# Store brands vs. national brands: Strategies for success

by Samar Birwadker

The *Hub*

March 2011



Landor

This PDF is designed to be printed double-sided to help you conserve paper.



**Landor Associates** is one of the world's leading strategic brand consulting and design firms. Landor is part of WPP, one of the largest global communications services companies. Visit us at landor.com.

# Store brands vs. national brands

## Strategies for success

**Although there is no dearth of opinions on how the battle between national brands and retailers' store brands will pan out in the United States, most analysts agree that it's shaping up to be quite a contest. Long seen as beacons of trust and credibility, national brands watched their market shares erode as retailers became more sophisticated at developing and selling their own store brands. To be fair, without the right retail partners, national brands couldn't have created the differentiation that has allowed them to command a premium over their store brand counterparts. Retailers have played along for the most part by relying heavily on leading national brands to lure customers through their doors.**

In the last decade, the rapid evolution of store brands has led to converging competencies, and now store and national brands are at war for the same consumer dollars. It may sound like an oxymoron, but in spite of intensifying competition, future success for both will depend not only on how well their playing fields and core competencies are defined, but also on how well they can manage the strategic relationships with each other.

**Who is winning the battle?**

During the mid-2000s, store brands were hailed as the second coming of retail, providing wonderful new opportunities for growth in previously unchartered territories. With share of sales growing at an average annual rate of 0.5 percent between 2005 and 2009, store brands became a poster child for practicality and austerity in tough economic times.[1] But starting in 2010, the recovering economy created a new set of realities. Now, in 2011, retailers are forced to rethink their store brand portfolio strategies in order to remain relevant in a world where, more than ever, consumers seek brands that not only offer value but speak in a unique, identifiable voice and deliver substance with purpose.

Although store brand sales are still growing nearly twice as fast as sales of national brands, the abating recession has toned down some of the irrational exuberance. Ambitious store brands dressed in fancy packaging can no longer masquerade the aisles pretending to be the real deal. Retailers are quickly learning that prime shelf space and

**Samar Birwadker** is senior insights manager in the San Francisco office of Landor Associates.

This article appeared in slightly different form in the *Hub* (March/April 2011). hubmagazine.com

1 Information Resources, Inc., *Times & Trends* (October 2009). symphonyiri.nl/portals/0/articlePdfs/T_T-SeptOct-2009-Private-Label-US_Europe.pdf (accessed 17 January 2011).

## National brands

| MOST LIKELY TO BE PERCEIVED AS | LEAST LIKELY TO BE PERCEIVED AS |
|---|---|
| Best brand | Unapproachable |
| Worth more | Arrogant |
| Trustworthy | Daring |
| Original | Trendy |
| Down to earth | Dynamic |
| High quality | Social |

## Store brands

| MOST LIKELY TO BE PERCEIVED AS | LEAST LIKELY TO BE PERCEIVED AS |
|---|---|
| Simple | Distinctive |
| Good value | Dynamic |
| Friendly | Social |
| Down to earth | Prestigious |
| Gaining in popularity | Authentic |
| Obliging | Energetic |

When we compare average perceptions of 15 store brands to an equal number of diverse leading national brands, it's clear that there is plenty of work to be done at both ends of the spectrum.

**STORE BRANDS** 24.7 (CVS), 365 Everyday Value (Whole Foods), America's Choice (A&P), Durabrand (Walmart), Eating Right (Safeway), Equate (Walmart), Great Value (Walmart), Kirkland Signature (Costco), Mainstays (Walmart), O Organics (Safeway) Ol' Roy (Walmart), President's Choice (Loblaw), Sam's Choice (Walmart), Up & Up (Target)

**NATIONAL BRANDS** Breyers, Campbell's, Cheerios, Tide, Head & Shoulders, Horizon Organic, Kellogg's, Lysol, Olay, Oreo, Pepperidge Farm, Quaker Oats, Smucker's, Vaseline

guaranteed foot traffic can't make up for puny marketing budgets and half promises.

The fact that national brands are reclaiming some of their lost share in the recovering economy indicates that store brands still have a long way to go before they can credibly sing a tune different than value. It also suggests that a majority of store brands, even at lower price points, lack the compelling, believable proposition necessary to compete against heritage national brands that have stayed relevant by working hard to strengthen their unique meaning in customers' hearts and minds.

As the recession ends, consumers' shopping habits and attitudes toward brand consumption are changing. And this shift is creating greater overlap in the competencies of retailers and national companies. Below are some predictions and best practices for store and national brands going forward.

### Store brands take on national, but national battles back

Acceptance of store brands in the United States has grown, but it's still nowhere near the levels seen in European markets. In 2011, U.S. retailers must continue to borrow store brand strategies from progressive retailers across the pond. Tesco and Marks & Spencer have created powerful hybrid portfolios, taking advantage of "branded house" strategies for massive efficiencies, and creating dedicated brands for specialty categories such as skin care and organic food, where they lack credibility and consumer permission for brand stretch.

