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Generic brands and product differentiation strategies

ABSTRACT

Generic or own brand products were initially only lesser expensive copies of the branded label alternative, but nowadays, pricing alone is not enough in order to survive in the Fast Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG) markets. With this in mind manufacturers of generic brands have adapted to this rapidly growing niche by investing in design and marketing during the initial phase in order to be perceived as having a quality product comparable to that of the branded products. In addition, they have gone further ahead with a second phase and resorted to innovative product differentiation strategies and even pure innovation in many cases. These strategies have granted generic brands constantly increasing market shares and a position of equals relative to national brands.

Using previous analyses and case studies, this paper will provide conceptual and empirical evidence to explain the surprisingly fast growth and penetration of generic supermarket brands, which in their relatively short lifespan, have grown to rival the historical market leaders, the branded products. According to this analysis, the main conclusion is that the growth in generic brands can be explained not only by price competition, but also by the use of innovative product differentiation strategies.

INTRODUCTION

The following paper presents an in depth analysis of the strong growth of own brands in the fast moving consumer goods market (FMCG)¹ and the underlying reasons for it. There is a long list of similar terms that generally speaking refer to *brands* but that have more precise connotations that are relevant for this paper. Before going any further into the subject of analysis and in order to avoid confusion between the two groups of brands that are compared in the paper, the following definitions are provided:

“A retailer *own-brand* is a product or service that either carries the brand of the retailer or a separate brand name that is controlled by the retailer. Historically own brands were sometimes referred to as *private labels*, with typical examples being generic grocery items simply labeled with the grocery retailer’s branding” (Oxera, 2010). Other equivalent names that will be used are *generic brands*, *store brands*, *house brands*, *retailer brands*, *distributor brands* and *home brands*.

Brand names, on the other hand, are those under which traditional companies, and not retailers, sell their products. These products are also known as *branded products*, *manufacturer brands*, *producer brands*, and *national brands*.

This paper is organized into two main sections. The first section focuses on the evolution of the FMCG market and the impact of own brands on manufacturer’s products. It commences with a brief history of the retail industry’s birth and comments on its growth phases until reaching its consolidation. Furthermore, this first part will comment on the different circumstances leading to own brand conception, and the

¹ Fast Moving Consumer Goods (FMCG) – or Consumer Packaged Goods (CPG) – are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as soft drinks, toiletries, and grocery items.

implementation into supermarkets, providing details on the different evolutionary phases and changes in strategy and consumer perception from the start until present.

The second part concentrates on the current situation of generic brands and their constant battle against branded products. An analysis of the existing rivalry between generic brands and branded products is carried out, focusing on the four principal supermarket sectors: food & beverages, cosmetics & hygiene, cleaning products and pet food. In each of these sectors, the innovative product differentiation strategies that are being used are examined.

Lastly but not least, some concluding remarks as well as some forecasts for future evolutions are exposed.

EVOLUTION

This section provides an insight into the evolution of store brands from their conception until present. Before focusing on the distributor brands themselves, a brief historical look at the birth of supermarkets as we know them today will be made. Such a description is essential, keeping in mind that the development of store brands would not have been possible without the existence of distributors who had a significant volume of sales, such as supermarkets. After that, it exposes the factors that allowed the introduction of private labels and how they grew initially. But store brands, nowadays, have little in common with store brands at their first stage. This is the reason why the section continues with an explanation of the change in the store brand concept, and the rationale behind it. Finally, specific cases are presented so as to exemplify and provide further understanding into the evolution of private labels.

THE SUPERMARKET BIRTH

In the early 1900s, the common food shopping experience consisted in standing in a line at the store and waiting to have your products hand fetched by a shop clerk behind the counter when it was one's turn. In addition, stores were usually either specialized (butchery, bakery, fish store, fruits and vegetable store, etc.) or small convenience stores with a very limited size and selection. This meant increased waiting time and a very limited role for the customer in the choice of each product.

In 1917, the American entrepreneur Clarence Saunders was awarded the first patent for what he referred to as a "self-serving store"². His idea consisted in a large store in which products would be placed along long aisles so that customers could personally examine all of the products and hand pick them before going through a packaging and payment area near the exit. Even if Saunders is historically awarded credit for the idea, the first supermarket chain, as we know them today, is considered to be King Kullen³ and not Saunders' chain Piggly Wiggly⁴.

The first King Kullen establishment was opened in Queens, New York in 1930 by entrepreneur Michael J. Cullen based on the ideas that Saunders had put into paper. Cullen developed and added on to them by creating separate food departments in the 560 m² store. By the time Cullen had died, he had succeeded in opening 17 King Kullen stores (Anonymous, 2002).

A great variety of similar chains appeared in the US and Canada during the following years but their advance on to European soil was prevented by WWII. In the UK in 1947,

² Original patent:

<http://www.google.com/patents?id=UnZhAAAAEBAJ&printsec=abstract&zoom=4&hl=es#v=onepage&q&f=false>

³ King Kullen. Detailed information on the company's background can be found in the about section of the corporate web page accessible through the following link: <http://www.kingkullen.com/about-us/>.

⁴ Piggly Wiggly. Detailed information on the company's background can be found in the about section of the corporate web page accessible through the following link: <http://www.pigglywiggly.com/about-us/>.

there were just ten self-service shops in the country (Hamlett, 2008) but after that, they spread at a good pace and the retail market that we now know at present, was established.

Table 1, based on data from The Nielsen Company, depicts that while the sales volume of traditional stores in 1976 in Spain was 63%, that of 1985 accounted for only 38%. Supermarkets and superstores, on the contrary, went from a sales volume of 17% to 37%. In 2000, the amount of sales in traditional stores, was only 7.4% (Puelles & Puelles, 2003).

Table 1. Sales volume evolution by type of establishment (Spain)⁵

	1976	1980	1985
Superstores	6	12	13
Supermarkets	11	17	24
Self-service	20	21	25
Traditional Stores	63	50	38

Source: Puelles&Puelles, 2003; based on data from Nielsen.

