



OWN BRANDS:
INCREASING CONSUMER CHOICE AND
DRIVING INNOVATION

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Introduction

Commerce thrives on fierce competition, with retailers and wholesalers vying for the attention and loyalty of customers. Every day, customers vote with their feet for the stores of their choice. Shops therefore depend on maintaining the reputation of their business and the trust of their customers.

Own brands products, in many cases marketed under the store's own label, have developed at all levels of value in both food and non-food products in response to consumer demands for value for money: often they are market leaders. They also allow stores to offer something unique to differentiate them from their competitors.

There is currently a lively political debate on own brands which is characterised by a number of misconceptions. With this brochure we aim to shed some light on own brands and provide a clearer picture about what they are. In particular, we would like to give answers to the following questions:

- What are own brand products?
- Why do consumers like own brand products?
- Are own brands a threat to competition or consumer choice and do they hamper innovation?
- Who produces own brands?

What are own brand products?

The term own brands, also known as store brands or private labels, refers to “all merchandise sold under a retailer’s brand. That brand can be the retailer’s own name or a name created exclusively by that retailer.” (Source: PLMA website)

Own brand products are not a new phenomenon. They have been in the market for almost a century. Whereas some retail formats have developed almost exclusively as own brand sellers, most retailers sell a mix of both branded and own brand goods.

In the early days, own brands were often perceived as cheap or generic. Over the past 20 years or so, however, they have shown an impressive development. Own brand products have become more and more sophisticated and their market share has grown significantly in all types of retail. Nowadays they sit alongside other brands at all value and price ranges.

Nevertheless, market penetration in Europe varies significantly between member states, store formats and product lines. In most European countries own brand market share lies between approximately 20 and 30 percent. Own brands are particularly popular in Switzerland and the UK with a market penetration of more than 40 percent. At the lower end of the scale are countries like Italy, Poland and Greece with market shares between only 10 and 15 percent. Notwithstanding this diversity, Europe is at the forefront regarding own brands: The world-wide weighted average market share is only approximately 15 percent (Source: Nielsen 2010).

Today, a broad selection of own brand products is available in stores, ranging from fresh, tinned and frozen foodstuffs, organic and fair trade products to household products, health and care products, home improvement products and many more.

The market shares of own brands at product level show large variations. Product ranges with a high proportion of own brands are household goods such as aluminium foil, rubbish bags or kitchen towels as well as vegetables, fish and meat, and milk products. Ready meals are a particularly suc-

cessful example of own brand products. Toiletries, baby food, beer or soft drinks, on the other hand, account for the lowest shares of own brands.

Own brand foodstuffs, an important segment, are available in a number of categories such as gourmet food or local and regional specialties. In terms of quality, there are, for example, value, gourmet, regional or festive foodstuffs. In terms of health and wellness, the range comprises products with authenticated health claims, “free from allergen” foods or functional, e.g. cholesterol reducing, food. A more recent phenomenon is the strong growth of eco-friendly, ethical and organic own brand products.

The recent economic downturn and increased price sensitivity of consumers have increased growth and popularity of own brands. However, despite their successful development, it is unlikely that the share of own brands will continue to grow endlessly. There is a simple reason for this. Consumers expect a variety of products in the shops. They want to find a certain number of branded products on the shelves of their preferred supermarket. Examples are soft drinks, breakfast cereals or hazelnut sandwich spreads. For other products they prefer own brands. Experience shows that if a retailer does not have certain “must have products” in its range of goods, it is very likely that the customer will go to a competitor.

Own brands: good value for money – keeping inflation down

With own brand products, consumers benefit from a greater choice, as own brands share shelf space with branded items, increasing product range at both the low cost and more expensive ends of the range.

Own brands are highly accepted by customers. Europe wide, 78 percent of consumers agree that own brands are a good alternative to named brands (Source: Nielsen 2005). There are various reasons why customers choose own brands. According to a 2009 IfH/BBE study from the German Retail Federation HDE, 64 percent of consumers buy own brands because they are good value for money.¹ 61 percent indicated a low

¹ At European level this number even amounts up to 73 percent of consumers (Nielsen 2005).

What BEUC, the European Consumers' Organisation, says about own brands

"Retailers own brands are an important element of consumer choice. They allow even the most vulnerable groups to have access to safe and affordable products while at the same time contributing to making retail markets more open to competition. It is crucial that the safety and quality of consumer goods are guaranteed by all suppliers in the market chain and with many retailers applying higher standards this can only be seen as beneficial to the consumer. On food and health, retailers lead the way when it comes to reformulation to reduce the levels of fat, sugar and salt in their products with other branded goods following in their footsteps thus providing consumers with more and healthier food choices."