Progressive retailers such as Target, Whole Foods, and Safeway have led the way in the United States by creating tiered portfolios of cross-category brands, such as Archer Farms, 365 Everyday Value, and Eating Right, that speak to the unique sensibilities of their customers' lifestyles and help fulfill their unmet needs. It is critically important for retailers to continue to identify and fill in gaps left wide open due to the lack of innovation on the part of national companies.

**Tesco:** Over 70 percent of the merchandise that Tesco carries across all categories is part of the retailer's Good, Better or Best store brand portfolio. An industry-leading 50 percent store brand share of the retailer's total sales allows Tesco to carry enormous SKU assortments and reap higher margins.

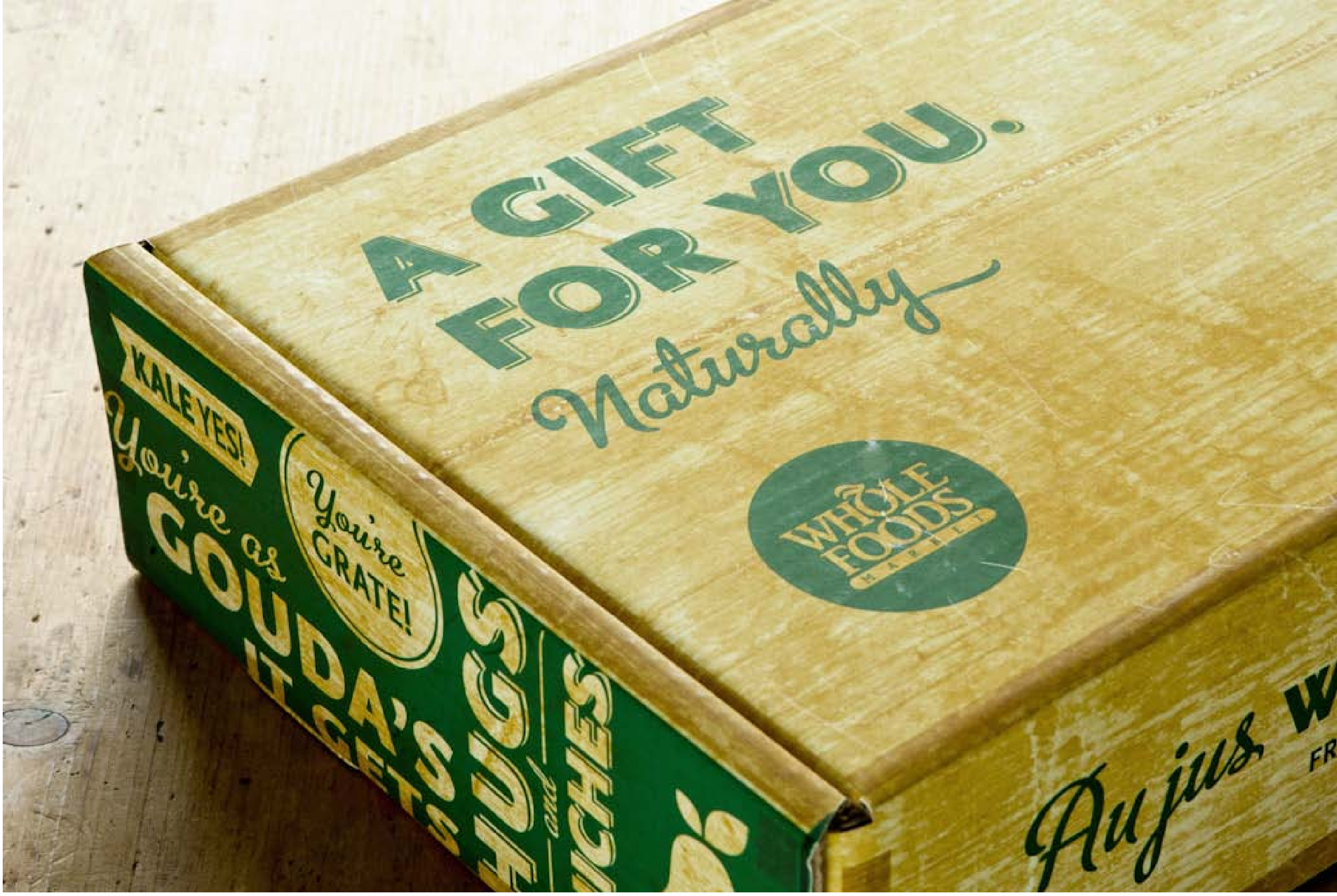
**Whole Foods:** The retailer offers tiered store brands including the more value-priced 365 Everyday Value and 365 Organic Everyday Value lines, and the Whole Foods Market line, which often features artisanal or small-batch specialty products. Whole Foods sells store-brand goods across many categories that include everything from frozen dinners to supplements to shampoo and snacks.

