Competing for CPG Dollars:

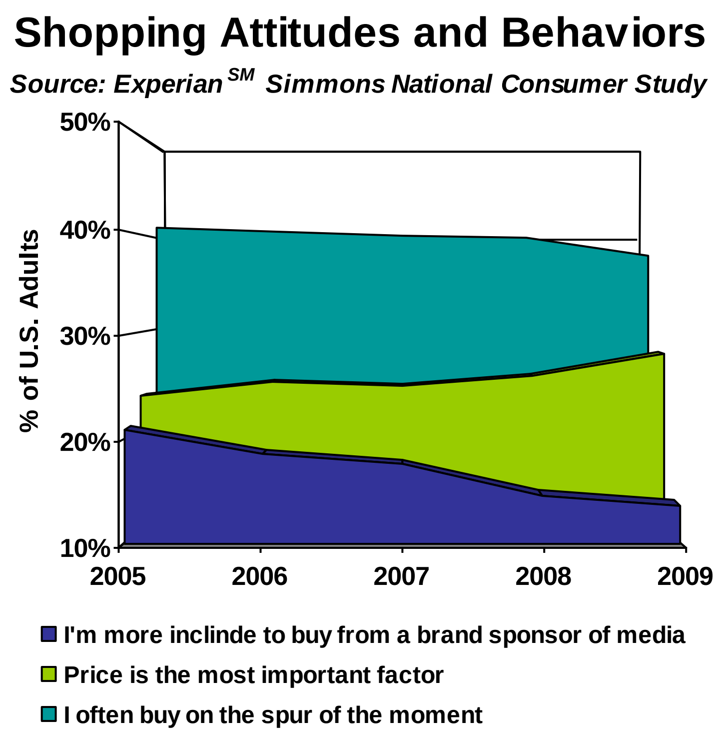
Focusing Marketing Efforts on Consumers Likely to Choose between National Brands and Private Labels

Overview

The competition between retailer private labels and National Brands in the U.S. has increased dramatically over the past few years. Private labels have continued to gain market share in many product categories. We've seen such dramatic growth in private label market share that store brands now account for over 22% of the CPG products sold in the U.S.[1]

The private label consumer was once thought of as financially challenged and willing to sacrifice quality. With the increase in private label purchasing, however, it is logical to assume that the private label consumer is looking more and more like the National Brand consumer everyday. The growth in private label product consumption is fueled directly by consumers who are responding differently to private label products. Consumers are changing their attitudes and their behaviors, becoming more accepting of private label products in many categories. Surveyed shopping attitudes and behaviors trended over the last five years indicate consumers are becoming less susceptible to brand advertising, more price conscientious, and more careful in their purchasing decisions (see Figure 1). Often the reasons for these changes come in multiple forms such as economic pressures, sticker shock for national brands, and retailers developing their brands to be more competitive with national brands[2].

Figure 1



[1] IRI Consumer Network
[2] BrandWeek

According to Experian℠ Simmons, which surveys 25,000 U.S. consumers annually about their purchasing habits, many product categories show an increase in purchasing private label products over the past few years. For example, Simmons' data show that since 2006 the percentage of households purchasing mostly store brands in household cleaning products as well as non-food kitchen supplies have both increased by 10%. Still, there are differences between the categories, with the non-food kitchen supplies showing double the rate of households purchasing store brands as household cleaning products.

Table 1

Households Using Store Brands Most of the Time
Percentage of all U.S. Households

Product Category	**2009**	**2008**	**2007**	**2006**
Store Brand - Household Cleaning Products	33%	31%	30%	30%
Store Brand - Kitchen Supplies Non-Food	66%	61%	62%	60%