THE INTRODUCTION OF STORE BRANDS

The increase in the concentration of the distribution channels and the correspondent rise in supermarkets' sales volume, made it possible for supermarkets to start investing in their own brands (Puelles & Puelles, 2003; Puelles & Puelles, 2009). It was a relatively cheap and “easy” opportunity for supermarket owners to diversify and increase revenue sources at a relatively low cost.

Since their appearance, store brands have not ceased to increase in number and in importance. With a value share averaging 30% for all FMCG in Europe and 18,5% in the United States during 2011, there is no doubt that store brands today play a major role in consumer goods markets. (SymphonyIRI Group, 2011).

⁵ Considering only substances with food value.

At conception, the value proposition of own brands was strictly price related. By simply copying brand name producers' strategies in terms of market research and marketing; by using simple packaging and design, by giving up part of the quality; and by doing without advertising, they could offer the same products at reduced prices. In addition, they did not have to pay to be present in their own establishments (as did the producers of branded goods) and they could place the own products in the most visible areas in order to promote price comparison and sales. Table 2 summarizes the differences in costs between branded products and private label goods during the first period of own brands existence.

Table 2. Differences in costs between manufacturer goods and private labels

	Brand name	Supermarket own label
Marketing	Yes	No
R & D	Yes	No
Packaging	Yes	No
Design	Yes	No
Supermarket presence	Yes	No
Direct materials	Yes	Yes
Direct labor	Yes	Yes

Source: Self-elaboration.

THE EVOLUTION OF THE STORE BRAND CONCEPT

In this section, an initial framework to understanding the initial evolution of the concept of store brands will be provided.

The low price strategy gave own brands a sufficient price advantage in order to obtain a greater part of the market share from the previously established branded products. However, this approach did not favor the creation of customer loyalty and the perception of product value. Moreover, since it carried the stigma of inferior quality, it inspired less trust and confidence (Mullick-Kanwar, 2004). Therefore, "since their

appearance, distributors have gone from conceiving store brands as a tool for increasing market share and profitability, to seeing that there are important benefits derived from the correct management of these brands” (Obuiña et al., 2006). In other words, private labels went from being “no-brand products” to becoming branded products with its own identity that differentiated them and generated value (Beristain, 2002; Alonso, 2003). Understanding the meaning of the word brand is fundamental to better comprehending the transition. In words of the American Marketing Association, a brand is a name, term, design, symbol, or any other feature that identifies one seller’s good as distinct from those of other sellers. Thus, as stated before, products cannot be considered brands until they have their own identity and that they take actions to distinguish them from those of the competition.

Nowadays, store brands no longer copy the strategies of producer brands. Rather, they conduct the necessary market research to understand what consumers’ needs are, and they market their products so as to fulfill these necessities. In order to reach different types of customers, some distributors offer different brands with different characteristics. The strategy followed by Loblaws, Canada’s largest food retailer, provides a good example. The company started offering its “no name” products, with their yellow packaging and bold lettering, which offered significant savings over the national brands while matching their quality. Years later, the firm launched its premium brand “President’s Choice”, aimed at consumers who raved quality⁶. In this case, Loblaws kept its “no-brand products” because they fulfilled the desires of people whose choice was based on price, but they added the “President’s Choice” line in order to satisfy potential customers willing to pay a higher price for a higher quality (Mullick-Kanwar, 2004).

⁶ Loblaws supermarkets. Detailed information on the company can be found in the corporate web page accessible through the following link: <http://www.loblaws.ca/LCLOnline/aboutUs.jsp>

The previous example also mentions the packaging strategies. While traditional generic products were offered in simple packages that allowed distributors to save as much as they could in this feature, store brands today study what type of packaging is the most attractive and most convenient for their products (Rider, 2010). Table 3 summarizes the differences between store brands at the beginning and how they behave today.

Table 3. Traditional store brands vs. today store brands

Traditionally	Nowadays
No-brand products	Branded products
Low price, low quality products	Different product lines: low priced, premium products, etc.
No market research. Strategy was to follow what national brands did.	Market research. Take consumer needs into account and create their own strategy.
Simple packaging	Unique and attractive packaging

Source: Self- elaboration.

Now that a conceptual framework for the strategies between the current store brands has been established, case evidence on these strategies will be provided.

CASES THAT SUPPORT THE EVOLUTION OF THE STORE BRAND CONCEPT

Following are three distinct examples and outcomes of store brand marketing strategies. In Spain, one of the best known examples of a distributor who has exploited its own brands and succeeded is Mercadona. Mercadona has focused on the low priced range of products and has created different brands for various products lines (Hacendado for food, Deliplus for cosmetics and hygiene, Bosque Verde for cleaning products, and Compy for animal food). The company introduced its own brands slowly but surely while discontinuing a significant number of the manufacturer goods that they were offering, while, at the same time, testing what customers prefer and adapting to their

tastes. This strategy has proven to be remarkably successful and an effective approach to creating customer loyalty, while offering only low priced products.

A very different case is the example of Trader Joe's. This US retailer is characterized by offering innovative, hard-to-find, great-tasting foods under the Trader Joe's name⁷. Being the unique distributor with a relevant size of this type of products in most of the occasions, allows the company to access the goods at lower prices than smaller retailers. Moreover, Trader Joe's has focused on a narrow segment of the population, but this segment is very loyal to the firm.

Finally, a third example exemplifies the high cost of failing to incorporate a brand strategy. Sainsbury, a UK groceries retailer, was a pioneer in the UK at commercializing its private label, becoming the first mainstream supermarket in the country to have more than 50% of its turnover coming from store brand sales. However, following the traditional strategy, Sainsbury has failed to understand and fulfill the needs of its customers, and has been surpassed by the private labels of its customer-focused competitors (Mullick-Kanwar, 2004).

