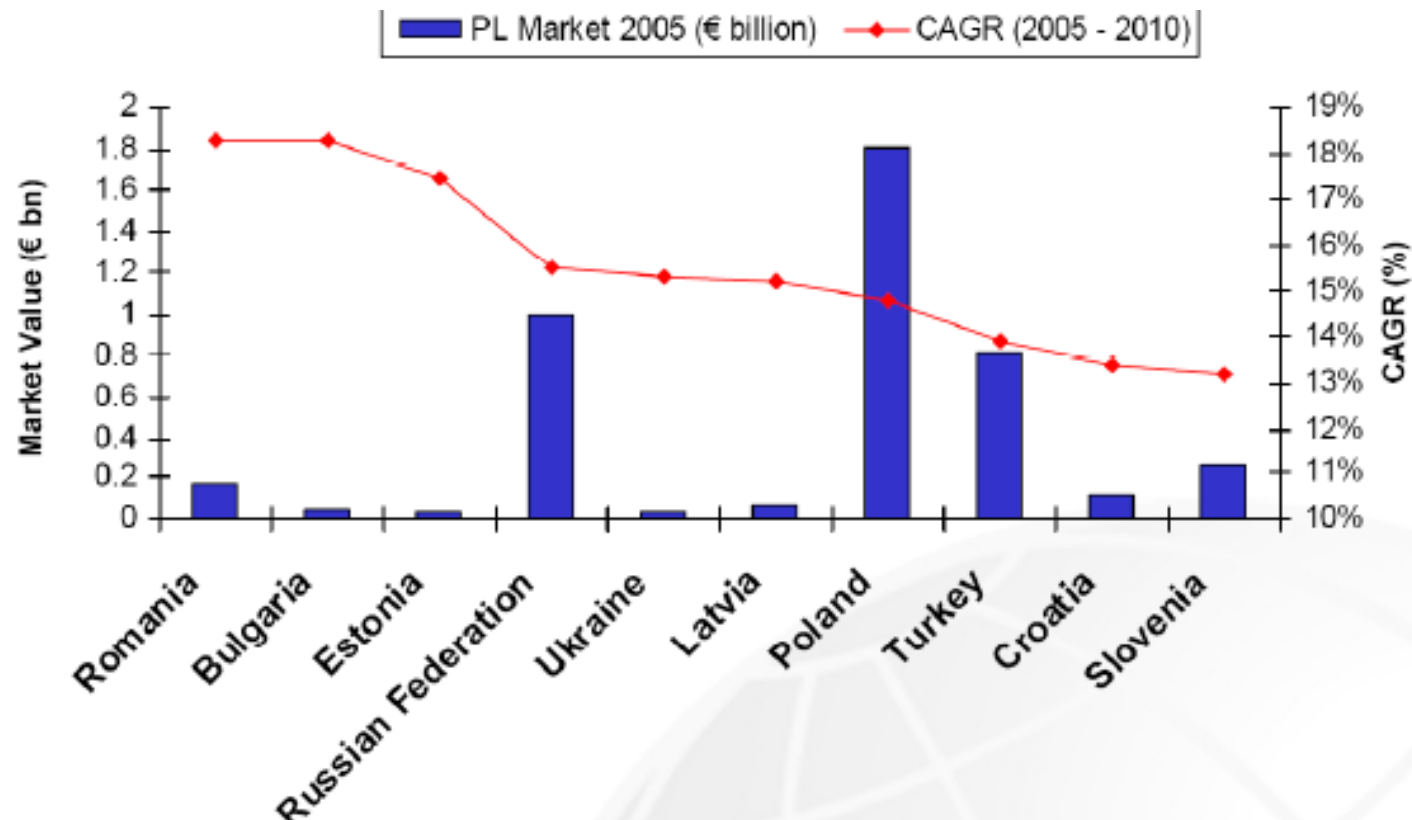
<b>Hard discounters: Lidl, Aldi</b>	<b>65 – 95%</b>
Major traditional groceries:	
Tesco	50%
Wal-Mart	40%
Metro group	35%
Intermarche	34%
Rewe	25%
Carefour	25%
Retailers in less developed countries, retailers with more fragmented retail structure	0,1 – 3%

