PROSPECTS FOR GROCERY BRANDS IN THE SINGLE EUROPEAN MARKET

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

Dr. Leslie de Chernatony
City University Business School, London

September 1991

The Corporate Intelligence Group Limited

CONTENTS

EXECUTIVE SUMMARY

* The coming of the Single Market does not imply the coming of the Euro-consumer. National identities will be preserved, as will regional and national variations in consumers' tastes, habits and lifestyles. Brand strategists must remember this, for Euro-brands need Euro-consumers if they are to succeed.

* Some major manufacturers have, for their part, sought to develop Euro-brands or global brands with a sales potential that transcends borders. A few, like Coca-Cola, have made it work. Others have found it a difficult task. Even Heinz now realises that the appeal of baked beans in a tomato sauce varies greatly by country. Mars has been somewhat more successful, but has found it necessary in the process to change brand names (see Section 5 of this report).

* Nonetheless, the major manufacturers will continue this policy post 1992, either by growing their own Euro-brands or, like Nestle, via acquisitions.

* The main competition will come from the retailer alliances (see Section 6.0). The UK's two largest grocery retailers may have stayed out, but the fact remains that 14 out of Europe's top 20 grocery retailers have already become involved with the alliances.

* The real benefits of the alliances, however, come from their bulk buying potential and from the ability to share information and expertise. The concept of an alliance Euro-brand does not really apply, since participating retailers would then have to start offering yet another brand name to their customers. The attraction might be much more in putting the retailer's own label onto product centrally sourced at the least cost price. Only the successful development of Euro-stores would offer potential for the true alliance Euro-brand and this is unlikely to happen in the short term.

* Other cost-driven strategies are 'generics' and 'cheapest price'. Generics (see Section 2.3) have been abused in the past and turned into nothing more than extensions of retailers' own labels; there is no reason to believe they will make a come-back in the 1990s. Likewise, as the pressure on margins increases, the 'cheapest price' strategy becomes generally less attractive, although Aldi has shown that it can be made to work, both internationally as well as nationally. The market for such products is there, but it is probably sufficiently small to accommodate only a few players.

* The better alternative to these cost-driven purchasing strategies is for the retailer to go for his own added-value own label. The 1980s saw a steady growth in own label penetration in the grocery sector, particularly in Great Britain, Germany, Switzerland and France, and the added-value concept has contributed greatly to this. There is still potential for growth for these added-value own brands, at least at the national level. But the fact remains that relatively few retailers have taken the organic route to international expansion and so few will actually benefit in overseas markets from added-value own labels that they have developed at home.

* Historically retailers have derived the greatest benefit from the own label when the retailer's name becomes incorporated also into the brand name. This will certainly continue in the 1990s. The more that these retailers invest in customer services and product quality, the more their own labels will be seen as offering even greater added values when the store's name is on the label. This, however, will only be true if they can afford the heavy promotional expenditure that will increasingly be necessary to achieve and maintain market share.

* Those, like Gateway or Auchan, who have dropped the store name from the brand name, may well find that they have lost the real benefits of own branding and that they are doing no more than playing manufacturers at their own game.

* The most likely scenario for the post-1992 period is that the trend to polarisation already seen in the food distribution field will continue. Those retailers that base their growth programmes on international expansion will get even greater benefit from their added-value own brands. Elsewhere in the marketplace manufacturers' Euro-brands will become more important; increasingly so as time goes on.

1.0 INTRODUCTION

The 1990s present a daunting challenge to grocery manufacturers and retailers. The future of grocery brands will be affected by the Single Market (SEM), environmental issues, physical distribution and producer and retailer concentration. This paper considers the role of retailers' own labels and manufacturers' brands in grocery retailing in the SEM.

It starts by taking a historical perspective of grocery branding and retailing, since this provides a good basis for anticipating likely branding developments in the future. The paper clarifies the word "brand" and goes on to consider manufacturers' brands, retailers' own labels and generics in the context of the SEM. The issues facing brands and own labels in the SEM are considered and questions asked about what challenges they are going to face.

The removal of trade barriers will facilitate retailers' expansion beyond their national boundaries, to meet the needs of an EC population of 340 million consumers.

The initial opportunities may be from much larger economies of scale through purchasing, marketing and retailing. There is already growing evidence of cross-border activity in advance of the legislative reforms, with Aldi and Netto's move into the UK and Carrefour into Germany.

These expansion programmes have implications for retailers' own labels. More people can be targeted, but there are problems. Consumers from different cultural backgrounds, with established loyalties to one or two outlets, will be faced with new retail groups. These will be either foreign retail chains who have maintained their independence in expanding (for example, Tengelmann) or chains that have entered into alliances with other retailers (for example, the European Retail Alliance with Argyll, Ahold and Casino).

Finally, it has to be acknowledged that the issue of branding policy is one that raises strong emotions, particularly given the uncertainty about the future. This paper tries to follow an objective course, based predominately on published literature.

2.0 THE EVOLUTION OF MANUFACTURERS' BRANDS

Through the process of distinguishing their groceries by using unique names and packaging design, manufacturers in the nineteenth century were able to differentiate their products from competitors. Branding resulted in higher quality products, a guaranteed level of consistency, distinctive packaging and a cluster of added values which were promoted to consumers. As consumer satisfaction grew, so did loyalty to particular brands. The evolution of manufacturers' brands heralded a period of manufacturer dominance, which, particularly for the UK, lasted until the 1960s.

From a consideration of the evolution of brands, it can be appreciated that a brand is:

> An identifiable product augmented in such a way that the buyer or user perceives relevant, unique added values which match his or her needs most closely. Furthermore, its success results from being able to sustain these added values in the face of competition.

Brands play many different roles in satisfying consumers' needs. For example, brands such as Nescafe Gold Blend, Ferrero Rocher chocolates or Glenfiddich malt whisky, primarily satisfy a status need.

Other brands are used by consumers as a means of reducing uncertainty about product performance. For example, risk averse consumers may only buy Colgate toothpaste because of a perception of its dental protection, reinforced through assurances from advertising about its "Ring of confidence".

