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In this series of articles on Shopper Marketing, Oblique draws upon its extensive shopper experience, as well as the only in-store shopper behavior metrics & benchmarking database within Australia – Shopperpedia™ – to bring you understanding, real life Australian case studies and a global perspective on what it means to go beyond the surface of shopper.

Series:

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- Part 6: Forum: Your opportunity to have your say. Please contact us to post your view. Entries will be anonymous: info@oblique.com.au
- Part 7: New Year resolutions and predictions for 2010

Please contact Amanda Howe at Oblique directly to find out more: 02 9452 7777.

Author Overview:

Amanda is a top level industry thought leader and is known for her considerable strategic outlook as well as her ability to deliver day-to-day practical solutions. She works with many of the key FMCG players as a management consultant and is a business coach for some of the highest level sales and marketing executives within the Asia Pacific region.

Part 3: A private concern

Keep shoppers on-board, in-store and filling up their basket with the brands you want

Following a recent shopper forum held in Melbourne that focused on shoppers moving to private label and what brands can do about it, I've decided to put the spotlight on this topic. It certainly is a very real question that is impacting more and more brands and categories in our market. When I last approached this topic in Retail World back in 2004, the UK was already swamped under a great wave representing 38 per cent of total grocery sales. This was bringing about significant repercussions for brands and a massive reduction in the number of non-retailer products available on the shelf. From my discussions at this time with many Australian FMCG businesses, this was still just another item on the to-do list. Many did not see it as a direct threat, or believed it wouldn't impact their category or their brand. Australian consumers, it was assumed, were cut from a different cloth, and were much more brand-centric and loyal than their British counterparts. I wasn't sure that I believed it then, and the reality in 2009 is certainly very clear – the retail environment and the shopper/consumer mindset has

evolved, and evolved fast. In this article we will cover why private label is becoming so strong, where brands are still winning, and what manufacturers and marketers can do about the growing competition from private label.

Labelling a new phase

The truth is, private label is already a force to be reckoned with in the Australian market, taking 23 per cent* of total market share. With total non-branded goods growing at 5.9 per cent**, it is outperforming total grocery which sits at 5.5 per cent**. It has consistently achieved more

baby products and confectionery also now falling victim to the turning tide.

Gone are the days of 'trolley shame' where shoppers would carefully hide a few non-branded items behind the toilet paper for fear of bumping into a neighbour in the queue who might see them buying 'value' items. Private label is growing up and is in its next development phase. We are now seeing a two-tier offering from many retailers – a basic no-bells-and-whistles product and then a premium private label offering. These satisfy a number of consumer needs. Firstly, they keep the value-seeking customer loyal. If

the shoppers see that their basic needs are continuing to be met by their retailer, they are less likely to change stores. The second is that, at the

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premium end, a higher-quality product that sits eye-to-eye with other branded items within the category in terms of the total offer, but at an (approximately) 15 per cent reduced price point allows a perceived smaller leap of faith for the brand snobs among us. If the private label can develop a strong point of difference, it can build the total retailer offer and make it a destination shop.

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The ALDI threat

Expanding private label market share has been a key strategy by both Coles and Woolworths to fend off the fierce competition from ALDI, and also from the impending entry of Costco into the market. ALDI has had staggering growth in Australia, with 200 stores currently open and plans for another 100 in the next few years. This success is the underlying reason for the total expansion of private label. In 2008, ALDI added more than 172,000** households to its consumer base, with these consumers now buying into more of its 'exclusive brands' which are essentially ALDI store brands. Word-of-mouth has been an essential element of ALDI's success, with mums across the country discussing the quality of ALDI's nappies and groceries while picking up the kids from kindergarten or school. While these key recommended items are the entry point for new shoppers, once they buy into the ALDI experience they may finally undertake a 'full shop' as they try out more of these products at home and find that the meet or even surpass expectations. Reduced footfall for Coles and Woolworths is a terrifying prospect, and they have upped the ante with private label support campaigns, the latest for Woolworths being the Homebrand TV campaign with branded items referred to as 'fancy packaging'. Coles' strategy is \$10 meal ideas to feed the whole family, all which are made up of own-brand goods.