# EU PL volume and value share

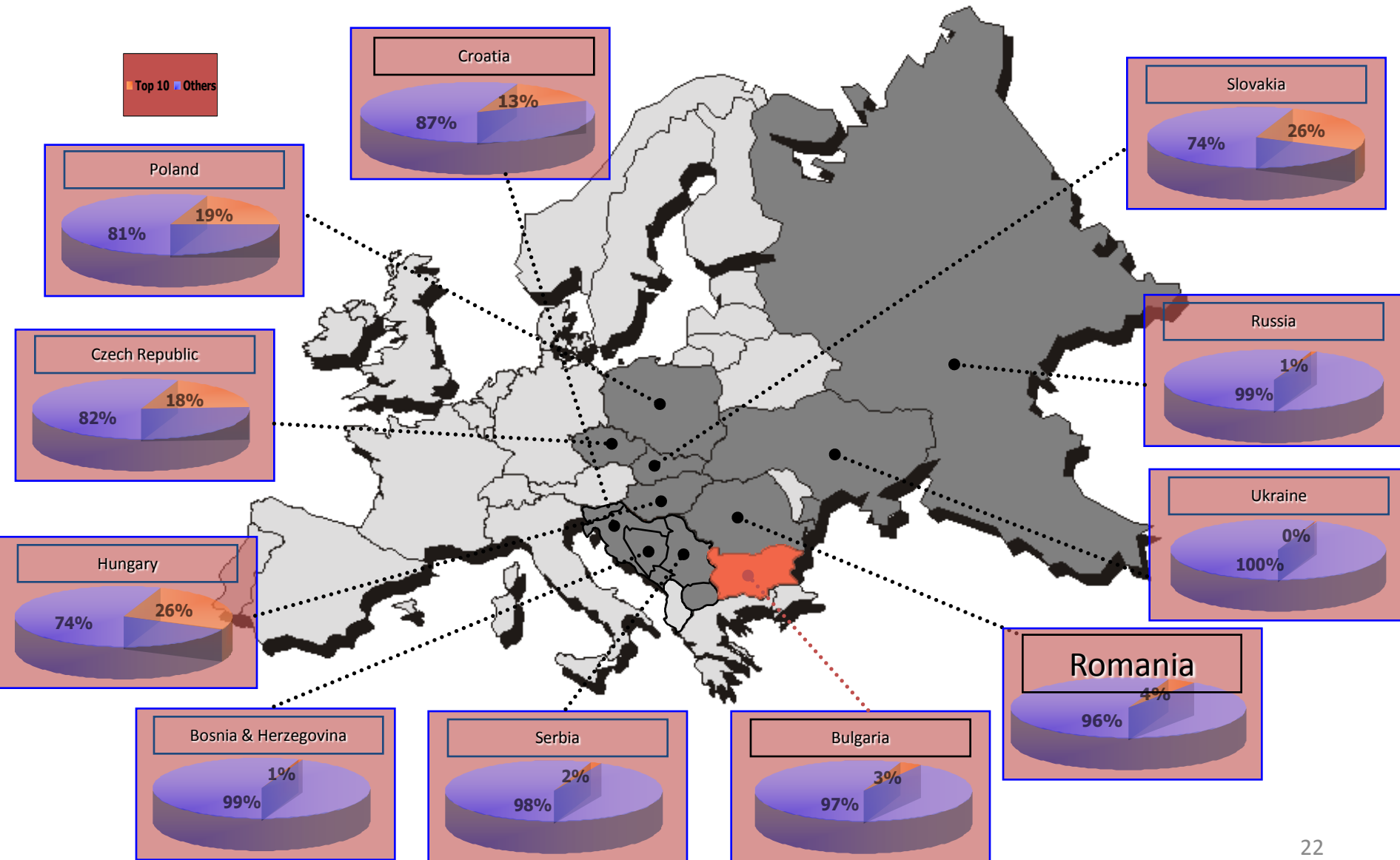
## European Private Label Volume & Value Share, 2008