IMPACT OF STORE BRANDS ON MANUFACTURER

PRODUCTS: ANALYSIS BY SECTOR

As has been mentioned previously in this paper, own brands have appeared and developed at different paces, depending on the product groups they belong to. The food own brand sector was the first to appear and flourish as a result of continued consumer demand. They currently have the greatest sector market share followed by household

⁷ Trader Joe's supermarkets. Detailed information on the company can be found in the corporate web page accessible through the following link: <http://www.traderjoes.com/about/our-story.asp>

cleaning supplies. Cosmetics & hygiene and pet food, the other two big groups of products, made their appearance later on and up to this day, are still marginal compared to the first two sections mentioned in terms of market share. However, they continue to grow at a steady pace as are all own brands in the supermarket sector. Below each of these sectors will be analyzed separately: food and beverage, cosmetics and hygiene, cleaning products and pet food.

FOOD & BEVERAGES

In the supermarket industry, the food private label sector was the first to appear. The initial growth of generic products occurred in the food products sector. Over time though, supermarkets diversified and now, they also have private label products in other sections as mentioned above.

Over the past two decades, store brands in the food and beverages sectors have increased dramatically. Retailers have expanded the offer of private labels and these products have become more popular between consumers. This is due largely in part to the increased availability of a variety of products being offered at lower prices. Coupled with the economic strain, increased selection has made consumers more attracted to a cheaper option.

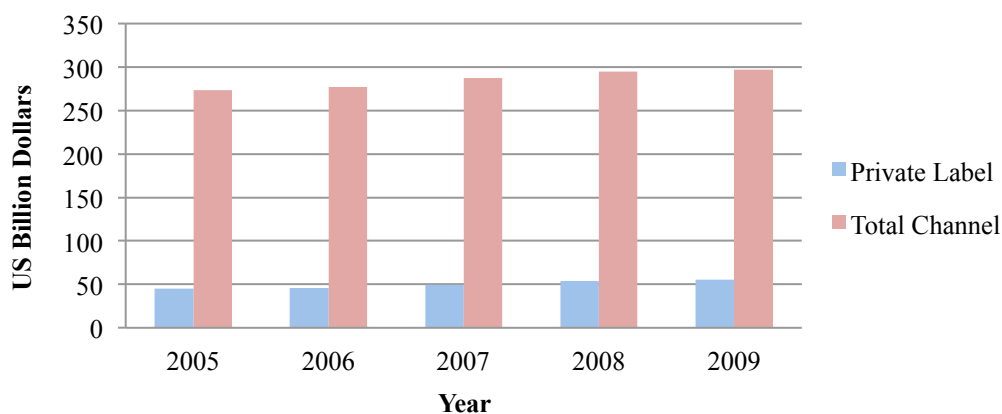
Within supermarket goods, some products have been more affected by private labels than others. The first ones to become popular within customers were basic inelastic goods, such as rice, lentils, salt or sugar. These products came in the same quantities, and were offered at a much cheaper price. The quality was not that different from branded products, but the packaging was not as sophisticated. As foods and consumers' shopping patterns evolved, more general branded products started being bought by consumers, not just basic goods.

Market share differences

In the 1990s the market share of private label products in supermarkets was very low; this however, has changed rapidly. The penetration and the quality of these private label food products have increased impressively in the last decades (Corstjens and Lal, 2000).

According to The Food Institute Report (2009), the sales of store brands in the food industry grew at an annual rate of 4.5 % in the US between 2003 and 2008. From 2005 to 2008 total channel sales grew 8% and private label sales in the US grew 18%. In this 5 year span, private labels have gained over 2 percent of the national brand market share (The Food Institute, 2009).

Figure 1. Five-year dollar trend sales for supermarkets in US billion dollars



Source: The Food Institute, 2009.

This shift in consumer habits towards private label products can be explained by two related factors. One was the 2007-2008 food price spike. This price spike was primarily caused by oil price increases, escalations in the costs of fertilizers, food transportation and industrial agriculture; which in turn contributed to the worldwide rise in food prices. Due to this, people felt the need to buy private label products since they were the cheaper alternative to the more expensive products. The other important factor that contributed to the rise in the consumption of private labels was the 2007-2009 economic

recession. As Lamey et al. (2007) stated, during economic downturns, private label demand increases and national brand demand decreases, because of the lower price of private label for comparable products.

Price differences between private labels (PLs) and national brands (NBs)

Connor and Peterson (1992) came up with the assumptions that the market share of private labels within categories was very small, that there was no product differentiation among PLs and that private labels were not advertised in the media. These assumptions were viable in the 1990s, but have changed over the decades. PLs have evolved and so have their prices and price differences.

At the beginning of their existence, the most characteristic feature of generic brands was their large difference in price compared to branded products. This price difference has decreased with time due to the evolution in the quality and the packaging of store brands which has increased the manufacturing costs, thus making the price difference smaller.

Apart from the regular price that these products have, generic brands sometimes engage in promotions and sales in order to increase sales by luring customers. The price difference between PLs and NBs is similar with or without promotions, stating that in the US the difference between shelf prices is 23% and rises to 25% during PL promotions. Volpe (2011) shows that the difference between PL prices and NB promotional prices is only 3%, so retailers may set PL and NB promotions simultaneously, to manage brand-level shares.

Table 4 shows the results found by Volpe's (2011) study in the differences for shelf prices and promotional prices. They vary considerably across supermarket departments. Among shelf prices, the greatest difference is in the beverage sector, at 29%, and the

smallest difference is in baking and cooking and the dressing and salad toppings departments, at about 17%. For some departments, the promotional price difference is bigger than for the shelf price, while for others it is smaller. The overall average NB/PL price differences presented here are lower than the 40% found by Dhar and Hoch (1997) or the 30% found by Ailawadi et al. (2001), and imply that PL and NB prices may be merging. This is because PLs are starting to be very similar in quality to NBs and therefore the price gap is decreasing.