Alternatively, brands act as shorthand devices, rapidly facilitating choice without the need to seek lots of information about competing products. For example, from a large variety of wines, Le Piat d'Or, a blended wine, offers consistency and familiarity. Brands therefore facilitate rapid choice in grocery superstores which often carry more than 20,000 lines.

2.1 Increasing retailer power

A fragmented retail trade throughout Europe through to the 1960s left major brand owners in a powerful bargaining position, able to dictate terms to retailers who were anxious to sell big brands with a loyal following and on-going advertising support. However, the 1970s saw a change in retailers' strategies. Smaller stores were being shut while fewer, but larger, stores were being opened. Rationalisation resulted in power being concentrated in the hands of a relatively small number of multiple retailers.

Such generalisations are not true of the whole of Europe. While powerful grocery multiple retailers became more dominant in northern Europe, southern Europe's grocery retail trade remained largely fragmented. A survey by Nielsen [1], shown in Table 1 on the following page, provides evidence of the way retailer power varies by country. Its survey valued the European Grocery sector at $386 billion in 1988 and highlighted an increasing trend towards a greater share of the market for hyper and supermarkets, especially in northern countries. Their research showed that the top five chains accounted for only 4.1% of store numbers but 33.2% of turnover.

Table 1: Grocery retailer concentration across Europe

Country	Market share of top 5 retailers (%)
Finland	96.4
Sweden	80.8
Austria	70.2
Switzerland	65.0
Great Britain	62.0
Ireland	52.9
Belgium	50.0
Germany	46.7
Netherlands	45.2
France	45.1
Denmark	42.5
Spain	20.4
Portugal	12.1
Norway	11.4
Italy	10.0

Source: Nielsen [1]

2.2 The rise and rise of retailers' own labels

An own label is defined as:

> A product or service which is commissioned, marketed and owned by a retailer.

Retailers' own labels (also called private label or own brands) can be traced back to the 1870s. Unable to cut the price of manufacturers' brands, multiple retailers initially competed against each other on a service platform. To increase their profitability they bought commodities such as flour, sugar and tea which they packaged under their own name. These early own labels were priced more cheaply than manufacturers' brands. Constrained by only being able to employ simple production processes, they commissioned grocery manufacturers to produce own labels to their specifications and gradually widened their own label range. The quality of own labels was generally below that of comparable manufacturers' brands.

A rationalised approach to marketing and production, combined with increasing sales to satisfied consumers, enabled retailers to price their own labels 10-20% below the prices of the brand leaders. Furthermore, with the growth of large national retailers, consumers soon began to associate specific own label ranges with particular chains.

The emphasis on price advantage was followed right through to the early 1980s. By 1982 own labels accounted for 22% of grocery sales in the UK and 19% in France. With less developed multiples in southern Europe, own labels were less prevalent, for example they accounted for only 5% of grocery sales in Italy.

Retailers' perceptions that price was the key critical success factor in own labels, reinforced the rationale for minimising added value. However, during the 1980s the larger multiple retailers began to compete against each other less on price and more on quality and service. As a consequence, own label quality rose to the standard of manufacturers' brands, but retailers retained a lower price.

By 1988 Nielsen [1] figures showed own label packaged groceries' market shares to have grown to 26.5% in Great Britain, 24% in West Germany and 20.1% in France. Own label has continued to increase its market share with Great Britain now past the 30% threshold. Brian Sharoff, President of the Private Label Manufacturers' Association [2] commented on the increase:

> "It looks as if 'own label' is growing between 10-15% a year on the Continent."

Own labels are now an important strategic tool in multiple retailers' armoury. They offer retailers many advantages, including the ability to:

- exert greater control over their product range, for example by rationalising the range and control of costs;
- reinforce the retailers' positioning;
- counter the power of the manufacturers;
- attract and sustain consumer loyalty to stores;
- obtain improved margins in markets with slim returns.

The financial advantages of own labels are such that in Ahold's Albert Heijn's stores, 25% of sales and 30% of gross margin are returned by own label.

Own labels have historically been particularly dominant in grocery product fields where:

- there is surplus manufacturing capacity;
- there are no powerful manufacturers' brands;
- there is limited advertising by manufacturers;
- the production process does not involve high technology;
- where the margins on good quality own labels are significantly higher than on manufacturers' brands.

North European consumers, who have witnessed the changing structure of grocery retailing and the evolution of own labels, represent an educated and discerning target market. Retailers have responded to more discerning consumer tastes by improving their own labels and endowing them with their own personalities to match consumers' lifestyle needs. As a consequence, own labels have become more popular. This has put pressure on manufacturers who have had to work harder to communicate their added values and justify price premiums.

2.3 Generics: The third tier in grocery branding?

In 1976 Carrefour in France launched their 50 "Produits Libres". These more plainly packaged commodity type products were typically 20%-40% cheaper than the equivalent brand leaders. This launch was quickly followed by other European retailers and industry analysts regarded this as the advent of the generics era. Generics are defined as:

> Products distinguishable by their basic and plain packaging. Primary emphasis is given to the contents, rather than to any distinguishing retail chain name.

In France, Carrefour's launch was quickly followed by Promode's Produits Blancs, Paridoc's Produits Familiaux and Euromarche's Produits Oranges. In Germany generics were not that successful, with Carrefour, Deutsche Supermarkt and the Co-Operative Movement encountering the problems of a poor quality perception associated with the low prices. With own labels accounting for approximately half the grocery market in Switzerland, generics failed, yet with only a 5% own label penetration in Belgium, GIB had more success with its generics. In the UK, International launched its Plain and Simple range in 1977 and was followed by Carrefour's Brand Free, Fine Fare's Yellow Packs, Argyll's BASICS and Tesco's Value Lines.

However, where there was a strong own label presence, generics failed badly. Their presence became less noticeable in Europe and by 1987 no UK retailers stocked generics.

The true generic concept had not been implemented. The reality was that multi-colour packaging was used clearly to associate generic ranges with specific retailers. Advertising and in-store promotions were employed. In fact, during 1977 Carrefour spent FF10m promoting its generics compared with Euromarche's FF6m [3]. These lines were branded (e.g. BASICS from Argyll) and did not have utilitarian packaging. Retailers had in reality developed an extension to their original own labels, rather than an innovative generic range.

