British Brands Group

Brands

and their role in competition between retailers

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the voice for brands

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Introduction

While the relationship between branded suppliers and their retail customers may not always be harmonious, it is still the case that the symbiotic relationship between them is as important as it has ever been. Brands obviously need retailers as a key route to market, but retailers also need the presence, support and resources of their branded suppliers too.

This can take many forms. Be it through insights, innovation, promotions, category management, branded advertising or shopper marketing, the support and collaboration from branded manufacturers generates demand and footfall, sustains and builds value in categories, and enriches the shopper experience, both in store and online.

As retailers look to defend their market share in a retail sector that has become ever more price competitive, those that integrate and leverage the contribution from branded suppliers most effectively as part of their strategic frameworks have more resources to win.

Intense competition between retailers is seeing downward pressure on prices and costs as major supermarkets price-match discounters and reduce range, with profitability and consumer choice facing severe headwinds as a result. Arguably, brands are one of the most powerful tools available to a retailer to rebalance profitability as they help drive value retention, shopper volumes and differentiation from limited assortment retail competition.

Here, we look at how brands can support their supermarket customers in their efforts to grow frequency, basket size, profitability and shopper loyalty.

Mind games

A lot of commentary in the grocery industry follows the myth that shoppers' purchasing decisions are entirely rational. While shoppers may be rational and heavily swayed by basic functional considerations like price or convenience, their decision-making processes are more complex than might at first appear.

Price can be something of a generic instrument and arguably one on which supermarkets fixate at the expense of other factors (quality, choice, service, standards, availability, experience, engagement). These provide sources of differentiation that can also strongly influence where people choose to shop. Unquestionably some people have less money than before, even for basics, though more have levels of discretionary income that warrant offering premium products, interest and indulgence.

While shopping for groceries could be considered a mundane chore, largely influenced by practical considerations, the role of psychology and emotions should not be underplayed. Brands and their above-the-line advertising are a key influence on shoppers' decision-making, both in terms of where they choose to shop and what they choose to buy. An advertising campaign by a grocery brand, for example, can influence shopper behaviour in terms of the categories the customer will explore, the decisions they make at the shelf and the amount they may spend.

While many brands justifiably focus on gaining points of distribution (physical availability), it is also important that brands achieve mental availability too – prompting shoppers to buy categories, products and brands that they have potentially forgotten about or of which they were unaware. By achieving this through advertising, brands can benefit the category and the retailer by triggering an additional, or higher value or margin, purchase.

For instance, it might well be the case that a certain shopper is not an active participant in the yoghurt category. But a campaign from a yoghurt brand might cause them to reappraise their consideration of the category and prompt purchase in a part of the store they might not have otherwise explored.

Brand advertising can also help recover lapsed users. As an example, categories like active health drinks are popular in January as consumers seek to embark on a healthier lifestyle. However, these habits tend to slip, so branded advertising from the likes of Actimel and Yakult later in the year can act as a successful prompt to encourage lapsed consumers back into the category, and drive shoppers to the shelf, from which other brands and private label may benefit. This model fails for brands with limited distribution as investment in mass media becomes inefficient if the brand is not available to purchase.

Similarly, brand advertising and brand identities are often a key component of shopper wayfinding within the store, something that can take 90% of shoppers' time and can be a chore without brand signals. Three UK examples are Coca-Cola, Vanish and Guinness, whose distinctive liveries help shoppers identify the whereabouts of sub-categories like cola, stain removers and stout in their respective aisles.

"Yes, brand owners want their products noticed but retailers benefit when shoppers quickly find the products they are looking for..."

With the average shopper only reading around eight words whilst shopping and spending less than a second scrutinising packaging, the colour and shape of packs are more important than words. Yes, brand owners want their products noticed, but retailers benefit when shoppers quickly find the products they are looking for as that generates positive emotions and less rejection. It is an important element of the shopper experience, and the longer a shopper spends looking for a product, the more likely they will leave empty-handed.

In-store navigation and wayfinding can be further assisted by a brand supporting a retailer through category segmentation and signage. Birds Eye recently collaborated with Asda in such an exercise, the end result being a frozen category (notoriously difficult to navigate) with much enhanced clarity for the shopper.

Birds Eye and Asda partnered to make the frozen category easier to navigate.