Table 4. Average percentage differences in national brand (NB) and private label (PL) pricing, by department

Department	Percentage difference, NB-PL	
	Shelf Price (%)	Promotional Price (%)
Baking and cooking	17.24	17.56
Boxed Dinners	28.45	26.83
Beverages	28.95	27.30
Breakfast foods	26.59	26.46
Canned foods	23.35	24.82
Condiments	19.25	24.47
Coffee and tea	18.83	19.45
Dairy	20.58	25.51
Salad dressing	16.88	21.08
Frozen food	19.13	22.77
Mexican	24.61	26.25
Meat and seafood	18.13	12.06
Packaged bread	33.62	34.54
Pasta, rice, and beans	22.64	22.33
Snacks	22.98	20.87
Soup and chilli	25.06	28.39
TOTAL	22.89	24.53

Source: Volpe, 2011.

Product differentiation

In addition to the price differences mentioned above, there are other features that vary between NBs and PLs. PLs quality has improved since they appeared in the market. A study by The Nielsen Company shows that private label products are viewed positively

by the majority of US consumers, and this is because of the improved quality. 63% of consumers believe PLs quality is as good as name brands, and even 33% believe some store brands are of higher quality than name brands. 62% of consumers report that private label products are just as good as national brand products (Straczynski, 2009).

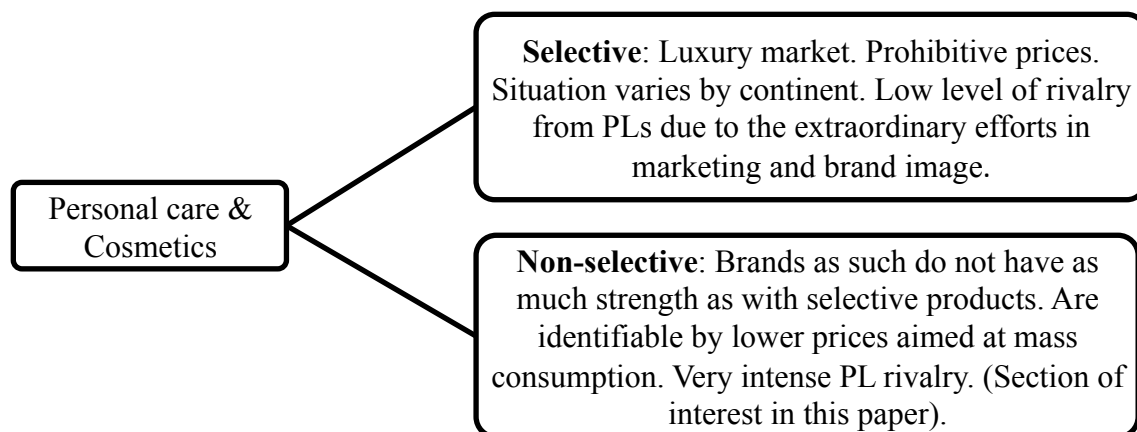
Some supermarkets have tried to place NBs and PLs more directly in price and quality competition by offering more premium and organic brands. Here are some examples that US retailers have used to differentiate themselves from other retailers and to make their PLs more competitive: Safeway's *SELECT* and *O Organics*, Kroger's *Private Selections* and *Naturally Preferred*, and Giant's *Nature's Promise* (Martinez, 2007).

PERSONAL CARE & COSMETICS

Variation by subsector category

The position of own brands in this sector also varies depending on the subcategory in which it belongs: selective or nonselective cosmetics and personal care products.

Figure 2. Personal care & cosmetics subcategories



Source: Self-elaboration.

Non-selective products include the basic personal hygiene items such as shampoo, toothpaste, bath gel, cologne, etc.; and other more elaborated products such as aging treatment creams sold at lower prices and bigger sizes aimed at general consumption.

The selective group includes the more inspirational products with high end positioning and the according smaller formats, and prohibitive pricing such as SK-II facial treatment masks (120€ for 10 sheets) or La Prairie caviar moisturizing face cream, Swarovski edition (\$3,000 for 50 ml).

In relation to the price decrease we mentioned in the previous sector, Antonio de Santos, Distribution Sector Director at AC Nielsen, said:

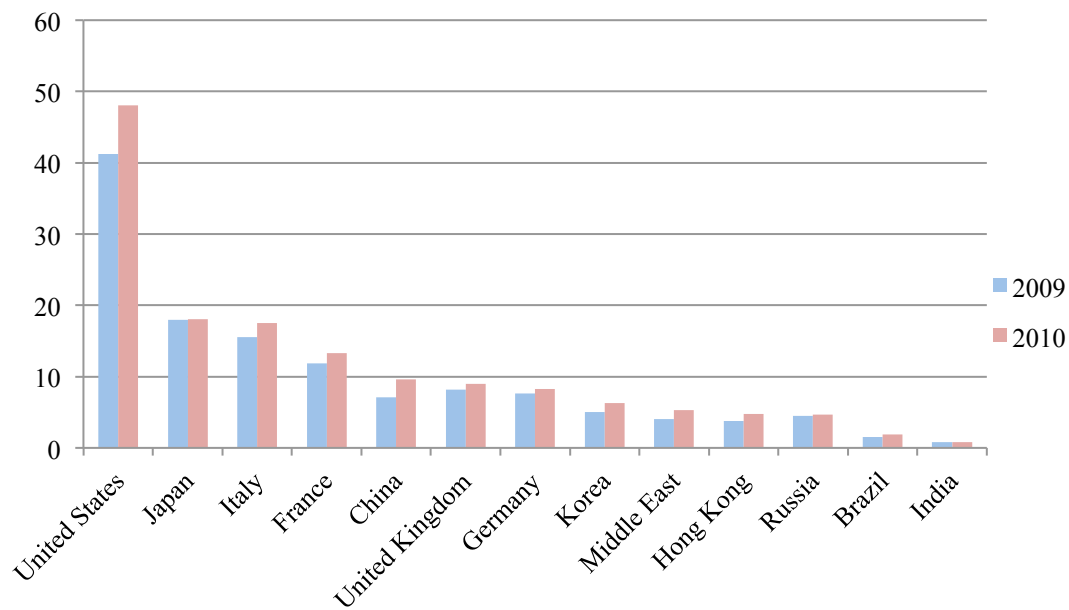
“While own brand penetration of non-selective cosmetics affects the price decrease and the increase in the volume of sales, it is not probable that own brands penetrate the selective cosmetics sector due to the strong positioning and influence of brand names.”