**Safeway:** Safeway's lifestyle-focused O Organics and Eating Right brands have become some of the largest selling brands in the category—even managing to cross over to non-Safeway retail channels. This is a great example of how progressive U.S. retailers can use sophisticated store brand portfolios to "fill in the gaps" and deliver total solutions to customers.

The high penetration of store brands in Europe has led national companies there to invest heavily in R&D to help feed their innovation pipelines, and American national companies must follow suit to stay ahead. According to a recent study by Deloitte Insights, only four in 10 national companies invested more in product research in 2010 than they did 10 years ago.[2]

National companies can minimize retailers' store-brand opportunities by taking advantage of their

2 "Dearth of CPG Innovation Helps Fuel Private Label Growth," Store Brands Decisions (26 October 2010). storebrandsdecisions.com/news/2010/10/26/dearth-of-cpg-innovation-helps-fuel-private-label-growth (accessed 17 January 2011).




superior R&D abilities to innovate new products, going beyond the line extensions they've relied so heavily on. National companies must continue to be better than retailers at tapping into consumers' desires, motivations, and behavior to identify white spaces and build compelling brand propositions to fulfill unmet needs. These innovations need to be flawless, furious, and done faster than ever before, making it difficult, if not impossible, for retailers to imitate.

**Procter & Gamble:** The national brand powerhouse was able to create a unique and ownable proposition and drive higher differentiation for Dawn by using Olay's brand equity in the dishwashing soap segment. Although dishwashing brands have touted their ability to be "gentle on hands" in the past, borrowed equity from Olay, a cross-category brand, adds a huge dose of credibility and helps Dawn break away in a commoditized category that's crowded with look-alikes.

**Swanson:** Packaging its broth in cartons with re-closeable lids rather than cans enhances convenience for customers, making it easier to save unused broth and reducing the amount that's thrown out and wasted. Although the carton is a simple feature, Swanson has discovered that consumers are willing to pay extra for it.

**McCormick:** Home cooks can prepare meals like gourmet chefs without having to purchase a separate grinder. The national brand company invested in structural design and now includes a built-in grinder in the bottle tops of certain spices and seasoning mixtures. Retailers find it difficult to invest in innovations like this for their store brands because they can't match the volumes required to make it cost-effective.

**How far can your brand stretch?**

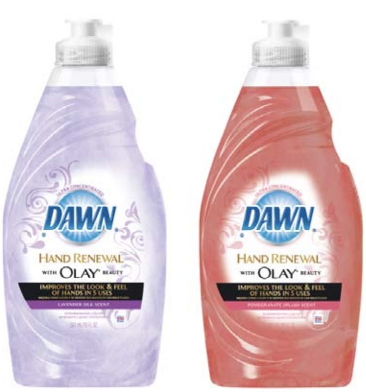
While consumers may be receptive to a store-brand product when it comes to staples or other general merchandise, they may not be as open to a grocery chain selling advanced skin care products under its own label.

**Walmart:** In October 2010, the retailer rolled back Project Impact, a two-year-long initiative with a goal to satisfy shopper assortment expectations by expanding store-brand varieties and scaling back SKUs of national brands. In March 2009, greatly underestimating its inherent strength, Walmart

Whole Foods offers tiered store brands, from value-priced lines to artisanal and specialty products.


**ABOVE** In 2009, Walmart replaced popular national brands with several extensions of its Great Value store brand, but this worked against its promise to be a destination for lower-priced national brands.

**BELOW** P&G was able to drive higher differentiation for Dawn by using Olay's brand equity in the dishwashing soap segment.




replaced popular national brands with several extensions of its Great Value store brand in new packaging and advertised them with better in-store signage. This initiative failed to deliver the estimated increase in foot traffic and instead compromised Walmart's destination strategy by limiting the retailer's ability to retain its customers. Most importantly, it worked against Walmart's brand promise of being a destination for lower-priced national brands.

### Innovating for victory

To drive higher differentiation, progressive retailers must invest in holistic brand development programs that build their parent brands. Investing in store environments, aisle promotions, retail execution, couponing, product bundling, and sophisticated research and market intelligence can help retailers create even more compelling products and lasting relationships with their shoppers.

**CVS:** CVS' store-brand portfolio of health and beauty brands offers a plethora of premium products such as antiaging and mineral makeup, advanced skin revitalization treatments, and more. This has helped the retailer go head to head with leading national brands such as L'Oreal and Aveeno. In November 2008, CVS debuted Beauty 360, an innovative concept store within a store that offers an upscale shopping destination to time-starved women. Exclusive store brands including 24.7, Skin Effects, Christophe Beverly Hills, and Essence of Beauty are spotlighted.

