

Research: The rise of the own brand

There has been plenty of research on the rise of own brands ('private labels') in recent years. Studies into this subject invariably show that economic recessions boost the market share of own brands. There seems to be international consensus on the fact that the market share of own brands grows in times of recession, only to shrink as soon as the economy picks up. New research now shows that this is not wholly accurate.

Four researchers arrived at two conclusions that add greater nuance to current views on the growth and decline of own brands' market share. Firstly, this research shows that consumers are quicker to switch to own brands in times of economic downturn than they are to switch back to manufacturers' brands as the economy picks up. Consumers' switching behaviour from manufacturers' brands to own brands, and back from own brands to manufacturers' brands is structurally uneven.

A second finding that emerged from this research is that certain consumers that switched to private labels when recession hit, stay loyal to these brands when the bad times have long gone. This implies a structural shift in the market share ratio between own brands and manufacturers' brands, in favour of the private label.

The two conclusions drawn in this research make it clear that private labels are seeing long-term market share growth. The researchers furthermore state that manufacturers can mitigate this loss of market share during a recession by upping their marketing support efforts (so-called anti-cyclical budgeting). Manufacturers generally hardly ever use such proactive marketing tactics, while these do indeed have a demonstrable positive effect. Retailers, on the other hand, take the opportunity offered by a recession to draw attention to their own brands. As soon as recession hits, retailers start investing heavily in marketing schemes, making it even harder for manufacturers' brands to regain their lost market share.

The reason for many manufacturers' passive attitude during recessions mainly lies in the pay structures in place at these companies. Managers are often paid on the basis of short-term targets, and this goes at the expense of long-term profitability. The researchers claim that it would be far wiser for manufacturers to look less at margin retention and cost containment, and step up their proactive marketing using advertising and innovation. After all, this research

shows that these efforts will pay off in the long term, as they reduce consumers' urge to switch from established manufacturers' brands to own brands.

Reference(s)

Lamey, L., Deleersnyder, B., Dekimpe, M., Steenkamp, J. (2007), How business cycles contribute to private-label success: evidence from the United States and Europe. *Journal of Marketing*, vol.71, January, p.1-15.*

* : available in the EURIB library.