Smart shopping has become cool, and now more so than ever. With the economy looking less than bright, the full contents of the standard grocery basket are up for appraisal, and savvy shoppers are happy to make the swap to a value offer if they can be assured the quality is there. For the products and retailers that meet the mark, a sizeable slice of the pie is in the offing. A recent Heinz-commissioned Australian study of 1500 shoppers found that we are eating out less, and preparing more healthy meals at home. As a consequence, grocery budgets have increased, and sales figures have also followed suit. But there is a clear underlying message here – the trend goes much further than just the price ticket. These shoppers are not settling for second-best.

But brands shouldn't be hoisting the white flag just yet. For the retailer there is a fine balance between keeping shoppers content and loyal with a range of value items and providing the overall business with growth by keeping categories strong. If private label dominates a category, it can dramatically reduce the total value of that category, and as a result reduce the shopper's basket spend. So thriving brands are still a necessary ingredient for retailer success, and retailers are far from having a business model that allows them to spend time and dollars researching and developing

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new products. Until this point in the development of private label, retailers have been able to focus on the items that do not require large amounts of product development such as milk, cheese and bread. Many of my clients claim to have shared business plans down to a product level with the retailer, only to find a similar private label offering on-shelf only months down the line. I don't doubt these tales are true. The retailer has to have their business at heart and will take opportunities as they see fit. But replicating something that cannot be quickly churned out by any of your competitors is a different ball game. Taking a fast-follower strategy is not viable for the retailer – it reduces sustainable category growth and isn't a cost-effective option (see the chart to the left). We shouldn't be content with the idea that NPDI is easy to reproduce, because it's not, and the time period does also not allow for either retailer or manufacturer to see whether the new product is going to gain traction.

Brands can and do prosper in competitive environments, and some manufacturers who are part of low-competition categories with only a couple of players (and probably private label) forget this. At the other end of the scale the beauty industry has a very broad competitive set – take moisturising lotion for example, it is

multi-channel and multi-brand with a huge array of price points. Yet, the key and niche players here have been able to maintain strong differentiation and high emotional engagement with women across many age groups. Ask any woman on the street and they would be able to tell you all about L'Oréal, Clinique, Nivea and Clarins, and probably tell you who they are aimed at and roughly how much they cost. The retailers would only hope to come in at entry level in the beauty game. They can only wish to have the investment or the know-how in any short period



seeing private label as another contestant)? Shoppers see and treat them like brands, so why shouldn't manufacturers? Private label is only going to grow to the point where brands actually offer resistance, and defend that territory that cannot be duplicated by private label. If your brand's on unsteady ground it's time to rediscover that point of difference you can stand behind, and reinforce it with your shoppers in every way possible. Play to your strengths – if the competition manufactures overseas, let it be known that you're local. If your health credentials leave your rivals for dead, shout it from the rooftops. Stand for something beyond the product itself by supporting a good cause (like DHL and Surf Life Saving Australia or Mount Franklin and the National Breast Cancer Foundation) or promoting sustainability. Stay abreast of your shoppers, seek to understand them and know what they would benefit from, whether it be packaging renovation, product improvements or NPDI.

No longer is there anywhere to hide if your brand and product is not offering all-round good value. If you cannot justify your price to the shopper in terms of what they are really getting for their money, you may as well be manufacturing for the retailer. More than ever before we are dealing with a switched-on shopper who is not going to be steamrolled by empty promises, and with the economy in crisis, we're rethinking saving time versus saving pennies. Private label is here to stay, but what happens next is up to all the next move by the players in the grocery game. Until next time! 🛒

* Australian Food News, 'How Much Can the Australian Grocery Sector Learn From the European Experience'

** Nielsen 2008 Grocery Report