Source: Experian Simmons National Consumer Study

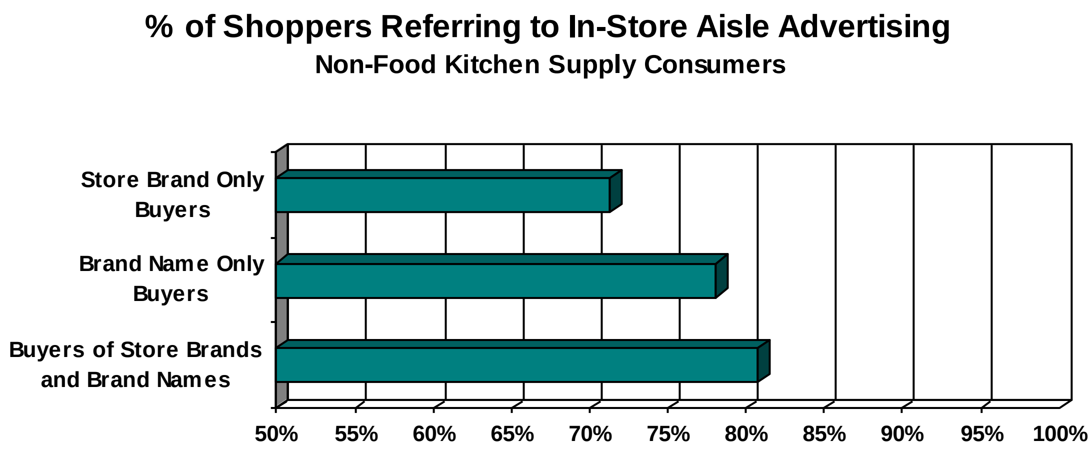
With product categories that have such a high penetration of consumers purchasing store branded products, it becomes imperative that we understand the dynamics of who is purchasing these products and how these purchases impact National Brands. Understanding which consumers are likely to make decisions between purchasing private labels or National Brands makes for better informed strategies on both sides to capture consumer CPG dollars. Strong information on the profile of these consumers can also open up innovative alternatives for marketers and brand & category managers to add new consumers and maintain existing consumer loyalty.

For example, taking the 66% of households that note buying private label Non-Food Kitchen Supplies, we can study these consumers in terms of their overall characteristics and profile who they are demographically, socially, their occupations, and where they live. We can then use that information alongside specific consumer profiles of National Brand product purchasers to hone marketing and consumer-engagement strategies for both private label retailers and National Brands. Insights from these consumer profiles can lead to product strategies that are improved and more competitive, targeting exactly those consumers who are showing a tendency to choose between National Brands and private labels.

Understanding Consumer Groups

In analyzing the competition between retailer store brands and National Brands, there are three overall groups of consumers that we need to understand. First, who is buying National Brands exclusively? Second, who is purchasing solely private label products? Finally, and most importantly, who tends to purchase both private label products and National Brands? The latter category of consumers comprises not only the largest group of the three, but also the group most worthy of being targeted with marketing dollars from both National Brands and retailers. Consumers who display behavior that can be changed are the most likely to respond to marketing campaigns both outside the store and inside the store. For example, within Non-Food Kitchen Supplies, those who purchase both store brands and National Brand names are more likely to refer to in-store advertising or offers within the aisle such as, floor markers, electronic shelf coupon machines, shelf advertising, etc. (see Figure 2).

Figure 2



Source: Experian Simmons National Consumer Study

In order to focus marketing efforts on these impressionable consumers, or “switchers” as we would like to call them, we need to first understand who they are. The profile of the consumer who purchases National Brands varies by brand, just as private label consumers vary by category. A good approach involves understanding specific profiles for Brands and private label affinities using consumer profiling that is easily compared across a variety of data sources. It also involves understanding Brand consumer profiles by retailer, considering that private label usage can vary from retailer to retailer.

An even better approach involves profiling these consumer groups with a system that allows us to compare consumers on a variety of levels and characteristics, and tie those characteristics specifically back to their homes and the stores where they shop. Understanding not only “who” but also “where” allows us to connect our marketing messages directly to the consumers we are trying to influence at a highly granular level.

To gain these insights and to build the best possible strategy in the current product environment, we recommend leveraging data available from consumer surveys and panels, compiled consumer data files, and the retailers’ and Brands’ own sales and customer capture information.

We also recommend using a household-level consumer lifestyle segmentation system, which enables us to compare these disparate data sources using the same common consumer definitions. Today’s segmentation systems offer an in-depth look at each household with near national coverage. In fact, a good household-level consumer lifestyle segmentation system typically covers up to 98% of all US households. That level of household coverage can inform us about consumers shopping at specific retailer stores, requesting online offers, and completing consumer surveys. It can inform us about the demographics, lifestyles, family structures, presence of children, occupations, ethnicities, shopping preferences, and attitudes likely present in those households.

Using a consumer segmentation system which is assigned at the household level allows us to get rich profiles of the households associated with sales of a brand, and also compare those households to other sources of data. Based on analysis of brand performance at specific retailers as well as online consumer data, we can derive a consumer profile that includes multiple segments of consumers with in-depth detail on each of the consumer segments. A good lifestyle segmentation classification for consumer households, in essence, becomes the common denominator for all the data sources that we can use to understand who is purchasing Brands and private label products.