Consumers accordingly perceived generics as an extension of own labels. As such, those buying generics switched from higher margin own labels rather than lower margin manufacturers' brands. Not only were retailers worried about the profit implications, but perceptions of poorer quality impeded attempts to raise store images.

The generics failure indicated that a basic price proposition was insufficient to attract significant consumer interest. It is no longer the case that price is the sole arbiter for purchasing. Many retailers have accepted this and moved to a position where added value is now an integral part of own labels.

In summary, manufacturers' brands, retailers' own labels and generics are all examples of brands. For their particular target groups, they are all positioned to reflect specific added values, be that of a pedigree heritage (manufacturers' brand) or quality at an attractive price (own labels) or a "no frills" approach (generics).

3.0 STRATEGIES FOR OWN LABELS

Four own label strategies appear to have been followed by different retailers. These are:

* **Generics** - Aldi, Casino, Plus, Carrefour
* **Cheapest price proposition** - Tesco (late seventies/early eighties), Asda, Asko in eighties (Metro, Massa)
* **Me-too versions** of manufacturers' brands, - GIB, Gateway, Argyll
* **Extension of retailers' added-value propositions** - Sainsbury, Ahold, Marks and Spencer, Asko in nineties (Isabelle O'Lacy's)

The extent of own label dominance varies by retailer. The extreme is with companies like Migros and Marks and Spencer which sell almost 100% of their product ranges under their own labels. Next in line are companies like Aldi, where the consumer often has no choice but to purchase the own label or generic since no alternative is offered on many product lines.

Sainsbury, the strongest own label retailer in the UK, stocks 7,000 own labels out of a total range of 15,000 products (48%), where own label account for 55% of turnover. Tesco and Safeway attribute 35% of their sales to own label, with Asda following behind on 30%.

Table 2 below uses the food and soft drink sectors to estimate recent past own label share across Europe:

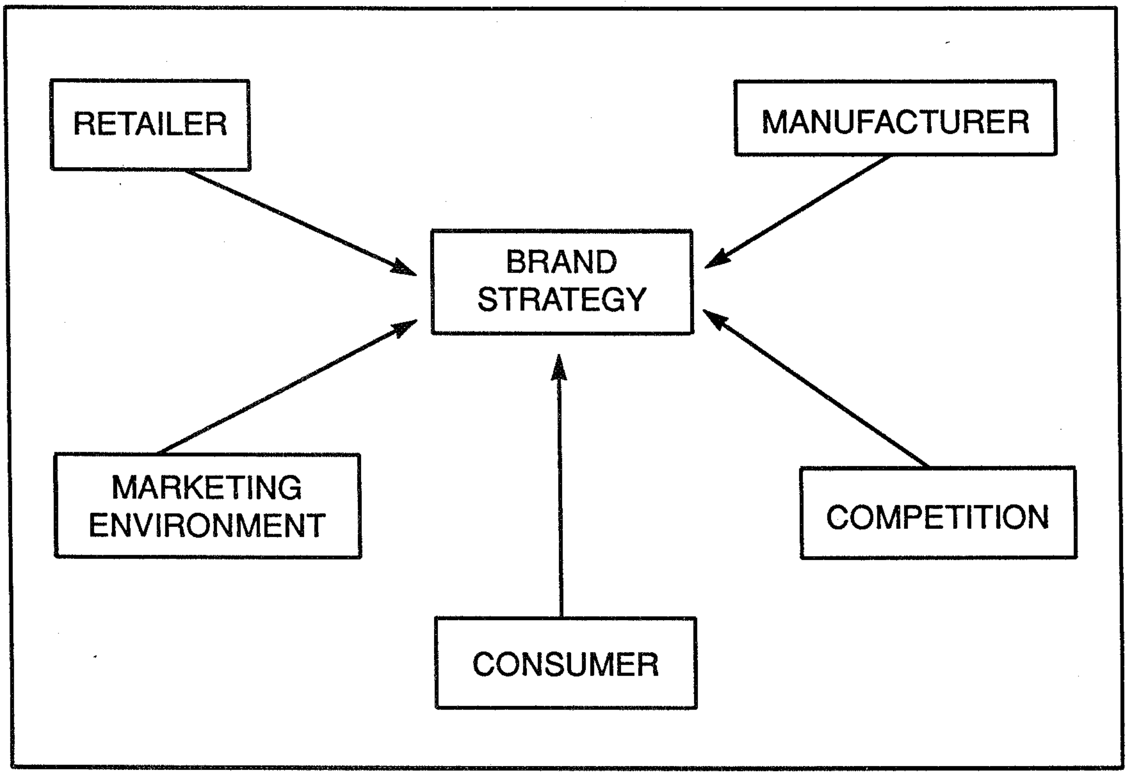
Table 2: Own label penetration in the Groceries sector

Country	Average mkt share of OL '88 (%)	Annual growth rate (1983-88) (%)
Austria	11.0	0.9
Belgium	17.6	6.9
Denmark	17.9	N/A
France	20.1	3.5
Germany	24.0	6.7
Great Britain	26.5	6.7
Italy	5.4	2.4
Netherlands	17.0	8.7
Norway	3.0	-5.6
Portugal	0.5	N/A
Spain	6.4	N/A
Switzerland	24.0	N/A

Source: Nielsen [1]

A brand planning methodology (de Chernatony, 1990) has been developed which highlights the five forces that need to be considered when developing a brand strategy, be this for a retailer or a manufacturer. The forces are shown in figure 1.