In other words, the selective group’s most important attribute is the brand name and the luxury positioning. All other brand names are being copied and rivaled by own brands.

Variations by geographical area

The position of own brands in this sector varies greatly by continent. The strongest growth and rivalry with branded products take place in the EU and USA, especially in the retail sector. This is due to the fact that they are by far the two biggest markets of luxury goods. Figure 3 by S&P Dow Jones Indices LLC, a subsidiary of The McGraw-Hill Companies, provides some numerical references of luxury goods spending by country in 2009 and 2010.

Figure 3. Global luxury sales by country⁸

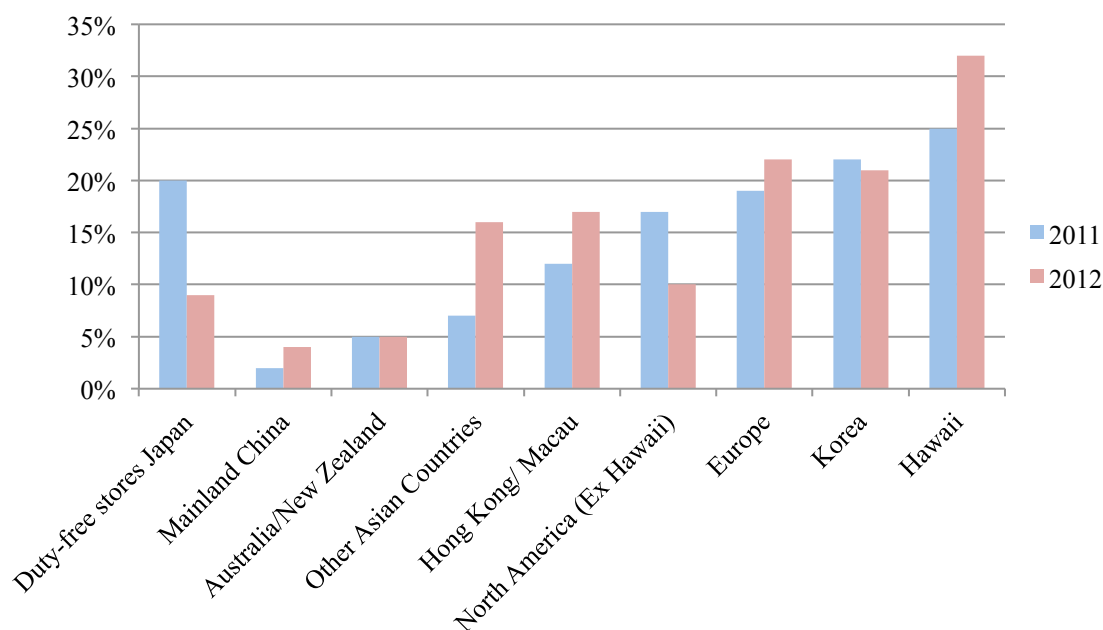


Source: Zeng, 2012.

The 2007-2009 economic crisis and its aftermath, which apparently did not affect Eastern Europe, Asia and the Saudi market in a comparable way, also played an important role. In the EU, during the years immediately following the crisis, a very moderate growth in total purchase volume was experienced. It grew moderately rather than stabilizing or even decreasing during this period due to the sales taking place in Europe and the US by non-Europeans especially from the other mentioned markets, less affected by the economic downturn. This trend is very accentuated in Asian countries due to heavy import tariffs and unfavorable exchange rates that increase the prices of goods relative to the same articles in the US or Europe. For example, in China the average price differentiation is of a 40% increase (Masildover, N. & Burkitt, L., 2012).

⁸ Bain & Company, *Luxury Goods Worldwide Market Study*. 2010 luxury sales for India are estimated numbers disclosed in Bain's Spring update (Zeng, 2012).

Figure 4. Consumption locations of luxury goods by the Japanese⁹



Source: Zeng, 2012.

The period following the 2007-2009 economic crisis, experimented a moderate decrease in value due to a general price decrease which could be understood by European changes in habits and the shift towards own brands, this explaining the growing market share of own brands during this period (Resa, 2012).

Cosmetics & hygiene own brands relative to the overall own brand market

This section refers only to the non-selective subsector of cosmetics and hygiene products. In relation to the other groups of products that this paper analyses, this subsector is behind in market share. According to Maribel Suárez, Marketing Director at SymphonyIri Group, the weight of the hygiene and beauty own brand sector in 2012 accounts for only 21.6% of total own brands in supermarkets, hypermarkets and small specialized stores (Resa, 2012).

⁹ McKinsey Japan Luxury Consumer Survey 2010/2011. Percent of respondents who bought luxury fashion products abroad within last 12 months; multiple choice (Zeng, 2012).

This is in part because they are one of the own brand groups where investment in innovation and marketing are most crucial in order to achieve sales. As Jesús García-Siso, enterprise studies commercial manager at Nielsen very well put it:

“In the cosmetics sector quality has always been more important than price [...] and this has forced the cheaper market alternative, the own brand, to make additional investments in design and packaging for cosmetic products, an area in which national brands make considerably greater investments in advertising than is done in other sectors” (Resa, 2010).

Although still marginal, the sector is slowly growing as the result of a series of circumstantial factors of which are cited as most important, the economic downturn of 2007-2009; and a change in own brand strategy that has led to a change in their perception in consumer's minds.