Engaging shoppers

Brands help enliven the in-store experience or shopping trip through the activation of shopper marketing. That which could otherwise be a fairly vanilla, commoditised experience, or else a very familiar shopping routine undertaken on autopilot, can be elevated and disrupted by shopper marketing activities from branded suppliers. These campaigns can create focal points of interest around the store, prompting exploration of categories and converting this interest into purchase. These purchases may be impulsive, i.e. not on the shopping list, and are therefore incremental for both the brand and retailer.

Nestlé's 2021 launch of its new Mezeast range of Middle Eastern ingredients is a case in point. Partnering with Tesco (which enjoyed exclusivity for the range), it launched branded gondola ends complete with TV screens linked to in-store WiFi that showed recipes and cooking tips. The visibility of the launch made it a great success, prompting impulsive trial purchases from shoppers and boosting sales of the ingredients category.

An impressive launch of NPD from Nestlé in Tesco.

The importance of brands is borne out by Shopper Intelligence data that shows how shoppers who purchased branded items compared to private label are more inclined to buy extra items on impulse, are much keener to buy new or different items and are not averse to paying a premium. This suggests that a degree of caution should be exercised by retailers thinking of slashing ranges or seeking to increase private label sales regardless of the more nuanced considerations and preferences of the brand shopper.

Category role detail: spend

Source:
Shopper Intelligence

Agreement statements (NFS) on shopping for CATEGORY in RETAILER	"I often buy extra."	"I try new and different."	"I don't mind paying more."	"I buy because I feel like it."
All branded	33%	39%	45%	22%
All own labels	10%	26%	34%	19%

This shows a huge difference in the mindset of brand and private label shoppers – the extent brand buyers are more willing to show "add value" behaviours.

Insights breed profitable innovation

While it is true that most retailers have a wealth of insights available to them, both from their own loyalty card or purchase data as well as third-party data providers, it can be the case that such data and insight may have limitations, not extending far beyond the retailer's own footprint. There will be a wealth of information on the 'what', 'where', 'when' and 'who' in terms of historic purchasing behaviour within a retailer. But there might well be gaps on other key questions, such as 'why', 'how', 'why not' and 'what next.' This is where consumer and shopper research from brands comes in.

Retailers have acknowledged that their data is adept at describing what has happened, but they lack insight on why it happened or what is going to happen. They may not have the necessary in-house time or people to do all the analysis they would wish for. These are the insights that brands can bring via their investment in consumer and shopper research.

Suppliers, big and small, undertake a constant procession of consumer and shopper research projects to assist in a variety of undertakings, such as new product development, shopper marketing and channel strategy. They can also bring global insights, as in whether and how to launch Hard Seltzers in the UK following their success in the US. Such insights have become central to the success of branded manufacturers. Retailers are more than aware of this and, as such, insight into consumers and shoppers has become a valuable currency that branded suppliers can bring to the negotiating table. These insights can uncover new potential in consumption occasions and shopper missions, creating opportunities in merchandising, adjacencies, trading up and impulse that can bring mutual incrementality.

For example, when research by Nestlé identified a demand for more premium instant coffee in-home, the resultant launch of Azera drove category growth by attracting younger consumers and enabling regular instant coffee buyers to trade up.

Using methods such as in-home ethnographic research, semiotics, segmentation, usage and attitude research, focus groups, 'shop alongs' and other quantitative and qualitative research methods, brands are able to uncover rich insights about the role of individual items and broader categories within a shopping trip, as well as the role of a brand as it relates to real lives.

This research can be complex and expensive, but the benefit for branded manufacturers, beyond their product development and marketing, is that they can bring new and rich insights to supermarkets that can help activate demand for new or existing products, whilst minimising the risks of failure and wasted resources. This is something that goes beyond the focus, abilities and budgets of many retailers, or would divert resources, so this insight has strong value.

Such research helps create new products, new solutions and new ways of thinking about merchandising. These can energise demand and make products more resonant for the shopper, driving purchase and engagement, as well as shopper loyalty, within a given retailer.

Brand new

An obvious focus of research and insights from a brand perspective is the development of new products, new variants or even new ways of consuming an existing product. Such innovations can proactively drive dynamism and revitalise a stagnant category. Two examples include recent innovation from Heineken, which overcame resistance to the ‘low and no’ category with Heineken 0.0, sampled by 30% of the market in six weeks and delivering category growth[1], and the seismic acceleration in the cider market created by Magners introducing a new way to consume cider.