Figure 1: Forces influencing brand strategy



Any organisation developing a brand strategy needs to address:

i. Retailer considerations:
   - what objectives are they striving to achieve; for example, volume growth or profit growth?
   - what power can they exert over suppliers?
   - are they seeking to present a value added proposition to consumers or a lowest price offer?
   - what criteria must suppliers meet before they can be considered potential own label producers?

ii. Manufacturer considerations:
   - what objectives have brand manufacturers set? For example, to maintain consumer loyalty?
   - what distinctive capabilities do individual brand manufacturers have? For example, successful new product programmes or highly memorable advertising?
   - are they following a value added or a lowest cost route?
   - what distribution channel priorities have they set?

iii. Competitor considerations:
   - how many competitors are there?
   - how powerful are the top three competitors?
   - what their likely response will be to any other players' marketing activity?

iv. Consumer considerations:
- what role do competing own labels and manufacturers' brands play? For example, satisfying a need for functional excellence or supporting a lifestyle need?
- how do consumers buy brands?

v. Marketing environments:
- economic outlook
- political developments
- EC legislation

A brief application of this model to the Italian and British grocery retail markets highlights different factors affecting brand strategy.

In Italy there are few large multiple retailers. In 1988 grocery multiples only accounted for 9% of grocery sales in Italy, compared with 74% in Britain. This resulted in weak Italian distributor power and hence a lack of own labels. Brand manufacturers accordingly retained greater power. Consumers are consequently less confident with own labels and would be likely to need a strong incentive, such as a marked price reduction for a good quality own label, before being motivated to sample it.

In the UK several factors in the marketing environment, such as information technology and legislation, have encouraged the growth of powerful grocery retailers. Their dominance has forced many manufacturers to acquiesce to their demands. Most multiple retailers spend a lot of time anticipating consumer changes, giving manufacturers briefs for innovative own label development programmes.

It is therefore entirely consistent for the highly competitive north European grocery retailers, who have tried price competition in the form of generics and cheapest price strategies, to move towards own label strategies of higher quality and added value.

The ability to develop a successful range of own labels grows initially out of a retailer's size in the marketplace. Once retailers exceed a critical size, their own label importance depends on their ability to undertake strategic planning to match increasingly sophisticated consumer needs and counter competitive activity.

North European consumers have considerably more experience of own labels than their southern neighbours. A simple price proposition is not enough; it is only one element in the consumers' quest for value. Product quality, packaging, store layout, service and image all affect their attitudes to retailers' own labels.

Gilles Pinoncely [4] conducted research on behalf of Casino into consumers' perceptions of the relationship between own label and the store. Pinoncely substantiated the point above that a number of factors affect attitudes to own label, when he concluded:

> "The consumer believes that a company that takes care in terms of presentation and the quality of its fresh products will necessarily demand high standards from its product (own label) manufacturers."

The current saturation of sales in the packaged goods sector of the market has led to retailers in the UK looking for added value opportunities. Marks and Spencer's success in selling own labelled prepared meals and Safeway's emphasis on the quality of its fresh fruit and vegetables, have both been a signal to other retailers to re-focus their attentions.

In southern Europe, retailers have not yet achieved critical mass in obtaining large enough market shares to develop own labels as a serious threat to manufacturers' brands. Nevertheless the process is under way. In the Iberian peninsula Pingo Doce, Pryca, Alcampo, Continente and Hipercor are all receiving support from larger operators, respectively Delhaize, Carrefour, Auchan, Promodes and El Corte Ingles. Given this backing and their increasing numbers, own labels are likely to become more significant. This will substantially change the market status quo, altering all five forces in the brand planning process.

4.0 MANUFACTURERS' RESPONSE

As grocery retailers have developed strategies for their own labels, so manufacturers have had to respond to changing market structures and the dilution of their traditional power base.

Retailers' increasing buying power and their commitment to own labels have squeezed manufacturers' margins. Many manufacturers responded in the 1970s with quantity discounts, at the expense of reduced consumer advertising. With consumers then questioning why they should pay a price premium for manufacturers' brands, they switched to own labels, compounding the vicious circle for brand manufacturers.

Reduced margins adversely affected profitability and many compromised on quality as well as cutting marketing support. Some manufacturers introduced more price competitive brand alternatives that received little or no advertising, for example, Scottowels, as distinct from the Scotties brand. These strategies were reactive and appropriate only for a short time. As a consequence, the original added values that formed the basis for success were diluted.

Ironically the key to brand success is through developing unique added values which competition find difficult to copy. This needs to be backed by advertising so that brands convey their added values, such as quality, taste, lifestyle benefits, personality, reassurance, or whatever, to their target audiences. Myopic manufacturers ignored this.

Innovation and product investment bring points of differentiation to the premium prices associated with manufacturers' brands. Heinz achieved this with much improved logistics, providing a leaner business operation. United Biscuits responded with innovative products which lead the market and reduce the threat from own labels. Over the past seven years, more than a sixth of their revenue has come from new brands, including Hob-Nobs, Muesli-Cookies and Jaspers.

To give another example in the strongly branded mineral water market, brand manufacturers in the UK increased media expenditure by 720%, in real terms, between 1983 and 1989. This enabled them to sustain a respectable 22% price premium over own labels. By contrast, fruit juice manufacturers acquiesced to retailers, cutting media spend by 60%. As a consequence, own labels dominate this market with a 63% share. Furthermore manufacturers' brands can only achieve a 1% price premium over own labels.

5.0 THE STRATEGIC ROLE OF EUROPEAN BRANDS IN THE 1990s

5.1 The Euro-consumer

The imminent arrival of the Single European Market (SEM) will not be matched, unfortunately for marketers, by the corresponding arrival of the Euro-consumer. The Economist [5] and John Whitaker, former Managing Director of AGB Information [6] assure us there is no such thing as the Euro-consumer. Not everybody is in accordance with this point of view. Tony O'Reilly, President of Heinz claims that:

> "The global brand is at hand" [7]
> and that
> "The Euro-consumer is about to emerge" [8].

Whilst it is acknowledged that there will be an increase in the number of manufacturers' Euro-brands, the process of convergence will be gradual and will remain incomplete. Tastes and culture will continue to vary by nationality, if not by region. Such differences will often be carefully guarded as a means of preserving national identity.

5.2 The Euro-brand

Euro-consumers or not, manufacturers are seeking new marketing and corporate strategies to take account of the SEM. Larger manufacturers are striving to create Euro-brands whose functional capabilities and imagery can transcend borders. This is a natural response to the threat of increasing retailer power from newly constructed alliances. Some companies are growing their own Euro-brands, while others, such as Nestle, are acquiring them.

