

## The rise and rise of own label

I'm frequently challenged to explain, and indeed justify, why I think brands are so important. The most robust challenge of late has come as part of a conference debate with the investment management firm Baillie Gifford.

During our debate we discussed the dramatic rise of the supermarket own label ranges. The evidence is very powerful that in the last two and a half years the percentage of shoppers' budget spent on own label (also called private label) products has started shooting up. This would appear to be great news for the supermarkets, who make higher margins from selling own label goods, whilst being potentially very bad news for the branded goods companies where volumes and pricing are both under attack from own label goods.

Own label has evolved dramatically over the past few years. Taking Tesco as an example, own label accounts now for around half their UK sales. And it's a zero sum game of course: every pound spent on own label goods means a pound less on traditional brands.

But own label hasn't always been the powerhouse it is today. Turn the clock back to 1970s and own label really meant low quality generic products which were purchased only because of the price advantage they offered: groceries as commodities. The value ranges of the supermarkets, in their simple (deliberately downmarket) packaging still offer that option of course. The product quality is still not great but those value products have a place in everyone's shopping basket depending on circumstances. The price difference is still the main driver. A Tesco own label, value range, cereal can cost as little as 70p compared to around £3.00 for the equivalent size leading brand product from, say, Kellogg's.

The next step in the evolution of own label were the 'copycat' products. These products mimic the major label products in packaging design and colour, name, and even in features like associated cartoon characters. You only have to compare Tesco's equivalent to Kellogg's iconic Rice Krispies product to see just how sophisticated is the brand imitation. Of course there is still a big price difference. In this case the own label imitator is around half the price of the Kellogg's product. It's a pretty compelling alternative, with excellent product quality.

Couple this with the fact that it's the supermarkets that control their own shelf space and you can see a pretty formidable competitive threat to the traditional brands.

The third and most recent development in the growth of own label is typified by the Tesco Finest range, and its equivalents from Sainsbury's (Taste The Difference) and from the other leading supermarkets.

What has been achieved in these cases is something quite sensational in a brand sense when you consider the very humble origins of the own label concept. These premium own label ranges have become aspirational brands in their own right. Remarkable I think, and a phenomenon that demonstrates how own label has truly come of age.

Of course we're talking primarily about the UK and western Europe here. Penetration of own label in the USA is actually a lot lower than in the UK. This may be partly attributable to US consumers being more brand conscious than UK consumers, but the main reason is probably more to do with a combination of a more fragmented supermarket sector and the fact that there's never been a really big retailer in the US championing the rise of own label.

That difference across the Atlantic notwithstanding the trend in own label sales is still inexorably upwards. There has been a steady increase in market share and this has accelerated recently owing to consumers becoming a little more price conscious in the recession. In the USA the market is reaching a more serious stage of development where the big players are beefing up their own label ranges and expanding their range

of offerings. Wal-Mart for example has just revamped its own label brand and is dedicating a lot more shelf space to the category.

The same trend can also be seen in lots of economies, both developed and developing. But part of this trend could be to do with the recession we're all in at the moment, so what happens when we're through the recession and the economy is growing again? Won't customers just ditch the cheaper private label products in favour of branded products?

Well the figures would indicate otherwise. In fact own-label products have outgrown branded products in 9 out of the last 10 years in the US. It's true that the recession has boosted growth of private label, but the evidence suggests that most of the people who switch to private label during leaner times stick with it: partly at least because the stigma associated with own label has largely disappeared, and the products are of much better quality than in the past.

All this represents a huge shift in the balance of power towards retailers and away from the brands. Or does it? Are consumers really deserting the famous brands that they've known and stayed loyal to for so long? Well the figures would indicate that there are two answers to that question. For a start the gains in market share of the own label ranges don't appear to have come at the expense of market leading brands. It's the brands outside the leaders' pack that have suffered. Market leaders would appear to be as strong as ever. And coupled with this, there is a marked difference in own-label success depending on sector. Some products, such as staples like milk and cereals, seem to be more easily conquered by the own-label onslaught than others.

Spirits, like whisky for example, are still very much the territory of brands. As are confectionery products. A brand that's been around since 1937 in the UK, created by Joseph Rowntree and now owned by Nestle, and licensed to Hershey in the US, KitKat has survived wars, generational shifts, and healthy eating concerns. Now approaching its 75<sup>th</sup> anniversary, KitKat seems as popular as ever. In Britain we consumed about 700m KitKats last year. That's a slightly scary 12 each! The own label equivalents of KitKat don't come even close to threatening the branded product.

So why do some brands seem immune to the own label phenomenon? Well nothing is immune to change of course, but the brands which seem to be surviving and thriving seem to me to be those which have managed to continue to 'mean something' to consumers. Because brand, as I always say, is ultimately about meaning.

KitKat has come to mean taking a relaxing break. Heinz baked beans (as opposed to the own label equivalent) means something to do with family, with comfort, with trust, and with childhood. And so on. Find a brand that actually means something (or to put it another way find a brand that has made an authentic emotional connection with its public) and you'll find a brand more likely (far, far more likely) to survive the apparently unstoppable rise of own label.

As in the supermarket so also out in any other field of branding. In a world where everyone has a cheaper price, or a two-for-one offer, making a real emotional connection with your customers (through providing meaning) is, I believe, the most powerful way of all to survive and thrive.

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