Research from Kantar Worldpanel illustrates that innovation not only drives sales and potentially market share to the brand owner but also grows the category overall. In 2018, the launch of Bold 3-in-1 Pods delivered 6% sales growth to P&G and 10% incremental sales to the category, while the launch of Lurpak Softest Spreadable delivered 10% sales growth to Arla Foods and 9% incremental sales to the category. Of the ten examples researched, six delivered the same or proportionately more sales to the category than to the brand owner.

At its finest, innovation can create new categories. One might consider the likes of Oatly, Red Bull and Belvita here, creating demand to such an extent that in most supermarkets several bays are now devoted to dairy alternatives, energy drinks and breakfast biscuits. These are now sophisticated categories that shoppers and retailers hadn’t previously envisaged.

The launch of Ribena Sparkling was delivered with striking displays.

It is important to acknowledge the difference between ‘small’ innovation and ‘big’ innovation. It is well-recognised that many new products (small innovations) will often be new flavours, variants, pack sizes or formats that may generate initial shopper interest but disappear in fairly short order having failed to gain long-term traction.

[1] IPA Effectiveness Award Winner, 2020

Big innovation is complex and expensive so is in short supply, but it is noteworthy that where innovation offers genuinely new solutions or overlaps with seismic changes in consumer needs, then it becomes much more welcome and commercially beneficial for brands and retailers alike. NPD in free-from and vegan categories, for example, would sit firmly in this latter camp. In the meat-free and vegan category, a lot of small innovation and NPD has come via private label, but brands large and small, such as Unilever, Birds Eye Green Cuisine, Linda McCartney, Quorn and Heck!, have all played a pivotal role in catering for this high-growth segment of the market through big innovation.

Whilst it is true that private label innovates (for example in chilled food), more often category-shifting big innovation is delivered by brands. They have the specialist expertise in and knowledge of their categories and consumers, as well as the NPD and marketing budget required to deliver such genuine innovation. Nevertheless, innovation failure rates are high, between 80 - 85% according to Nielsen, so a partnership between brand innovation and retailer activation in store and online maximises effectiveness and the potential for success.

It is worth noting that smaller suppliers often punch above their weight in terms of moving the market in this way. Innocent Drinks, Gü Puds and The Collective are examples of smaller businesses that, early on, galvanised their respective categories, truly changing consumer and shopper perceptions and boosting sales in their categories, despite their initial modest scale.

Similarly, the huge surge in gin sales in recent years was driven not just by NPD and brand advertising from leaders such as Gordons, but also the entry of myriad challenger brands that captured the public imagination. Meanwhile, Fever Tree re-energised the mixer category, which had existed for decades but perhaps lacked dynamism and vision from some of the incumbent suppliers.

Range and price

It is not innovation alone that drives category growth and profitability. Often innovation needs to be accompanied by attention-grabbing, above-the-line or in-store activation to prompt shopper consideration. When this works well, it can create category reassessment and engagement, giving shoppers a reason to buy products beyond more functional issues, such as habit or price.

This is where retailers and brands can collaborate to balance price and value: a good product at a fair price can encourage consumers to trade into other products and categories. By hosting a wide range, retailers and brands can work together to drive additional spend through range and the right price, and promotional mechanics.

For example, GSK worked with a major supermarket chain on a promotions project to understand better the right promotional mechanics across healthcare categories, focused on driving incremental sales. Using data and insights from its shopper science lab, as well as working closely with the retailer, this project delivered a stronger total category performance by removing inefficient promotions (in one period, promotions were reduced by 30%). The full-year plan increased incremental sales relative to the previous year, reduced cross-brand cannibalisation and optimised feature space.

Mars Petcare provides a further example, working with retailers on the positioning of premium products near staples such as cat litter on the fixture, an initiative that yielded significant sales growth of premium products and delivered incremental sales to the category.

Differentiation

As it is supermarkets rather than limited assortment retailers who are the natural home of brands, brands and their associated merchandising and promotion help supermarkets achieve differentiation against their more austere, private label-heavy competitors. So again, the relationship between brands and supermarkets is a symbiotic one that helps both retain value in their part of the market.

This can be particularly true in categories that are typically low engagement or rarely visited. Brand innovation and brand marketing can cause shoppers to reassess these categories and spark demand, as brand marketing can inspire shoppers to reconsider brands, categories and different consumption occasions.