The recent spate of brand acquisitions (there were 450 recorded cases of takeovers in EC countries in 1988 and 1989 involving food producers), is highlighted by the table of major acquisitions in the European food industry shown below. This signifies manufacturers' confidence in brands and their ability to extend brand licences overseas. Brand purchases also provide access to other markets. For example, Pepsi Co's purchase of Smiths and Walkers crisps will provide openings for its Frito-Lay brands in the UK.

Table 3: Major Acquisitions and Mergers in the European Food Industry, 1987-1990
(In descending order of value)

Purchaser	Country	Purchase	Country	Year
Grand Met	UK	Pillsbury	USA	1989
Nestle	Switzerland	Rowntree	UK	1988
Philip Morris	USA	Jacobs Suchard	Switzerland	1990
BSN	France	RJR Nabisco (Eur)	USA	1989
BSN/Ifil	France/Italy	Galbani	Italy	1989
Pepsico	USA	Smiths/Walker	UK	1989
Nestle	Switzerland	Buitoni	Italy	1988
Ferruzzi	Italy	Lesieur	France	1988
United Biscuits	UK	Ross Youngs	UK	1988
Sudsucker	Germany	Raffinerie	Belgium	1989
RHM	UK	Avana	UK	1988

(continued on next page)

Table 3: Major Acquisitions and Mergers in the European Food Industry, 1987-1990
(In descending order of value) **(cont'd)**

Purchaser	Country	Purchase	Country	Year
Paribas	France	Guyomarch	France	1990
BSN	France	HP Foods	UK	1988
KIO	Kuwait	Ebro	Spain	1988
CPC	USA	Ambrosia/Marmite/ Bovril (Beecham)	UK	1990
Cadbury -Schweppes	UK	Trebor	UK	1989
Campbell	USA	Freshbake	Freshbake	1988
Bouyges	France	Grand Moulins	France	1989
Cadbury -Schweppes	UK	Poulain	France	1987
Unilever	UK/ Netherlands	Boursin	France	1989
United Biscuits	UK	Verkade	Netherlands	1990

Source: Corporate Intelligence Group research

Firms such as Heinz have been trying to take their brands into different international markets where tastes are still varied. Their success to date is indicated by the fact that Heinz UK's 1989 turnover of £430 million was more than the rest of Europe put together. Beans in a tomato sauce are less well regarded on the Continent. If Heinz tomato ketchup is a semi-global brand, their other potential global winners are limited to Star-Kist Tuna and Weight Watchers diet meals. Their experience, of taking brands that reflect particularly local tastes across borders, highlights the difficulties that face manufacturers and retailers alike.

Mars, the US confectionery and petfoods group, has adopted a more successful pan-European strategy. They have been aided by the fact that both confectionery and petfood are sectors, acknowledged by Corporate Intelligence Group [9] in their report into Food Distribution in Europe, that are less affected by regional tastes.

Mars have accordingly rationalised their brand names. The longstanding Marathon bar in the UK, has changed into Snickers, the name in the US and the rest of Europe. Twix is likely to follow suit and become Raider and in petfoods Cesar has already overtaken the Mr. Dog name.

This increasingly international outlook has been similarly applied to the development of the Mars Bar Ice Cream. After test marketing, £20 million was invested in a new factory in Steinbourg in France. This acts as a hub from which it serves the whole of Europe. The brand was subsequently launched in April 1989 across sixteen European countries.

Just as manufacturers rush to create or acquire potential Euro-brands, so the multiple grocery retailers have developed a network of alliances (see table below). The SEM has acted as a catalyst in forcing manufacturers and retailers to take a wider perspective than the predominately national one previously applied.

If manufacturers can be seen to be creating Euro-brands, retailers must consider what the own label response should be and what chances they have of creating Europe-wide alliance labels.

6.0 THE RETAILERS - ALLIANCES AND OWN LABELS

From the mid 1980s, retailing in the SEM has been characterised by retailers forming cross-border alliances, as shown in Table 4. It is interesting to note that Jean Jacques Fougerat, Managing Director of Paridoc, saw retailer alliances as a means to:

"Counter the hegemony of big brand names".

Table 4: European Grocery Retail Alliances (August 1991)

Name	Participants	Country	Year of Formation
AMS (Associated Marketing Services)	Ahold	Netherlands	1988
	Allkauf	Germany	
	Argyll	UK	
	Casino	France	
	Dansk	Denmark	
	Supermarked	Denmark	
	Hagen	Norway	
	ICA	Sweden	
	Kesko	Finland	
	Rinascente	Italy	
	Mercadonia	Spain	
	Migros*	Switzerland	
	(*Associate Member)		
CEM (Cooperation Europeenne de Marketing)	Codec	France	1989
	Conad	Italy	
	Crai	Italy	
	Edeka	Germany	
	Uda	Spain	
Deuro Buying	Metro	Germany	1990
	Makro	Netherlands	
	Asda	UK	
	Carrefour	France	
Di-Fra (Distributeurs Francais)	Arlaud	France	1968
	Casino	France	
	Catteau	France	
	Louis Delhaize	Belgium	
	Francap	France	
	Genty	France	
	Montlaur	France	
	Rallye	France	
	SCA	France	
EMD (European Marketing Distribution)	Markant	Germany	1989
	Socadip	France	
	ZEV	Austria	
	Selex Iberica	Spain	
	Markant Foodmarketing	Netherlands	
	Uniarme	Portugal	
	Selex Gruppo	Italy	

Table 4: European Grocery Retail Alliances (August 1991) (cont'd)

Name	Participants	Country	Year of Formation
ERA (European Retail Alliance)	Ahold	Netherlands	1989
	Argyll	UK	
	Casino	France	
EuroCoop	ANCC	Italy	1957
	BVK	Germany	
	Hispa Coop	Spain	
	CRS	UK	
	FDB	Denmark	
	Federation Nationale des Cheminots	Luxembourg	
	FNCC	France	
	Fena Coop	Portugal	
	Konsum	Germany	
	COOP '82'	Netherlands	
	Coop Schweiz	Switzerland	
	Febe Coop	Belgium	
	FNCC	Belgium	
	KF	Finland	
	KK	Finland	
	NKL	Norway	
	SOK	Finland	
Eurogroup	GIB Group	Belgium	1988
	Vendex International	Netherlands	
	Rewe Zentrale	Germany	
	Coop Schweiz	Switzerland	
	Paridoc	France	
IDA (Independent Distributors Association)	Nisa Today's	UK	1990
	Europa Foods	UK	
	Londis	UK	
	Huyghebaert	Belgium	
	Diapar	France	
	Ripotot	France	
	Pidout	France	
	Dirk Van Den Broek	Netherlands	
	Karsten	Netherlands	
	Superquinn	Ireland	
	Tiburon	Spain	
	Centra	Spain	
InterCoop	21 Co-operatives from 18 countries		1971
	Bulgaria	UK	
	Yugoslavia	Denmark	
	Iceland	Norway	
	Germany	Israel	
	Austria	Finland	
	Italy	Poland	
	France	Japan	
	Sweden	Switzerland	
	Czechoslovakia		

Table 4: European Grocery Retail Alliances (August 1991) (cont'd)

Name	Participants	Country	Year of Formation
NAF (Nordisk Andelsforbund)		Denmark Finland Iceland Norway Sweden UK Coop Italia	1918
BIGS (Buying International Gedelfi Spar)	Spar Spar Handels Gedelfi Despar Spar Unigro ISC IGT Unigro Spar Unil Tuko Dagab Dagrofa Karstadt DWV	Austria Germany Germany Italy Belgium Netherlands Netherlands UK Norway Finland Sweden Denmark Germany Germany	1991

Source: Oxford Institute of Retail Management [11]

Table 4 provides an indication of retailing strategies for the 1990s. Fourteen out of Europe's top twenty grocery multiple retailers have already become involved with one of the above alliances.

One of the reasons for such co-operation rather than independent, international expansion is explained by Peter Howitt, a director of Argyll's Safeway [10]:

> "If our friends (competitors in Europe) did a worse job there would be an opportunity; but they do a good job."

Alan Treadgold of the Oxford Institute of Retail Management [11] is similarly convinced about the partnership route:

> "It allows retailers to learn about continental Europe without making a large commitment financially."

Retailing in the food sector is a notably nationalistic activity. Alliances may give own labels some of the scale benefits from moving into European markets without the associated risks of trying to introduce domestic own labels across European borders.

Retailers are concentrating their buying power, giving them further economies of scale and more power over suppliers. Products are being sourced from the most efficient suppliers in Europe. Greater expertise in logistics is being developed to co-ordinate the optimum level of stock holding, using just-in-time techniques and quick response systems. The UK retail sector leads in this area, with freight and logistic experts such as Exel Logistics and Tibbett and Britten, providing third party contracting services.

Economies of scale are not restricted simply to price reduction. Pierre Everaert, President of Ahold, cited the example of approaching a computer manufacturer for a specially designed till. For five hundred units it was not a cost-effective exercise, however, with partners Argyll and Casino the till number increased to 55,000 and the project became worthwhile.

There are some notable absences from the list of those participating in the alliances, including Tesco, Sainsbury, Aldi and Tengelmann. For these independent chains the attraction of increased buying power was not enough. Tengelmann has stated that membership of an alliance could restrict its international expansion plans (58% of Tengelmann's turnover was earned outside its domestic marketplace in 1989). Aldi has made clear its plans to expand in the UK as well as at home. Moreover, low price operators in Germany have opportunities of former Eastern Germany on which to focus their attentions before looking further afield.

For Tesco and Sainsbury the situation is rather different. They are market leaders in the UK which offers its two premier grocers net profit margins of 6 and 7% respectively, ahead of Europe's norm of 3-4%. Tesco has stated an interest in expanding abroad in the future through acquisition, while Sainsbury already owns Shaw in the US. Both companies have taken advantage of their strong own label positions as a central theme in contemporary television advertising.

All four of these companies have a strong rationale for concentrating on their domestic markets rather than stretching the management process by expanding abroad with a number of partners, where the opportunities appear less rewarding. This strategy has significant repercussions for own brand strategy.

6.1 Cost Driven vs. Added-Value Own Labels

Brands succeed because they provide value to consumers which others find hard to copy. In seeking to establish competitive advantages, brands can be cost competitive and/or add benefits in a way that enables them to command a price premium. Retailers' own labels and generics followed a cost driven strategy in the 1970s, offering consumers attractive prices. By contrast, premium priced manufacturers' brands, often with extended heritages, were positioned as offering unique added values, for example, strong brand personalities, communicated through pack design and advertising.

Scale and improved logistics skills are potentially sources of cost driven competitive advantage for retailers' own labels, saving distribution costs, delivering fresher goods and providing faster turn round of inventories. Further cost-related advantages can best be appreciated by one anonymous retailer's views about his priorities for the 1990s:

> "Selling is easy. Sourcing and buying are the keys to profits".

This is a particularly good summary of the strategic thrust behind the alliances. Their focus is cost reduction achieved through centralised buying. Not so much attention has been given to adding value to the consumer's shopping experience.

Central to this idea of own labels' added value benefits, is the contribution of the retailer's marketing activity to the branding process. When grocery shopping, consumers first consider which retailer to use and subsequently which brands or own labels. Seeing store names, for example, Sainsbury or Ahold, conjures up a bundle of values in consumers' minds, such as variety of choice, pricing, quality of products and services, car parking etc. This is sometimes overlooked by retailers in their approach to own labels. Of the four own label strategies identified earlier in this paper, i.e. generics, cheapest price, me-too and an extension of the retailer's added-value proposition, the last strategy is likely to be particularly attractive to those quality retailers in the 1990s who take advantage of their store image.

"Generics" and "cheapest price" are both cost driven strategies. "Me-too" is predominately concerned with driving down costs with an element of added value as these own labels mimic brand leaders. The fourth strategy enables own labels to build on the quality and service positioning retailers have adopted. It offers the retailer the opportunity to add value to its own labels through courteous, knowledgeable staff, rapid service, electronic point of sale systems, wide range of choice, pleasant well laid out stores and expansive car parks.

This added value service offering will be at the core of grocery own label development in the SEM. By offering consumers a choice between leading manufacturers' brands and top quality, competitively priced, own labels in a pleasant environment that makes grocery shopping a pleasure, rather than a chore, consumers will trust both stores and the products bearing their names. This hypothesis is supported by Casino's research into own label and the relationship with the store, mentioned above (see page 9).

As retailers grow in size, increase their buying power and become more vocal in communicating their proposition, it is likely that consumers will become even more familiar with consistent sets of values that are unique to retailers' own labels. Shoppers in Aldi, Casino or Auchan will be aware of the central importance of lowest price, while the Sainsbury shopper will appreciate that "Good food costs less ...".

Ahold is a particularly good example of the fourth own label strategy with its use of the Albert Heijn name on all own label groceries. Its objectives for supporting its own labels include:

- quality comparable to manufacturers' brands;
- prices significantly lower than manufacturers' equivalent brands;
- obtaining higher margins than on manufacturers' brands;
- representing an integral part of the store formula by carrying the same name as the store to provide a link in the mind of the consumer.

6.2 <u>Own Label or New Brand?</u>

Belgium's GIB group, a member of Eurogroupe, has co-operated with its fellow members to produce pan-European own labels that can be sold throughout the alliance without store names on the packs. Gonzalez and Le Bon Petit Diable biscuits, James, Star-Cat and Persa petfoods have already resulted. These are in effect new brands, that have neither the support of a retailer on the label nor a familiar brand name from a recognisable manufacturer.

With the popularity of alliances, retailers will be increasingly tempted to use names that look as if the own labels emanate from manufacturers. This will result in names that can be carried across Europe, without mention of any particular retailer. To take full advantage of alliance buying economies, members will have to produce own labels which are alliance own labels rather than retailer own labels.

Alliance Euro-own labels will not succeed on a cost driven basis alone. New brands like GIB's Star-Cat could conceivably give traditional manufacturers, like Mars, an opportunity to regain some strength, as consumers make risk averse decisions, shying away from new and untested names that do not carry the endorsement of their preferred supermarket's name or logo. This is in addition to the difficulty of having to find and communicate a positioning that is equally attractive to housewives in Bonn, Barcelona and Birmingham.

Alliance born own labels are not commended as the way ahead in the short term. A medium term outlook is being evaluated by Alistair Grant, Chairman of Safeway. In contemplating European own labels in the context of the ERA alliance, an exercise was undertaken to assess:

> " The compatibility of own brand merchandise across every sector." [12]

This had led to the conclusion that while co-operation would continue, there was no quick fix to developing a true alliance- wide (and thus Euro) own label.

> "I believe we will have a European own brand in ten years time." [12]

In addition to this medium term approach, ERA members are considering the possibility of a new type of retail environment, the Euro-store. ERA's plans for a Euro-store are controversial in themselves. Whether this is seen as a Euro-brand (at the retail level) or 'Euro-bland', as some critics have labelled it, remains to be seen. This route at least offers the facility for the alliance own label programme to sit comfortably with the alliance retail brand. For the consumer, who patronises the store, the name on the package would be consistent with that on the own label.

There still remains the potential conflict between a market consisting of consumers, from different countries and regions with different tastes and cultures on the one hand, and on the other hand the retailers' desire to provide a consistent and uniform offering.

Asko Deutsche Kaufhaus' attempt to circumvent the problem of developing a true alliance Euro-own label, is an interesting one. Its intention is to introduce the beginnings of a Euro-own label across its MHB holding, combining both Massa and Metro.

A separate company based in Switzerland has been created to handle the own label operation. It has developed a range of own labels to compete against manufacturers' brands. To give its own labels a clear image, it created the personality of its own fictitious consumer, Isabelle O'Lacy. This name is protected throughout the world and its packaging has been tailored to cope with six languages. Their Vice-Chairman, Fred Lachotski, described its aims in terms of:

> "We wanted a [own label] product range with personality, with added-value, with an umbrella label; a product that took into account the environment; and a product range that was internationally usable and a defense against possible strategic alliances without Asko." [13]

Some retailers, notably Aldi, Auchan and Gateway have created their very own brand names, dropping the store name altogether; Gateway, for example, has Thistleton's chocolate, Butler's biscuits and Bella pasta. Aldi, on the other hand, rationalize this strategy by supplying a generic range under the Aldi name, which is consistent with their corporate strategy and the no 'frills' positioning of the store in the mind of the consumer.

For the organisation that has made little investment in the quality or range of its own labels, a name which has no associations with a store may seem an attractive option. Its strength is that it can be easily accommodated by all members of a retail alliance. However, the weakness is that it leaves the new name to compete against established manufacturers' brands, which often have a long heritage and loyal following.

Retailers' own labels, which are disguised as emanating from manufacturers, have little chance of establishing a consumer franchise unless they offer particularly attractive prices or are supported by significant promotional activity. Own labels which follow this naming route will not be that successful unless they are backed by sufficient stand-alone promotional activity.

Finding a new name to carry the retailer's own label across Europe is totally inappropriate for those own labels which are an extension of retailers' added-value propositions (the fourth own label strategy). This paper contends that risk averse consumers have come to patronise retailers' own labels over an extended period because they trust the retailer or its own labels - for the quality of service offered by staff, store design, layout and cleanliness, range of goods offered as well as perception of value for money etc. Retailers have responded by improving the quality of the products to which they attach their name. From this perspective own labels are an extension of the retailers themselves. Changing the own label name to penetrate Europe will cause confusion amongst loyal consumers.

In terms of the naming issues, the contention of this paper has been that successful own label is in part dependent on the support of the store name. Retailer allliances will have to use new names to convey a consistent pan-European positioning. The challenge is for the alliances' Euro-stores to sponsor their own label, complete with their own name.

The advent of the Euro-store is some time away. The current relatively loose-knit arrangement of the alliances does not facilitate such ambitious projects.