In times of economic strain, when available income is decreased and one is forced to eliminate (or downgrade) certain items from the shopping list, one tends to eliminate based on a “basic necessity or not” analysis. This analysis places food and water in the first position closely followed by basic hygiene products and clothes. Cosmetics and hygiene is a section that includes soap, toothpaste, deodorant and other basic personal hygiene products so this is the first reason why this retail sector has increased. Customers do not give the products up completely, but many trade in the brand name products for the cheaper own brand alternative.

Another factor that contributes, and is very closely linked to the downgrade theory mentioned above, is the increase in supermarket cosmetics and hygiene products sold at the expense of those sold in specialized stores such as pharmacies, dermatologist

clinics, cosmetics retailers such as Sephora, department stores such as Macy's, or high quality/luxury brand name stores such as Clinique or Estee Lauder to name a few.

In words of Ana Machota, account director at the Kantar WorldPanel consulting firm:

“By retail format, supermarkets are the only channel where own brands have increased in detriment of specialized stores” (Resa, 2010).

The change in own brand strategy mentioned in this section refers to the need to innovate, deliver additional value and package products effectively that store brand producers have noticed and have put into practice in the immediate past and continue to develop at present.

Innovation in cosmetic own brands

The first and most important point of attention is the change in *packaging*. In the appendix, the reader will find comparisons between the old generic packaging and the updated packaging that really distinguishes between the basic low level products and the more ambitious product lines that seek to reflect quality and luxury with the container shapes, materials and colors.

In addition, far from offering copies of the more intricate treatments, own brands are going a step farther and delivering real innovations. A notorious example of how PLs are becoming first movers is Mercadona's own brand Deliplus, who decided to offer horse shampoo packaged and sold for human use. The result of using this product being a clear improvement on hair appearance and vitality, the product was an immediate hit. So much so, that other supermarket's such as Carrefour or Hiber have quickly reproduced the product under their own names (Resa, 2012).

This new strategy that goes well past a simple price reduction and has redefined own brands. The innovative product differentiation strategies have changed the place that they occupy in consumers' minds in terms of quality and value for money and sales have responded very effectively.

HOME CARE

Another category that is worthy of study within the fast-moving consumer goods industry is that of household products. The household goods category comprises of the materials needed for the maintenance and hygiene of a regular home, mainly for cleaning purposes. To name a few, it includes products such as laundry detergent, toilet paper, garbage bags, and air fresheners among others.

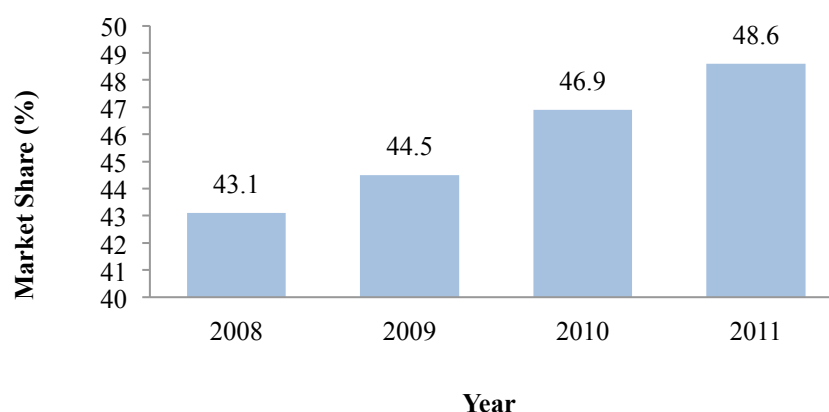
According to the consulting group AC Nielsen, private label products growth rate both in 2005 and in 2007 was the same as that of manufacturer brands. Both types of products grew at a 4% rate and a 6% rate respectively, which implies that the share of store brands versus national brands did not change during this year. Thus, even though distributor brands had achieved some penetration in the household cleaning products category until that moment, they found themselves at a point of stagnation. It is necessary to point out that even if both sorts of brands of household products grew at the same pace overall, the same is not true for the subgroups of the category. This means that while in some groups, such as brooms, brushes, mops; and disinfectants the growth of private labels was significantly higher than that of producer brands, the opposite occurred in other occasions.

During the same year, private label products market share accounted for 12% of the global value sales. Again, there existed significant differences regarding the market share of store brands within the category. While distributor brands presence was very

important in products such as plastic storage bags and garbage bags, categories in which they enjoyed 41% and 40% of the market share respectively; their penetration was almost irrelevant in products such as insect control (2%) (ACNielsen, 2006).

In Spain, during recent years, store brands in the household products category have gained significant market share, reaching a 48.6% of the total market share in 2011 (ACNielsen, 2012). This data proves that the penetration of distributor brands is experiencing an upward trend. In fact, this category is the one that enjoys the highest market share amongst the ones that are being analyzed in the present paper. Figure 5 shows the evolution of distributor brands in the household products category for the past four years in Spain.

Figure 5. Store brands market share in the household products category (Spain)



Source: Self-elaboration; based on data from ACNielsen, 2012 & Resa, 2010.

Innovation and differentiation within the household products category

Innovation is present everywhere, even in products used for mundane household tasks. Consider the air fresheners category as an example: the goods in this category have evolved from humble products that served their purpose but nothing else to a portfolio of aromatherapy delivery systems (ACNielsen, 2008). From sprays and plug-ins to gels,

scented candles and even potpourris, modern air fresheners can be presented in multiple forms.

However, even if the household goods category is experiencing innovations as a whole, the private label section of the group is not a pioneer in the matter. In fact, the products than enjoy the highest market share of store brands are those belonging to categories that are seen by consumers as having little differences in attributes or performance. These goods, which are considered commodities by customers, include aluminum foil, plastic storage bags, garbage bags and kitchen paper among others. The private labels' market share was 35% or higher for each of these categories, with aluminum foil reaching 46% share (ACNielsen, 2008). Even though retailer brands did not use innovation in order to attract buyers, these brands outpaced the growth of manufacturer brands in most of the categories. Table 5 presents the growth private labels and that of manufacturer brands for a number of household products, as well as the market share enjoyed by store brands.