National companies must focus on inculcating a culture of true innovation that can create higher differentiation, help them remain relevant, and most importantly, create deeper, lasting bonds with their customers. National companies should better use their brand stature and vast network to crowdsource customers' opinions and understand their needs. By opening up the innovation process, national companies can identify market trends quicker, leading to better consumer insights, and consequently, to stronger brands.

**Procter & Gamble:** In 2011, P&G plans to increase its product innovation and marketing spend by 30 percent by developing new products and honing existing ones through its collaborative, open innovation Connect + Develop initiative. The program was started in 2001 and now, after 10 years, over 50 percent of P&G's innovations come from outside collaborators that include consumers, entrepreneurs—and competitors.

**Mountain Dew:** In 2009 Mountain Dew decided to begin researching a new flavor. It created a Facebook and Twitter campaign called DEWmocracy to recruit loyal fans, which created buzz leading up to its very successful product launch. Retailers however lack the loyalty, credibility, and resources needed to create similar immersive experiences for their store brands.

**Joining forces**

Store and national brands need to offer value plus exciting brand promises in order to compete for consumers' dollars. In the future, success for both will depend on how well they can expand their competencies, and on their ability to join forces. Strategic partnerships with national companies can help retailers focus their resources on core destination categories and improve their in-store experience while delivering total solutions to shoppers. And national companies can gain shopper insights from retail partners, earning greater ability to focus on consumers across departments and drive product and brand differentiation in their core categories.

A recent Nielsen report stated only 20 percent of national companies realize the full potential of their collaborations with retailers. Nielsen studied activities of national companies achieving full potential (or "winners") and found they have a tendency to cast a wider net when seeking out retail partners: 50 percent of winning companies approached 10 or more retailers as potential collaborators versus only 22 percent of "non-winners." In addition, the winning national companies are much more likely to place high importance on both sales profit and strong growth outlook.[3]

Campbell's Soup worked with retailer Kroger to develop its Simple Meals concept that took into consideration Kroger's merchandising tactics to create solutions for busy, end-of-aisle shoppers who were looking for grab-and-go meal ideas.

National company Kimberly-Clark (with research partner Red Dot Square Solutions) developed virtual reality technology, which it has used with retailers such as Walmart and CVS to develop virtual in-store environments to create better shopping experiences and develop effective product-bundling strategies.

With an eye on shoppers, national companies and retailers must together determine which trends drive customers' choices and what's needed to create powerful propositions for their unmet needs. By bundling across categories, retailers and national companies can offer complete solutions for consumers that encourage shopping trips that reinforce the value of the store and the brands it carries. For example, health- and wellness-focused shoppers looking to buy their favorite national brand of low-calorie frozen dinner are likely to take advantage of a bundled promotion that offers diet-friendly store-brand drinks and snacks. Focusing on comprehensive solutions based on a shopper's lifestyle can help national companies and retailers successfully serve the needs of a lucrative consumer segment together. ■

## National versus store brands

Landor tapped into the 2010 U.S. BrandAsset® Valuator (BAV) study to gain an even better understanding of how consumers perceive and interact with leading national brands and large store brands. BAV is the world's largest and most enduring study of brands with 18 years of tracking data on over 50,000 global brands and 700,000+ consumers. BAV provides a quantitative framework of over 70 measures that help drive strategic direction and intangible value of brands.

BAV backed up our assertion that store brands need to work harder to gain the trust of American consumers. Consumers view store brands as approachable and strongly associate them with value, but do not think of them as distinctive, authentic, daring, or innovative. To compete more effectively with national brands, store brands need to not only integrate stronger aspiration into brand language, they need to also develop stronger products that back up brand promises.

National brands have an edge over store brands—at least in terms of consumer perception—because they are thought of as overall "better brands" and are seen as more reliable, trusted, higher quality, innovative, and exciting. However, national brands need to convince consumers of the additional value these products can bring into their lives.

3 "CPG Companies See Retail Collaboration as Effective," MC Marketing Charts; and "Winning Practices on Strategic Customer Collaboration," Nielsen Wire (11 November 2010). marketingcharts.com/direct/cpg-companies-see-retail-collaboration-as-effective-14993/ (accessed 17 January 2011).

blog.nielsen.com/nielsenwire/consumer/winning-practices-on-strategic-customer-collaboration/ (accessed 17 January 2011).

www.landor.com

Beijing
Chicago
Cincinnati
Dubai
Geneva
Hamburg
Hanoi
Hong Kong
Jakarta
London
Mexico City
Milan
Mumbai
New York
Paris
San Francisco
Seoul
Shanghai
Singapore
Sydney
Tokyo

hello@landor.com