7.0 FACTORS THAT WILL INFLUENCE GROCERY BRANDS

It has already been suggested that brands have a number of roles to perform, from acting as shorthand devices for decision-making to satisfying status needs or reducing perceived risk in purchasing. In this context the store is as much a brand as the added value product that it sells.

A number of critical factors that will affect food distribution in Europe were identified by The Corporate Intelligence Group's report on this subject. These were:

1. the Green issue;
2. physical distribution;
3. retailer concentration and saturation;
4. producer concentration;
5. the impact of the Single Market itself.

Brands are inextricably linked with all five critical factors. As environmental issues take on greater significance for consumers and legislators alike, manufacturers and retailers will have to tailor their range and create new brands. The real significance of this is only now becoming appreciated.

As retailers lock into third party distribution contracts, with increasing use of information technology and just-in-time techniques, inventories will be turned around even faster. These services will be provided by added-value freight hauliers or logistics experts, such as Exel, Tibbett & Britten and Christian Salvesen. This will further facilitate multiple retailers' ability to supply fresh goods, an area targeted for growth.

The near saturation of the packaged groceries sector means that retailers must look for new opportunities in fresh goods and prepared meals. Ahold's "The Fresh Company" concept in Amsterdam, selling only fresh produce, is a brave venture and presents a further branding opportunity. In the UK, Marks and Spencer has set the standard for quality own label groceries, in particular with its innovative development of prepared meals. Major competitors are, however, beginning to make in-roads in this area.

Nielsen's research highlighted increasing concentration in grocery retailing, with the trend continuing in northern Europe and increasing in the south. Big store names, like Tengelmann, Ahold and Aldi, seem set to continue their drive into new geographical markets. In the UK, Sainsbury and Tesco will continue to capitalise on opportunities in their home market and so develop their brand profile.

Producer concentration has been seen to increase dramatically at the end of the 1980s as manufacturers from Europe and America rush to purchase brand names, often at more than premium prices in order to attempt to build Euro-brands or even simply beat 'Fortress Europe'.

Lastly but most importantly, there is 1992 and the Single European Market. A series of legislative reforms that will alter the way Europe does business has motivated near frenetic activity in the grocery retail sector. As barriers fall and trade is facilitated, aspirant retailers have either maintained independence or, through the alliances for example, taken up with other like-minded retailers in order to develop synergies and economies of scale. Such moves will affect their corporate brands in years to come. The greater the commitment to the alliance, the less the facility to build brand identity.

Finally, innovation should be mentioned for its importance in times of such sea-change. ERA's Euro-store concept could permit them to develop the brand identities of their stores across Europe. With this evolution, ERA will be in a much stronger position to sponsor their own labels carrying the Euro-store name. This would be an innovation that would counter the problem of own labels unsupported by store name.

All these issues are brand-related. A successful brand is a means of differentiation and ultimately of gaining competitive advantage. Brand owners in the 1990s must look further than the pack, product and promotion to develop winning brands that can transcend borders. Strategic thinking and planning, as well as an understanding of consumers' needs and motivations, rather than cost reduction per se, should be the "plat du jour".

8.0 CONCLUSIONS

As history has shown, forecasts and predictions are rarely realised. Consequently, this paper can do no more than provide general pointers to the future and pose key questions about the future for grocery brands.

In the short term, own label penetration seems set to continue its growth pattern. In southern Europe this will be aided by increasing retailer concentration and help from allied northern retailers. In northern Europe too, the predicted pattern is for still further increased retailer concentration. In addition management of own label programmes is becoming more sophisticated and can be seen to offer better returns than manufacturers' brands.

In the medium term (mid 1990s) the forecast is less optimistic. An increasing portfolio of own labels will require a commensurate increase in corporate promotion, especially through advertising the corporate brand. This has been evidenced in the UK by the increasing spend on advertising of its leading retailers and in particular, Sainsbury and Tesco's focus on own label as the theme for their campaigns.

Increasing shares of own label also make greater demands on retailers' management resources, both in terms of research and development investment, logistics and marketing.

The threat of manufacturers' Euro-brands is more important than the emergence of the retailer alliances' Euro-labels. Such alliances will necessitate the creation of new and unsupported brand names. This is a substantially different concept from traditional store-named own labels and must be a high risk strategy that has been cost driven rather than value added.

The future for existing own labels will be determined by the extent to which the larger retailers build up their cross-border activities. The brightest future has to be for the store-named own brands, particularly those offering significant added-value.

In contemplating the future for own labels, the issues that retailers will have to keep under constant review include:

* Will the mid-1990s see the dilution of nationalistic and cultural differences?

* Can such differences be overcome by skilful promotion, packaging and by product presentation, rather than by product modification?

* Is collaboration, in the form of the alliance, really a better route than competition for Europe's top twenty retailers?

* What is the 'ideal' balance of own labels and manufacturers' brands in a modern superstore or hypermarket?

* Can and should retailers look for opportunities to distribute their own labels outside their own outlets?

* How will the improvements in information technology systems affect the development of own labels?

* Will tele-shopping further separate manufacturers from consumers, with a consequential shift to own label?

* How significant are the facets of the corporate brand and service for the development and success of the own labels?

References

1 Nielsen European Passport (1990): A Strategic Assessment of the New European Grocery Market. Nielsen A.C. & Co Ltd.

2 Sharoff B., The Grocer, 9 March 1991.

3 Sheath K. and McGoldrick (1981), Generics, Department of Management Sciences, UMIST.

4 Pinoncely G., Associate Manager, Casino.

5 Economist (4 November 1989), The myth of the Euro-consumer.

6 Whitaker J., AGB Information (15 May 1990), Address to PLMA Conference, Amsterdam.

7 O'Reilly A., Economist (22 December 1990), Pass the Marmite.

8 O'Reilly A., (10-13 June 1990) CIES Congress, Berlin.

9 Corporate Intelligence Group Research, Food Distribution in Europe (1990).

10 Howitt P., Supermarketing (2 November 1990).

11 Treadgold A., Supermarketing (2 November 1990).

12 Grant A., Marketing Magazine (16 November 1989).

13 Lachotski F., Vice Chairman, Asko Deutsche Kaufhaus (14-16 May 1990), Address to PLMA Conference, Amsterdam.