Table 5. Household products private label growth by category

Category	PL Market Share	PL growth rate	MFR growth rate
Aluminum Foil	44%	12%	8%
Plastic Storage Bags	42%	4%	7%
Garbage Bags	41%	10%	4%
Kitchen Paper/Towel	35%	7%	4%
Cleaning Cloths/Sponges	21%	13%	2%
Plastic Wrap	21%	2%	1%
Bleach/Ammonia	20%	5%	4%
Auto Dish Additives	20%	-5%	3%
Auto Dish Detergent	17%	2%	7%
Abrasive Cleaning Pads	16%	7%	5%
Brooms, Brushes, Mops	16%	6%	4%
Laundry Water Softeners	15%	0%	5%
Toilet Care	14%	7%	6%
Disinfectants	12%	17%	12%
Hand Dish	12%	11%	3%
Fabric Softener	12%	0%	7%

Batteries	11%	1%	3%
Household Cleaners	10%	7%	4%
Oven Cleaners	7%	9%	5%
Laundry Detergent	7%	5%	5%
Laundry Starch	7%	-9%	-4%
Cleaning Systems	6%	8%	1%
Air Fresheners	6%	13%	11%
Furniture Polish	6%	10%	2%
Carpet/Rug Cleaner	6%	-6%	4%
Laundry Stain Remover/Booster	6%	16%	9%
Fabric Fresheners	5%	-4%	0%
Waste Pipe Openers	5%	11%	7%
Floor Polish/Wax	3%	19%	6%
Insect Control	2%	5%	11%
TOTAL	14%	6%	6%

Source: ACNielsen, 2008.

Contrary to what is true for the rest of the categories, household products do not base their success on differentiation and innovation but rather, they attract customers by offering lower priced goods. This of course is a generalization, but as has just been backed by statistics, it is true in most cases. The recent economic downturn may provide the explanation for the events that are occurring within the home care category. Most of these goods are of basic necessity, meaning that even in the events of recession, households will still have to purchase them. However, given that people will need to cut their expenses, they will probably opt for the lower-priced range of goods.

PET FOOD

As illustrated in the previous sections, private labels are not only having an impact on food and drinks but also on non-food items. After having analyzed the cosmetics and household categories in non-food items, we will now examine the performance of store brands in the pet care industry.

Private labels are globally attracting more and more consumers to their pet food products, especially in developing markets such as Asia Pacific, Latin America and

Eastern Europe where they still have room to grow (Woon, 2011). Figure 6 shows the growth of the pet food market share in different regions of the globe, between 2004 and 2009.



Source: Woon, 2011; based on data from Euromonitor International.

According to Euromonitor International, therefore, the total value of sales in the worldwide pet food market corresponding to private labels amounted to 11.6% in 2009. As observed in Figure 6, this amount does not differ much from the sales value in 2004, which may lead one to think that the pet food market is quite a stable one. However, a more detailed analysis by region helps us to identify some relevant fluctuations that may have happened in each specific territory during the period examined (Woon, 2011).

Variations by geographical area

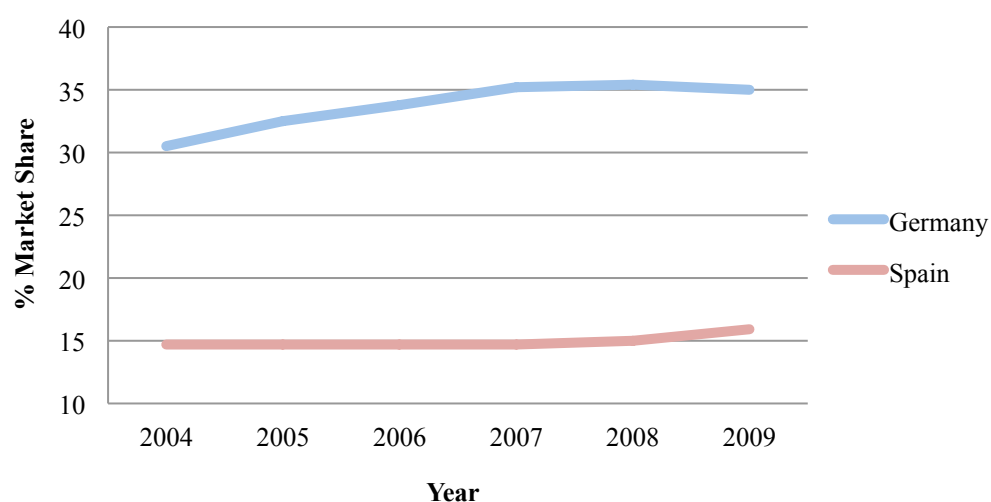
In the case of North America, the presence of store brands in the pet food industry has slightly decreased from 2004 to 2009 (from 10.5% to 10.2%). Still, this minor variation does not mean that such value did not oscillate during the period analyzed. Actually, a major incident concerning the withdrawal of Menu Foods products, a Canadian private label, from the market in 2007, punished the generic brands causing them to decline

down to 9.7%. However, and even though the American consumer confidence in store brands was highly affected, there was another key event going on which helped private labels to marginally regain some retail share: the economic and financial crisis (Woon, 2011).

On a different note, pet owners in North America progressively value more the quality of the goods given to their pets. It is for this reason that retail brands have had to readjust their strategies and give more importance to premium food lines in order to be able to compete with producer brands. And so far they have managed to succeed. To provide an example, premium cat food in the US increased from 2.6% of market share in 2004 to 6.8% in 2009 (Woon, 2011).

The Western European market, in general, has always been more open to change in terms of consumption habits and place its trust in private labels. Regarding the pet food industry in particular, store brands market share was 17.7% in 2004 and it climbed up to 19.6% in 2009 (Woon, 2011).