# Increasing PL market share

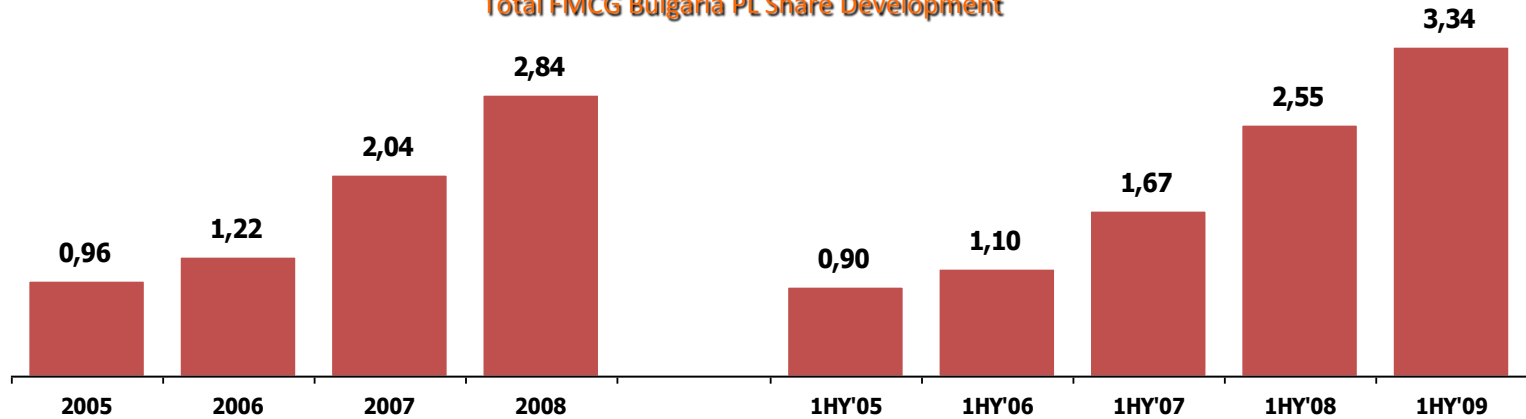


# PRIVATE LABELS – PIECE OF THE PIE VARIES ACROSS THE REGION



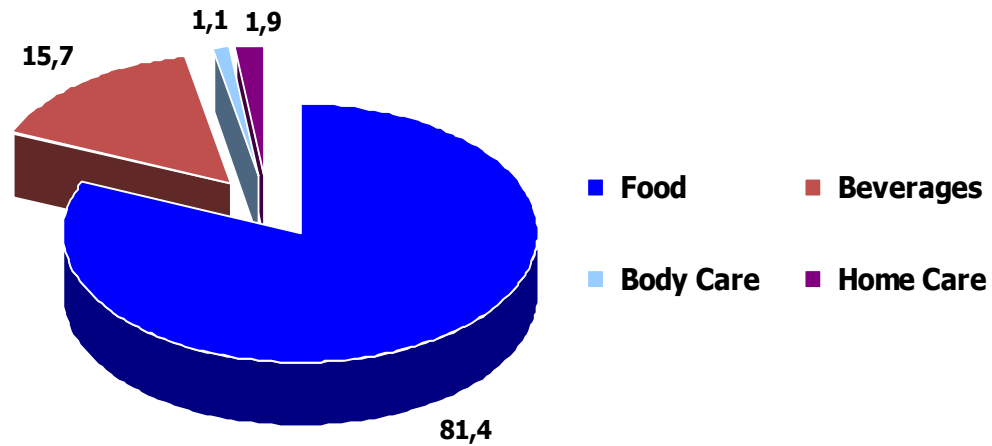
# Private Labels – How big is their piece of the pie?

Total FMCG Bulgaria PL Share Development



Private Labels Shares by Baskets

1HY'09



# Wise to adjust the assortment

- There are brands so strong that leaving them out of the assortment will mean loss of consumers.
- Example, Lidl Germany, 2004-2006: major engine of Lidl's growth is the introduction of manufacturer's brands in the assortment

<b>Brand sales growth</b>	<b>16%</b>
PL sales growth	9%

# Typical PL categories

<b>Cookies</b>	<b>96%</b>
Frozen vegetables	94%
Garbage bags	85%
Cotton wool	79%
Fruit juice	77%
Kitchen paper	75%
Ham	74%
Pasta	65%

# Typical brands categories

Make up	99%
Hair colourants	98%
Baby food	96%
Chewing gums	92%
Shaving products	90%
Deodorands	89%
Floor washing products	88%
Cola	82%

# Example of smart balanced PL portfolio

Tesco Finest	Premium quality & high price
<b>Tesco Special</b> Organic, Fair Trade, Healthy Living	Special segments & medium/high price
<b>Tesco Standard</b>	Commodity level, quality at medium price
<b>Tesco Discount</b>	20% cheaper than Standard, twice the cost of Value
<b>Tesco Value</b>	Generic quality at lowest price

# Key instruments for retailer's future growth

- Category management
- Efficient consumer response
- Private label profitability



Thank you!