BEUC, the European Consumers' Organisation has a membership of 44 independent national consumer organisations from 31 European countries (EU, EEA and applicant countries). BEUC acts as the umbrella group in Brussels for these organisations and its main task is to represent its members and defend the interests of all European consumers.

price, 59 percent good quality and 58 percent mentioned good experiences as a driver for their buying decision. Only six percent of customers replied that they never buy own brand products (Source: IfH/BBE Study 2009).

These figures confirm that own brands can offer good value for money and quality at affordable prices. Price differences between branded products and own brands can be up to 50 percent. With lower prices, own brands help keep inflation down. Since retailers do not need to make huge advertising investment in their own brands, savings are passed on to consumers.

Furthermore, with their own label on their products retailers retain control over quality and thus can guarantee consumers that their own high quality standards are maintained.

Increased competition benefits the consumer

Own brands are an essential part of retailers' strategy in creating more choice and better value for their customers. They are also a way for retailers to maximise their own brand equity

and to increase their price competitive offer in relation to branded products.² Hence, through their own brands, retailers have become direct competitors of brand manufacturers.

Retailers are criticised by some manufacturers for playing a double role where they are both their customer and competitor. The fact that retailers not only sell but also produce some of their products is not unusual - such "vertical integration" also takes place on the manufacturers' side. There are a number of manufacturers who sell goods directly to consumers without retailer intermediaries. One of the most notable current examples is coffee capsules, which are sold by producers exclusively in their own shops or over the internet. Other examples can be found in the clothes, computer and beverages sectors. Just as we welcome farmers selling directly to consumers, we welcome such initiatives as they ultimately result in consumer benefit.

Critics accuse retailers selling own brands of damaging the workings of competition and so causing detriment to consumers. This allegation does not reflect reality. The European Commission has recently confirmed that "*no case of anticompetitive effects stemming from the increasing use of private labels has been found to date by any competition authority*"³.

² European Commission, SEC(2010)807, p. 46

³ European Commission, SEC(2010)807, p. 46

With their own brand products retailers offer a wider choice of alternative products to consumers. Thus own brands increase competition both between different retailers and between retailers and manufacturers to the benefit of consumer choice and prices.

Own brands allow retailers to position themselves on the market and to distinguish themselves from their competitors by creating a unique identity. They can lead to competitive advantages vis-à-vis other retailers - something that branded products cannot offer. In this regard, own brands help attract and retain customers. In a highly competitive sector such as commerce, customer loyalty is clearly an asset.

Stronger competition between retailers and manufacturers will also provide an incentive to brand manufacturers to respond to own brand products and bring new products to the market. Eventually, this will lead to greater choice for the consumer.

Innovation through own brands

Own brand products today are well respected and trusted brands, which are based on innovation. Furthermore, retail companies often go beyond their legal obligations to ensure quality, safety and traceability of their own brand products leading innovation even further.

The fact that retailers produce their own products allows them to respond quickly to new trends, changing consumer demands and requests by policy makers. As the closest link to consumers, retailers might therefore be quicker to introduce new products to the market than brand manufacturers.

OWN BRANDS PROMOTE SUSTAINABLE AND ENVIRONMENT-FRIENDLY PRODUCTS

For some time, retailers have been selling organic, ethical and environmentally friendly products under their private labels. With own brands retailers have greatly promoted the sale of organic and fair trade foodstuffs and made them more affordable. Thanks to retail these products - coffee, tea, chocolate, fruit and vegetables, wine - have moved from the niche to the mainstream market and are now available to

the wider public. Retailers' own brands are also at the forefront with regard to sustainable fishing, for example.

Most retailers also have an eco-product line under their own brand, for example cleaning products. With own brands retailers are also able to take initiatives to reduce packaging or replace traditional with biodegradable packaging.

OWN BRANDS PROMOTE HEALTHY EATING

Own brands allow retailers to drive product developments which exceed public policy goals for food with healthier ingredients or better labelling information. Sophisticated nutritional labelling aims to help consumers make the right decision for a healthy diet. In Germany, for example, 80 percent of own brand food products provide voluntary nutrition labelling (Source: HDE 2010).

Ready-made fresh meals are a particularly successful example of own brand products and they are often market leaders in terms of nutrition and healthy eating. Many retailers have reformulated recipes in order to reduce sugar and fat and to remove artificial colours and flavours.

A growing number of people are affected by allergies or intolerances to certain foodstuffs or ingredients. Retailers have therefore developed specific own brands to provide customers with food which does not trigger allergies. Own brand products now often comprise gluten or lactose free foodstuffs. Another example of innovative healthy own brand products is "functional food" which, for example, helps to reduce cholesterol.

Some retailers also take religious beliefs into account in their own brand production by offering a range of halal food under their private label.

The supplier side: promoting SMEs and creating employment

Own brand products are manufactured and supplied in different ways.

Some major retailers operate their own manufacturing sites and provide own brand products for themselves.

Carrefour Quality Lines

Main characteristics of Carrefour Quality Lines

In 1992, Carrefour launched its first 'Quality Lines' range of fresh food products (meat, vegetables, cheese etc.). With this product range, Carrefour aims to meet consumer demand for food safety, freshness, taste and authenticity, working with upstream suppliers to ensure quality is maintained. It also prioritises the economic, social and environmental impact of these products.

Economic and social issues:

- Building long-term partnerships with suppliers, farmers and producers, remunerating them according to the real value of the product
- Offering high quality products at reasonable prices to consumers
- Promoting regional products and giving suppliers access to export markets
- Contributing to the economic, social and environmental development of local communities through information and access to education for international suppliers

Environmental issues:

- Developing an integrated approach to farming involving responsible water usage and the promotion of integrated pest control
- Promoting farming conditions that respect animal welfare
- Avoiding chemical treatments and the use of soil-free plant production, antibiotics and growth hormones
- Forbidding GMO products in animal feed or plant production

In October 2010, Carrefour also launched in France a non-GMO label, which now appears on more than 300 meat and egg products. The company's aim is to increase the ability of consumers to make informed choices and to link sustainable development goals with consumer expectations on choice, quality, and price.

Delhaize "Private Brands – affordable and healthy"

In these budget-conscious times, many shoppers feel they have to choose between affordability and health. We don't agree. We believe all our customers should be able to choose from a varied range of food that is nutritious, tasty - and affordable.

In 2009, Delhaize Belgium adjusted its procedures for testing and buying private brand products to identify opportunities to increase their nutritional value. The main reformulations related to reducing salt, fat (including transfat) and sugar.

The first step in changing the procedures was to introduce a systematic 'nutrition' benchmarking of private brand products against equivalent national brand products, to give a quantified performance indicator for each product. In the second step, Delhaize implemented detailed 'nutrition' testing with internal and external panels. Meeting these goals depends on close collaboration with private brand suppliers. Delhaize will communicate the results of its assessments to guide reformulation opportunities, and suppliers will widen their own testing to improve their products' nutrition value.

The review of more than 900 products in 2009 led to reformulations that reduced salt by 11 tons and fat by more than 100 tons. An additional 1800 existing private brand products were under review in 2010, with a target of covering all private brand food products within three years. All new private brand products are subject to nutrition screening since the beginning of 2010 - and none will get on the shelves if they haven't passed these screenings. These reformulations were done without necessarily pushing up the price.

Kaufland "Voluntary nutrition labelling and dietary advice for customers"

In 2008, Kaufland implemented an extended voluntary nutrition labelling scheme for all of its own brand ranges. In this way, Kaufland informs its customers about calorie and nutrient content of products on the packaging.

Almost all of the more than 1000 products of the own brand ranges K-Classic, K-Bio, K-Classic WellYou have this additional 'front of pack' customer information, thus helping customers to realise a balanced choice to suit their needs. Kaufland's own brands customers are invited to use the free service hotline for any questions and comments.

To deal with dietary questions in greater detail and provide consumers with practical assistance, Kaufland has developed a diet concept for its customers with six different nutrition types, e.g. sensitive type or family type. Kaufland offers dietary advice that suits the needs of each single nutrition type including recipes, specific shopping and cooking tips.

Customers can obtain information about Kaufland's diet concept on the internet or in Kaufland's customer newspaper. Kaufland also offers free nutrition consultations via phone and e-mail. Customers appreciate the professional guidance and make use of the free service hotline to get answers to their questions regarding topics such as lactose intolerance, cholesterol-conscious diet and osteoporosis.

cans the sauces are aseptically packed in plastic pouches which ensure that the products are germ-free and shelf-stable. This innovation allows a more efficient business for HoReCa customers such as canteens, caterers and restaurants by saving time, storage space and money. The benefits for the customers a manifold:

- Convenient to handle: The pouch is easy to open. No can opener is required. There are no sharp edges.
- See the product: Transparent packaging lets customers check the product before they buy it.
- Save storage-space: Packaging requires 30% less storage space compared to cans.
- Greater yield per pouch: Flexible packaging lets users get almost all the sauce out of the pouch.
- Improved flavour and quality: Reduced heat processing due to the aseptic plastic pouches preserves the flavor of the tomatoes.
- Easy and cheap disposal: The pouches create less packaging waste. The packaging contains no aluminium.

The tomato sauce is produced by the Parma-based company Columbus, part of Mantua Surgelati Group and specialized in the field of tomato processing and in the production of semi-finished and finished products. Columbus is a producer with a private label share of 85%.

Mercadona – employment creation through own brands

Most of Mercadona's own brands are produced in Spain. In 2009, Mercadona's Integrated Suppliers invested € 500million, working with 8,500 local SMEs. They created 1,100 new direct jobs, raising the total number of their payrolls to 40,000 employees. In 2008, they created 1,000 new jobs.

A particular example is Martínez Loriente, who runs an integrated supply business for meal products. In 2002, Martínez Loriente created a factory in Valencia. Since then, the total investment has been € 200 million, with 1,400 new jobs created in the region.

Another example is Senoble, Mercadona's integrated supplier for yogurt. This French company specializes in good quality own brands all over Europe. Thanks to this retailer-producer relationship, Senoble set up a factory in Toledo (Spain) in 2002 and began production of Mercadona's own brand yogurt, with an initial investment of € 60 million and the creation of 500 new direct jobs (1,300 indirectly). Since 2002 the turnover of the factory has increased by 100 percent.

Metro's "Horeca Select tomato sauce in aseptic pouches"

In March 2009, Metro Cash & Carry International teamed up with CYROVAC/Sealed Air, one of the most innovative packaging manufacturers for sealed air and launched a new packing solution in its "Horeca Select" range: aseptic pouches for tomato sauce. Instead of

Tesco introduces 'Mutsu' apples in Poland

Tesco in Poland worked with one of its Polish fruit growers, Adam Soska, to introduce a new variety of apple called 'Mutsu'. This variety is much like a Granny Smith, but grows well in Poland and is between 40-60 percent of the price of imported Granny Smith apples.

Adam Soska has been supplying apples to Tesco for eight years. Developing the new Mutsu variety took five years and required investment by Soska. On the basis of his long-running relationship with Tesco, Soska was confident that Tesco

would buy the Mutsu apples. When he encountered some problems growing the new variety, Soska and Tesco worked together to solve these.

Tesco is currently the only retailer of Mutsu apples in Poland. However, as the crop increases over time, Soska will be able to supply other retailers and expand. With a unique product and a cost advantage over imported apples, Soska is now more insulated from fluctuations in apple prices and has gained access to a large market.

What the European Commission says about own brands

"Private labels reflect a new form of relationships between processors, retailers and consumers. They often allow SMEs to access large markets. Compared to A-brands, marketing costs are relatively low for private labels. Therefore, consumer prices are generally lower."

(European Commission, SEC(2009)1448, p. 8)

"Even if European retailers have, at aggregate level, achieved lower productivity growth over the past decade than their counterparts in the United States, their growth and the waves of horizontal and vertical integration have contributed to making the retail sector more efficient and to lowering inflation. Moreover, greater competition, in particular because of the rise of European discount stores and budget price own brands, has reinforced this trend, ever pushing retailers to become even more efficient in order to curb the erosion of their margins."

(European Commission, COM(2010)355 final, p. 4)

"Retail brands have also increasingly become vehicles for product innovation as well as a means for retailers to control quality levels of products directly and therefore also their product liability obligations, which underline the strength of their respective brands."

(European Commission, SEC(2010)807, p. 12)

On the retailers' private label contracts business: "It should also be noted that it has resulted in efficiency gains in certain processing plants where manufacturing line capacity can be more fully exploited. It has also allowed for less well known brands or medium sized companies who could not compete face on with the major brands to remain in business and grow."

(European Commission, SEC(2010)807, p. 46)

On the relationship between retailers and own brand manufacturers: "Some of the most durable and stable contractual relationships with suppliers have been developed in this way. Through such trusted relationships, the two work together and maximise the utility of the market trend information that the retailer collects. The retailer's product lines are therefore often trendsetting and innovative."

(European Commission, SEC(2010)807, p. 38)

There are also large brand manufacturers who produce both branded and own brand products for retailers. In fact, brand manufacturers and retailers collaborate increasingly on developing exclusive products, co-branding and joint promotions.

According to a study of the Spanish trade union UGT published in June 2010, 66 percent of Spanish brand manufacturers also produced own brand products. With the production of own brand products, brand manufacturers can realise efficiency gains by making use of possible excess capacities and thus exploiting manufacturing line capacities to a higher degree. Own brands thus provide an opportunity for growth and development for brand manufacturers.

Thanks to own brands, numerous retailers also provide an entry to the market for many thousands of smaller suppliers who could otherwise

not compete with major brand manufacturers. Indeed, more and more small and medium-sized manufacturers specialise in particular product lines and concentrate on the exclusive production of own brand products. A 2010 Nielsen study, commissioned by the French Federation for Commerce and Distribution (FCD), found that there has been a significant increase in own brand products made by SME suppliers. The study also found that over 70 percent of French own-brand products are made by French SMEs.

Own brands thus help many small suppliers to access national and international markets. In the process, these SME suppliers gain access to information on consumer preferences, while not having to finance the development, marketing and distribution of a brand. Without the production of own brands, many SMEs would be unable to finance the marketing of their brands.

What the Federation of Enterprises and Entrepreneurs of France (FEEF) says about own brands

The FEEF affirms that own brands ensure constant growth of activity for its members. Own brands have allowed for the emergence of pertinent innovations for consumers thanks to the unfailing support of distribution companies that find in these own brands a true brand name identity (Marque Reflets de France, Carrefour Market, Marque U, Marque Auchan, Marque Repère...).

Own brands reinforce the financial independence of our SMEs, help them to resist being bought up by large groups and contribute to the maintenance of jobs and consumer purchasing power.

Moreover, own brands offer producers the opportunity to extend their market share thanks to the partnership they have been able to create with distribution companies by benefiting from their internationalisation. This collaboration between distributors and suppliers has also resulted in advances in terms of innovation (differentiating products) and quality (raised expectations), whilst remaining a competitive offer in terms of quality/price compared to brand products.

In France the market share of own brands amounts to 35%. Not supporting own brands would not only endanger the future of our SMEs and their suppliers, the farmers, but also the purchasing power of consumers.

The Federation of Enterprises and Entrepreneurs of France, which was founded in 1995, encompasses more than 600 family enterprises today, including suppliers of large retailers. Among its members are producers who produce exclusively own brands, but most of them also manufacture in their own name.

Own Brands: Share in terms of product numbers by large & medium stores, France, 2008

	SMES		LARGER COMPANIES		
	French	Foreign	French	Foreign	
Large & medium stores	64.7%	21.9%	7.9%	5.5%	100%
Dry products	64.0%	20.6%	8.7%	6.7%	100%
Beverages	79.3%	11.0%	6.4%	3.3%	100%
Cosmetics, Personal & Homecare	38.2%	50.3%	0.0%	11.5%	100%
Refrigerated section	75.4%	11.4%	11.5%	1.7%	100%

Contrary to some suggestions, own brands do not compete with local and regional products. In fact, own brands have played an important role in bringing unique food specialities to a larger market. In France, for example, own brands have brought many local specialities on to the shelves (delicatessen produce, cheeses, biscuits etc.), thus helping to increase their sales. Lesser known local specialities and recipes, in particular, benefit from this positive partnership with established retail brands.

Retailers have a strong interest in engaging in stable and long-term partnerships with their

SME suppliers, as they help retailers innovate and introduce new products to the market. At the same time, SMEs can benefit from significant growth in sales, productivity and know how.

Through their close cooperation with local and regional SME suppliers, retailers make an important contribution to the preservation and creation of jobs in Europe. The production of own brands can therefore be seen as a contribution to the EU 2020 strategy for smart, sustainable and inclusive growth.

OWN BRANDS

A UNIQUE SUCCESS STORY

To sum up, own brands ...

- ... provide consumers with a more diverse range of goods.
- ... offer good value for money. With affordable prices they help keep inflation down.
- ... increase competition among retailers as well as with brand manufacturers to the benefit of consumers. No anticompetitive effects caused by the rise of own brands have been found.
- ... are innovative and often developed where brands are not very strong.
- ... promote sustainable and environment-friendly products and foster healthy diets.
- ... give SMEs suppliers access to large national and international markets and a long-term perspective for growth and employment.
- ... bring unique local and regional food specialities to a larger market.
- ... help create and safeguard employment in Europe.

EuroCommerce and the commerce sector

EuroCommerce represents the retail, wholesale and international trade sectors in Europe. Its membership includes commerce federations and companies in 31 European countries.

Commerce plays a unique role in the European economy, acting as the link between manufacturers and the nearly 500 million consumers across Europe over a billion times a day. It is a dynamic and labour-intensive sector, generating 11% of the EU's GDP. One company out of three in Europe is active in the commerce sector.

Over 95% of the 6 million companies in commerce are small and medium-sized enterprises. It also includes some of Europe's most successful companies. The sector is a major source of employment creation: 31 million Europeans work in commerce, which is one of the few remaining job-creating activities in Europe. It also supports millions of dependent jobs throughout the supply chain from small local suppliers to international businesses.