Figure 7. Store brands market share in Germany and Spain



Source: Woon, 2011; based on data from Euromonitor International.

As showed in Figure 7, although home brands managed to grow in Germany in the most part before the crisis, they did not find an opportunity in the Spanish marketplace until 2007 when the recession started (Woon, 2011).

The increasing middle-income class in Latin America has favored the rise in the pet food market share of store brands: with a 2.8% in 2009, 0.8% more than registered in 2004. The same trend takes place in the Eastern Europe, being the total value of sales of private labels 7.6% in 2009 (Woon, 2011).

In Australia, New Zealand, New Guinea and the neighboring islands in the Pacific Ocean, the value of sales in store brands pet food increased over the period between 2004 and 2009, from 8.7% to 9%, although it peaked in 2008 with a 9.5%. The consumption of private labels in that region has not been specifically caused by the economic crisis (Woon, 2011).

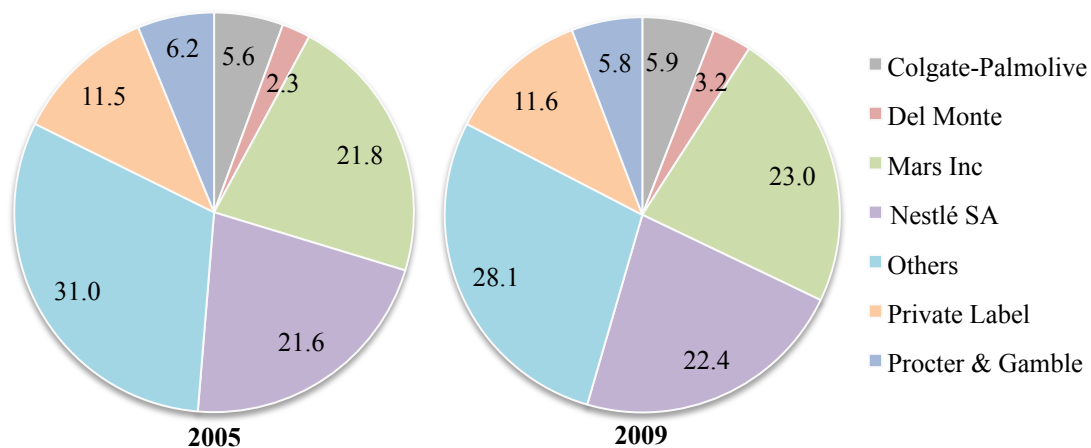
The Asia-Pacific region has still not given the chance to grow to store brands. Private label only constituted a 2.1% of the value of sales in the pet food market in 2009. The usual consumer of pet food in that territory belongs to the upper-class level and they prefer and can afford branded products. Private labels should focus on premium pet food lines to be able to cope with the long battle to gain market share ahead of them (Woon, 2011).

Retail brands neither have a strong presence in the premium segment in the Middle East and Africa, but they do in the economy one. All in all, private labels market share in the pet food industry increased a 0.7% during the period analyzed (Woon, 2011).

Figure 8 illustrates the worldwide picture of the pet food industry in regards to the brands that had the most significant amounts of market share in 2009, compared to the retail value they held in 2005. The ranking did not changed during these four years:

being Marcs Inc. on top of the pet food industry and followed by Nestlé SA and Procter & Gamble, despite being the only brand that had diminished its market share between 2005 and 2009 (Euromonitor International, 2011).

Figure 8. Global competition in the pet food industry (retail value %)



Source: Euromonitor International, 2011.

Overall, the main factors that have brought about the rise in consumption of store brand products in the pet food marketplace are the ongoing economic recession, the expansion of supermarkets and superstores, and the introduction of private label premium lines of goods. In fact, the latter represents what is considered to be the optimal strategy that should be followed by private labels in the pet food sector (Euromonitor International, 2011).

Product premiumization as the differentiation strategy

Many retail stores are launching their own pet food premium brands today and one example of it is Walmart's introduction of Pure Balance in August 2012. Pure Balance is defined as premium dog food, free of additives, artificial colors, and preservatives. With the launch of Pure Balance, aimed at satisfying the increasing demand for high-quality and natural pet food, Walmart has proven to have perfectly understood the

current pet humanization trend (Walmart, 2012). In words of Jody Pinson, vice president of pets at Walmart:

“Walmart customers, including me, consider our dogs family members so when it comes to their food we want the very best for them [...] Our customers told us they wanted to be able to feed their dogs a dry food made with pure ingredients without having to make a special trip to the pet store. We listened and are excited to offer Pure Balance, an ultra premium dog food, at a price our customers can afford.”

In brief, store brands need to further expand into the premium segment in order to succeed in the pet food industry. Likewise, retailers have to encourage the creation of innovative and unique formulas that provide added values to the customers while paying close attention to the nutritional benefits of their affordable products.

CONCLUSIONS

After having analyzed private labels and their effect on national brands in the supermarket industry from their start until today, several conclusions have been reached.

First of all, the core concept of generic brands has changed over the decades. They are no longer perceived as low quality and cheap products, and have in fact, turned into appealing products for consumers.

Secondly, the gap between PLs and NBs quality is no longer so meaningful, since generic brands are now very similar quality wise to branded products; some of them even reaching a superior quality range. Having said this, the price gap between the two

has also diminished, although private labels continue to be cheaper than national brands as the economic squeeze on consumers has made price a priority when shopping.

Although store brands' subsectors have their own peculiar tendencies and growth trends when compared to manufacturer brands, it can be said that all private label sectors have seen an increase in growth across the board.

All in all, generic brand manufacturers will continue to improve, increase the variety of products offered to consumers but always with the key goal of keeping price as the number one priority.

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APPENDIX

Comparison between Auchan, who has not adapted its own brand cosmetics packaging (image 1); and Carrefour who has invested in design for its own brand (image 2):

Image 1:



Image 2:

