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Are Consumers Buying More Private Label (or Store Brand) Products?

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that has increased in recent years as the industry has expanded. Another study projects that an additional 214,000 jobs will be created throughout the economy over the next decade if an RFS is enacted.

As the ethanol industry creates new jobs, it also creates a larger tax base for local communities. More jobs and additional income ripple through the rest of the economy as money is spent in local businesses. With more money flowing through the economy, more taxes are collected and returned to local and state governments. A boost to the local tax base is especially important in rural areas where declining populations and economies have made it doubly difficult to support public schools and infrastructure.

While the overall benefits to rural America are clear, it is not clear which communities will benefit. The question of where future plants will locate remains unanswered. There certainly cannot be an ethanol plant to revive every rural community. The industry will likely continue to expand where the corn grows. Longer term, ethanol produced from other types of biomass could result in new plants located near metro centers on the east or west coasts. But in the end, ethanol's future remains highly dependent on public policy—and the value the nation is willing to put on clean air, clean water, and energy generated from renewable sources

Are Consumers Buying More Private Label (or Store Brand) Products? *

by Gene German, Professor Emeritus, Department of Applied Economics and Management, Cornell University

Over the past few years, supermarkets, drug stores and general merchandise stores have been selling more of there own store brand products at the expense of nationally advertised manufacturers brands. The forecast is that this trend will continue.

Twenty years ago supermarket chains offered consumers store brand products that attempted to duplicate the most popular manufacturer brands, but were priced slightly below these products. In most cases the quality of these store brand products was "as good" or "nearly as good" as their manufacturer brand counter parts. Because these products were produced by or for the supermarket chains they incurred no selling or advertising costs and therefore even when they were sold at a retail price that was slightly lower than comparable manufacturer brands they returned a higher gross profit margin for the retailer.

Over the years retailers have continued to follow most elements of this strategy and consumers have found more and more satisfying store brands that include traditional canned food and packaged goods as well as personal care products such as toothpaste and deodorant.

During the 1990's sales of store brand products in supermarkets increased approximately 13.5 percent of store sales to nearly 16.0 percent. The number of units sold increased from about 17 percent of the total number sold in supermarkets to over 20 percent during this same period. During the past year private brand sales in supermarkets grew more rapidly than manufacturer brands. Store brands grew at 6.3 percent compared with a 4.1 percent for all manufacturer brands.

Last year store brand products had a greater market share than the strongest manufacturer brand in nearly 30 percent of all categories within the supermarket. Store brand ranked number one in 79 out of 266 individual product categories (categories such as pasta, cheese, baby food, ice cream, etc.) Store brand products were either the number 1 or number 2 brands in 131 product categories – nearly 50 percent of the 266 categories in the store.

This strength in store brand performance in recent years can be attributed to several factors. Perhaps of most importance is the new approach that supermarket companies have taken in the marketing of store brand products. The new marketing approach includes better packaging, improved quality and specific advertising and promotional programs designed to increase customer awareness and sales of store brand products. Also, during the 1990's many supermarket companies began to develop premium quality store brand products as well as new and unique products that were not being offered by national brand manufacturers. For example, in upstate New York, Tops Supermarkets introduced a premium quality line of private label products called

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"President's Choice"; Wegmans introduced a premium quality line of pasta and related products under its "Italian Classics" line. This trend has been adopted by other supermarket chains and has resulted in consumers changing their perception of store brand products from one of low quality to one of premium quality. As the quality of store brand products has increased so have prices. The result is that not only are consumers buying more store brand products than ever before, but they are also paying higher prices which has contributed to a higher overall spending level for store brand items.

Although grocery chains such as A&P and Kroger have sold store brand products since their inception more than 100 years ago the concept is relatively new to retail drug chains and general merchandise companies such as K-Mart and Walmart.

Retail drug stores have found that consumers are receptive to private label products and sales have increased in recent years. Between 1993 and 1999 the number of units of private label products sold in drug chains increased from about 8 percent to nearly 14 percent of all items sold. In mass merchandise stores the sale of private label products increased from just over 8 percent to slightly over 12 percent of total units sold during this same time period.

At the end of last year retail executives from supermarkets, drug stores and mass merchandise firms were asked to forecast the growth in sales of private label products during this year (2001). Retail executives from mass merchandises were the most optimistic with a forecast of 15.9 percent growth followed by drug store executives who forecast a 8.1 percent growth and supermarket executive who projected a 6.7 percent growth of private label products in their stores.

What does this mean for the overall food system? Certainly it is a signal to national manufacturers of food and grocery products that competition from store brands will continue to increase. As retailers focus more on their own brands they will focus less on manufacturer brands; especially on nationally advertised brands that have a weak marketing program and small market shares. These weaker brands will be in jeopardy of being eliminated from the shelves of retail stores. Retailers will want to use this space for the ever-increasing number of store brands that the company offers to consumers. Customers could also benefit from a wider variety of higher quality store brand products to choose from and these products, in most cases, can be purchased at prices lower than comparable manufacturer brands.

Consumers should look for drug stores and general merchandise stores to add store brand products at a faster rate than supermarkets. The product mix in all types of retail stores will continue to change, but look for the shift to favor the stores own brands.

Building your brand with brand line extensions

by Nancy Giddens, agricultural extension value-added marketing specialist, Missouri Value-added Development Center, University of Missouri; and Amanda Hofmann, student research assistant

This article is third in a five-part series on building and developing a brand in the market. The first article outlined the importance of branding and the process of creating a brand for a new product, while the second examined flanker branding strategies. This series continues with discussion of brand line extensions.

What is a brand line extension?

A company introduces a brand line extension by using an established product's brand name to launch a new, slightly different item in the same product category. For example, Diet Coke™ is a line extension of the parent brand Coke™. While the products have distinct differences, they are in the same product category and the extension (Diet Coke™) is very dependent initially on customer recognition of the brand name Coke™.

More than half of all new products introduced each year are brand line extensions. New flavors, package sizes, nutritional content or products containing special additives are included in this definition.

Why are brand line extensions important?

Brand line extensions reduce risk associated with new product development. Due to the established success of the parent brand, consumers will have instant recognition of the product name and will be more likely to try the new line extension. As a result, promotional costs are much lower for a line extension than for a completely new product. More products expand the company's shelf space presence – enhancing brand recognition.

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