The role of the right promotions

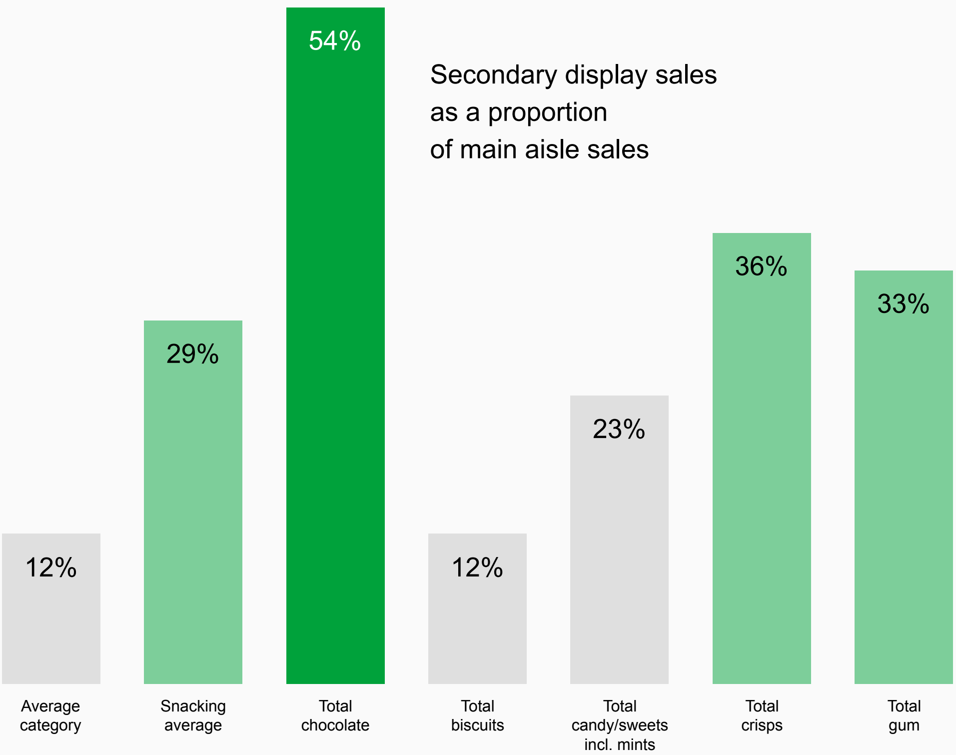
Although there has been some debate over the efficacy of promotions as revenue generators, one cannot question their other key role of shopper decision-making and engagement, both in store and online in the case of e-coupons. Supplier-funded promotions can encourage trial, spotlight products on shelf and accelerate category growth, driving shoppers to buy the products on promotion and prompting them to buy discretionary and occasional categories. In these ways they can boost volumes, basket size and, ultimately, profits for retailers.

The importance of brands in the promotional mix is shown by data from Nielsen, which reveals that 13.4% of private label is sold on deal, compared to 25.6% for brands. While there is a degree of cannibalisation through these mechanics (shoppers swapping planned items on their list for similar items on special offer), a lot of promotional activity can be seen as incremental as it entices shoppers to put unplanned items in their trolleys as they complete their weekly shop.

Data from Shopper Intelligence shows that those shoppers who buy brands rather than private label are much more likely to participate in promotions. Alongside this, they are also more likely to try new items and premium ranges, underlining the fact that shoppers of branded items are more likely to generate incremental spend.

Promotions with display contribute as much as 54% of the equivalent main fixture category sales

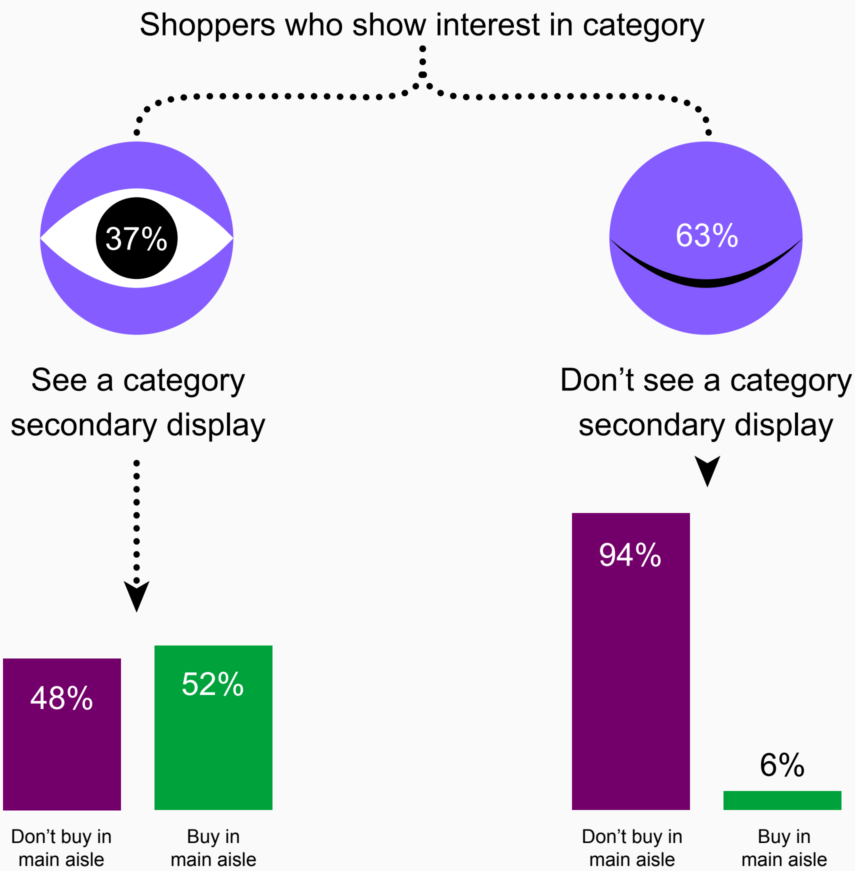
Source:
Shopper Intelligence



Shopper Intelligence data also shows the importance of promotional displays. Not only can they generate sales equivalent to over half of the category's main aisle sales, but shoppers who see promotional displays are more likely to go on to make a purchase in that category in the main aisle. Again, this speaks to the impact that brands and their displays can have on shopper behaviour, often operating at the subconscious level.

An effective display can 'signpost' the category and encourage purchase

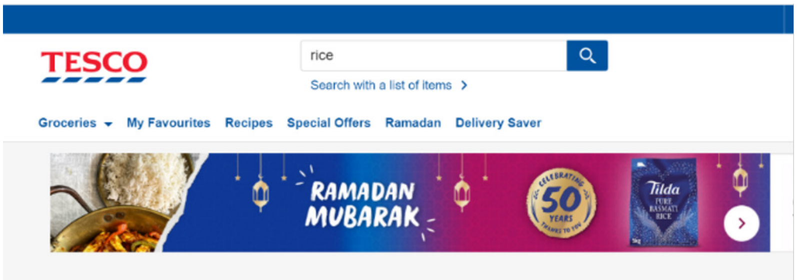
Source:
Shopper Intelligence



Competing brands within certain categories use promotions to try and win market share from each other, and this brand-versus-brand battle can also benefit the retailer through the additional purchases generated.

Branded promotions and activations can be particularly important at key seasonal times. While it might be feasible for supermarkets to orchestrate these events in isolation, brands have a significant role too, creating special products, special pack sizes and bespoke merchandising displays to bring these events to life and engage shoppers, prompting purchase. Whether it is confectionery at Easter and Christmas, spirits for Father's Day, beauty products for Mother's Day or ethnic food items for Ramadan or Diwali, brands are alive to these opportunities and are keen to make the most of both the traditional and newer seasonal events. This is as relevant online as off, exemplified by Tilda's online banner ad "Ramadan Mubarak".

Seasonal events are great opportunity for collaboration



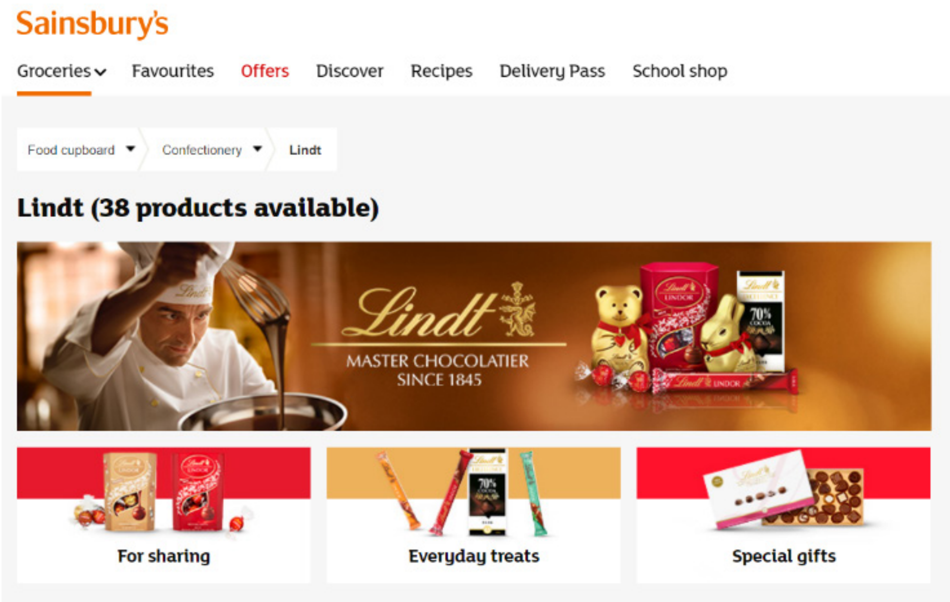
At Christmas, for the past three years, Merchant Gourmet has partnered with Sainsbury's on activation through on-floor displays. As part of this process, it has collaborated with fellow supplier Ocean Spray to provide the retailer with a mixed condiments and sides shipper. Rather than simply placing them next to each other in the grocery aisle, they have been located in the fresh produce section, thereby drawing new shoppers to the brands and driving incremental purchases. This example shows that collaboration and an understanding of consumer needs, shopper missions and adjacencies can create an improved outcome for everyone.

Skittles provides a further example, launching a white version of its multi-coloured packaging exclusively in Tesco with the strapline "During Pride only one rainbow matters" which, with the help of in-store material and social media support, boosted sales by 18% in six months in the retailer.[2]

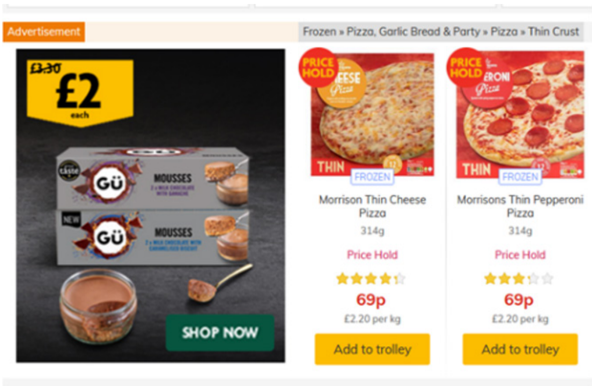
[2] IPA Effectiveness Award Winner, 2020

Promotions and product launches by brands can bring much needed excitement and interest to what would otherwise be a routine, mundane in-store experience completed by the shopper on autopilot. Brands are also strong in indulgent categories, bringing enjoyment to the shopping occasion and creating different points of interest around the store in terms of display, prompting purchase.

Online, brand activations on retailers' websites go beyond optimised content and best-in-class imagery to online merchandising that enhances both the shopper experience and sales performance. Laphroaig's 'Cocktails at Home' with Asda, and Lindt's shop-in-shop initiative with Sainsbury's are cases in point.



Disruptive media takeovers in search attract new customers and encourage cross-shopping, where, for example, a search for frozen pizza may prompt an advertisement for Walkers Sensations crisps (an Asda example). Cross-branding media inserts perform a similar role, illustrated by Gü Puds advertising alongside Morrisons' private label pizzas.



Driving further growth

The aspiration of brand manufacturers has evolved well beyond a desire to simply sell more of their own brands. This aspiration has developed into a recognition amongst suppliers that retailers consider it their additional responsibility to grow the entire category, leading to their active participation in category management. In some cases, this has been elevated into a responsibility to help grow sales for the whole store, well beyond the heritage remit of more transactional suppliers.

Arguably, brand philosophies may historically have been self-serving, being centred purely on growing the supplier's own business. Insufficient consideration may have been given to consumption occasions, shopper missions, changing shopper behaviours, shifting channels or the CSR priorities of major retailers. This has since changed and we now witness the role that brands play in satisfying consumer and shopper needs in partnership with retailers, for instance, through category management and support with online taxonomy.

Brands are just as important in helping retailers achieve a number of other key strategic objectives beyond the purely commercial. Agenda items like health & wellness and sustainability have never been more prominent and retailers are seeking supplier help in making progress in these areas.

The issue of single use plastic and other environmental concerns are particularly in the spotlight and it is an interesting opportunity for branded suppliers to collaborate with big retailers to reduce collectively the environmental impact of the retail industry. Many FMCG suppliers are working proactively to reduce packaging or increase the recyclability of their existing packaging. There are also merchandising opportunities using refill stations in categories like alcoholic drinks, health & beauty and laundry (as seen in Asda's trial store in Middleton that has been supported by brands such as Coca-Cola, Yorkshire Tea, Napolina, Tilda, Mars and Kellogg's).

The Refill Zone in Asda's Middleton store.

In the future, the opportunities for suppliers and retailers to collaborate to provide better environmental solutions for shoppers will be fertile territory.

Dairy supplier Yeo Valley is an example of a brand that is active in improving its overall sustainability performance, transitioning to 100% recycled plastic or recyclable packaging for some of its yoghurt pots and removing plastic lids from cream.

Similarly, all food retailers now have health & wellness fully integrated into their strategies, making it easier for their shoppers to make smarter choices in store. While a lot of this is reliant on the retailer (via POS, marketing, product placement and private label reformulation), there is an expectation that branded suppliers will lead too. Many brands have responded with reformulations (lower in salt, sugar or alcohol for instance), launching healthier iterations of existing brands or launching new brands to offer healthier alternatives.

A good example is McCain, which generated strong growth (and category growth for retailers) in 2020 through the rebranding of its oven chips to ‘Naked Oven Chips’, playing up its credentials among health-conscious shoppers and providing a lower fat, gluten-free and vegan option.

Conclusions

While the relationship between brands and retailers can feel adversarial at times, there can be little doubt that the brand business model delivers value and long-term growth primarily through insights, innovation and marketing. Those retailers who work well with brands win in those categories through a true symbiotic relationship.

In the current period of uncertainty and change, it is tempting for all concerned to look for short-term growth through promotions, price cuts and, from a retailer’s point of view, range rationalisation. It still remains the case that many short-term initiatives in the market can actually destroy value and constrain the industry’s scope to gather insights and invest in the future, harming the future competitiveness of supermarkets and suppliers alike.

Limited assortment grocers undoubtedly have a clear and attractive place in the market, offering high quality products at low prices. It has been tempting for some brands to seek to participate in this high growth segment of the market and, indeed, a number have established a long-term presence within them.

Such retailers naturally lean towards private label items and their preference will always remain in that direction. While brands can participate in ‘in and out’ appearances or promotions at key seasonal times, the longer-term, sustained growth avenue for brands is expected to be within the major supermarkets, notably those seeking to compete on price and to enhance the shopper experience through range, new products, engaging promotions and merchandising. Delivering this through an omni-channel experience is enhanced where brands provide the anchors for shoppers that drive their behaviour and engagement. This implies a long-term strategic and collaborative framework to grow with brands, something which the limited assortment retail model is less well equipped to do.

The attraction of supermarkets to private label makes sense. It helps build the retail brand, is a vehicle for differentiation, delivers lower-price alternatives to shoppers and can often generate higher percentage margins. They are an integral part of retailers’ ranges and strategies. However, it is unusual for private label to drive category growth across multiple categories, as they do not command the levels of investment or insight delivered by branded manufacturers.

M&S and limited assortment retailers demonstrate that a predominantly private label model can be successful, though M&S has experimented with stocking key brands and some limited assortment retailers have found it necessary to feature some brands in the UK, in contrast to their model in other countries.

Without brands, retailers are unable to leverage the insights and resources of brand manufacturers which contribute directly to higher average selling prices, greater levels of and more frequent shopper traffic, larger basket sizes, higher shopper spend and an enhanced shopping experience. These are areas where differentiation and competitive advantage lie.

There will always be outbreaks of robust disagreement between branded suppliers and retailers. Overall, however, we suggest that both parties thrive in a partnership whereby retailers provide the convenience, store platform, the range and the service, while brands deliver the insights, innovation, marketing, investment and in-store activations that can deliver genuine and sustained category growth.

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