The New Normal: Consumers And Private Labels

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The recession has caused many to make spending changes, especially when it comes to grocery shopping. More and more consumers are making the switch to private labels, leaving some national brand manufacturers at a loss of what actions to take. *Food Manufacturing* spoke with Pat Conroy, Vice Chairman and U.S. Consumer Products Leader of Deloitte LLP, to discuss the results of the 2010 American Pantry Study, which gauged recent consumer behavior and brand attitudes, and the implications it has for both brand name and private label manufacturers.

Q: How have consumer attitudes changed toward national brands and private labels? Is this change permanent?

A: There used to be a pretty wide gap in consumer perception between national brands and store brands, and that is diminishing. I think that gap has certainly closed a lot quicker because of this recession. Something that supported this was that 85 percent of the people who participated in the study said during this recession they found store brands that were just as good as national brands. They didn’t feel there was a sacrifice involved with making the switch. That is an astounding percentage.

Another noteworthy thing that came out of the study was that 80 percent of people believed store brands were manufactured by traditional national brands. That is certainly true in some cases, but it isn’t in all cases. But the matter of the fact is that if people believe that, then by extension they will inherently believe there cannot be much difference between brand name and private label products and that all they are looking at is a different package or a different label.

Lastly, only 35 percent of participants said they intended to purchase more national brands than store brands even as the economy improves. Almost 70 percent say they will never go back to national brands. During the recession, they said they

found alternatives that were just as good, if not better, so they would rather continue with the alternatives and save the money for something else.

Q: Consumers have gone through recessions before. Why has the consumer change been so significant during this particular recession?

A: The previous recession left a bruise on the consumer, but we all know bruises heal. Consumers went back and resumed their old behavior. This recession was so deep, severe and prolonged that it left a visible scar on the consumer that is going to be there for a long time. It affected everyone in some way, and 92 percent of people said they changed their grocery shopping behavior in the last two years.

What is interesting is that many of those 92 percent were not adversely affected by the recession, but they still changed their behaviors. Why? The one thing we found in the study was that consumers overwhelmingly felt guilty upon reflection about how they used to shop. They felt it was wasteful, and they were indiscriminant about what they bought. They often had to throw things out because they bought too much. There was underlying remorsefulness. As a result, they felt responsible for the individual and collective mess that we all found ourselves in. Almost eight in ten said they now pay a lot more attention to the size of the packages they buy now. It has really struck a chord with consumers. When you factor in other things going around now, like sustainability, we believe this behavior is going to be permanent. In fact, what we are seeing now is almost a new “normal” in consumer buying behavior.

Q: What do you predict will happen to brand name manufacturers over the next few years?

A: As with anything that happens, there is both a risk and an opportunity. The risk is that brand name manufacturers will continue to treat this as “business as usual,” and believe that everything will get back to “normal.” That will be a flawed strategy based on what we have found. Consumers are much more discriminate about their buying, and they feel much more resourceful and focused. They are not necessarily going to believe manufacturers based on the age old advertising and marketing tactics used in the past. They are going to require proof. That’s the risk.

The opportunity is if manufacturers can capitalize on this new consumer attention to products and use that as a platform to put data in consumers’ hands, that will allow them to differentiate their products from the competition. It could be a huge win for the name brand manufacturers. If there are true differentiating qualities between a name brand product and an alternative, it is going to be incumbent on those manufacturers to get that information to the consumer. This study has shown consumers are not going to take manufacturers’ word for it any longer, but if manufacturers seize the opportunity to arm consumers with verifiable information, consumers will buy based on that perceived value.

Some people walk away thinking this is all about cost. That is not what this is about. This is about value. Consumers have to convince themselves that if they are going to spend more money for a name brand product versus an alternative, they have to

really understand what they are getting for that extra money. If they can really understand it, and if it is worth it to them, they have no reticence to spend the money to obtain the added value. But if they don't have that information, they will try alternatives. Consumers don't have a lot of loyalty; they won't buy something just because they're parents bought it.

Q: In the meantime, private label manufacturers seem to be in a good position. Can they sit back and enjoy the ride, or do they need to be doing something as well?

A: Private labels have actually been doing things. Because of the severity and duration of this recession, the consumers have had to use alternative private label products for an extended period of time. Because of this, that familiarity has bred acceptance. Consumers have gotten prolonged, repeated exposure to these products, and what they found is exactly what private label manufacturers had hoped: the products are pretty good.

Private label manufacturers have spent a lot of effort improving the quality of their product offerings. This recession has allowed consumers to actually use these products in ways other than just dabbling in them for short periods of time. This has now resonated with consumers because they found alternatives with quality, and, quite frankly, they were surprised. Private labels know they have been gaining acceptance, and they will probably continue to invest in that quality. If they can do it more successfully to a now value-conscious consumer, one would expect them to gain acceptance in the market.

Q: Are there any key lessons the manufacturing world as a whole can learn from this study?

A: The one thing that came out of this study that I thought was key was that consumers segmented brands into three categories. The first and most desirable category is what we call a destination brand. This is a brand the consumer says they will seek out and purchase regardless of channel, price, promotion, etc. They like the product so much they are going to buy it even if they have to go somewhere other than their usual store to get it.

The middle category is called preferred only brands. These are products consumers will purchase if all else is equal, but if there is another product they can purchase with a coupon, or if something else is on sale, they will not buy the preferred only brand. They will purchase the other product.

The third category is sale only brands. These are brands consumers say they will not buy unless they have a coupon or they are on sale. Otherwise, they will wait because they know it will eventually go on sale. Consumers can do without these products.

The big lesson here for brand manufacturers is they have to try to create more destination brands because these are the most attractive brands. They command the highest margins. They have the highest customer loyalty, and they are the most

resistant to economic swings. Surprisingly, our study found very few destination brands, much fewer than we thought we would find. Of the more than 100 brands we looked at, there were less than a handful that were truly destination brands in consumers' minds. This is an alarming finding for national brand manufacturers. Manufacturers have to understand what it takes to be a destination brand and what they need to do to engage the consumer. Consumers know their destination brands. They know what they are going to buy every week when they go to the grocery store, and that is where you want to be as a brand. If you can do that, then you are on the right path to fiscal prosperity and a healthy product portfolio.

The study is based on both qualitative and quantitative research conducted in April 2010. Over 2,000 adult American shoppers participated in a 50-minute online survey that explored 21 categories, 18 store types and over 150 brands in addition to lifestyle elements including sources of information, influence, media behaviors, shopping and brand attitudes and much more. In addition, four focus groups were conducted in two major cities with primary shoppers. For more information, visit www.deloitte.com/us/americanpantrystudy *[1].*

Interview by Lindsey Coblentz, Associate Editor

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