Consumer Segmentation Case Study:

To illustrate the power of this approach, let's take an example of a consumer profile for a leading brand of household paper products. To derive the National Brand product's profile, we used consumer household data gathered online and data gathered through consumer surveys. Segments of the population which show up in the national profile for the product are diverse, including households with and without children, in both metropolitan and non-urban areas, representing a variety of ages and life stages.[3]

In our case study, we have an example of five core consumer segments to illustrate our National Brand profile. These five segments of consumers exemplify the profile of consumers who tend to purchase this particular National Brand of paper products through all retailers, in all areas of the country. Each segment is named to illustrate the types of consumers who make up the segment.

First, the "Dream Weaver" segment of households contains households of well-off families with school age children. They enjoy an active life in the suburbs. They are highly educated, middle-aged, married adults in which both spouses tend to be employed. They work in white collar professions such as information, finance and education.

Next, the "Small Town Success" segment of households live predominantly in exurban communities. They are affluent, highly educated, married couples with children. They tend to have white collar jobs in health care, retail and education. They have active lifestyles, participating in sports and intellectual activities such as reading.

[3] Data for our case study was analyzed using Experian's Mosaic® Household Segmentation System. Consumer segment names for our case study reported here are a part of that system which classifies all US households into one of 60 unique Mosaic types and 12 groupings that share similar demographic and socio-economic characteristics. Based on in-depth household-level information, Mosaic uses up to 300 data elements for each US household. These data include information describing household composition, demographics, socio-economic information, behavioral information and cultural diversity data.

The “Prime Middle America” segment is a mix of young, upper-middle class couples and families living in both small towns and mid-sized cities. These dual-income households work in both white and blue collar jobs and earn above average salaries. They are family-centered, and enjoy outdoor activities like fishing, biking and swimming.

The “Family Convenience” household segment is comprised of families living in remote towns and military bases containing dual-income couples working at skilled blue-collar jobs in the military, manufacturing and construction. They tend to own their homes and their length-of-residence in those homes points to a stable lifestyle. In their spare time they enjoy swimming, fishing, hunting and camping.

Finally, the “Steadfast Conservative” segment of households is made up of high-school educated, mature singles and couples. They live middle-class lifestyles in urban, blue-collar neighborhoods. They are empty-nesters, filling their time with fishing, gardening, antiquing, needlework and woodworking. They earn their middle-class salaries in skilled manufacturing jobs, retail and health care.

Often with private label competition, the retailer is an important influence on private label versus National Brand purchasing. We can be more specific about our profile by limiting it to a profile related to a specific retailer. We can examine consumer households around retailer’s locations, and evaluating those consumers based on the overall high or low performance of the Brand at the stores. Taking sales performance information by retailer location, we can separate stores that tend to perform well for the brand from stores that do not. We can then study the households around the retailer’s stores in each category to draw inferences about who may be buying the product at the store. In doing this, we can infer more about what types of consumers are associated with success of the brand at the retailer’s locations. We call this approach a trade area analysis, as we focus on the households of the shoppers living near the stores as they relate to the Brand’s performance at the stores (See Figure 3).

Often the profile of the consumer who buys the product at a specific retailer, as you would expect, is slightly more specific and narrow than the national profile for the Brand. The broader the appeal of the retailer, the more segments will be contained in the filtered profile specific to the retailer. In our example case here, 80% of the Brand segments are included in the Brand at the Retailer profile.

Figure 3: Who's buying the National Brand at the Retailer in question?
These four segments of consumers exemplify the profile of consumers who are associated with high sales of this particular National Brand at this retailer.

Family Convenience

Steadfast Conservatives

Small Town Success

Prime Middle America

Now that we know our targets who are buying the National Brand, we also need to understand who is likely to purchase private label products within the category, and therefore would be likely to consider purchasing a competing product to the National Brand. In our case study, we used Experian℠ Simmons data to understand which consumer segments tend to purchase private label products in the Non-Food Kitchen Supplies category. By studying the answers of survey respondents using the same household-level, consumer segmentation system we use to study trade areas of stores and Brand profiles, we can easily understand how similar private label consumer profiles are to the Brand profile.

Using responses to the Simmons survey, we see the consumer segments that are associated with private label purchase. Based on our data, the stereotype of financially-challenged compromisers of quality doesn't always hold true for store brand purchasers. This profile is even more diverse than the National Brand profile for our product. In fact, many consumer segments associated with private label purchase look very similar to those associated with National Brand purchase, with many of them being the same.

The segments of consumers here exemplify the profile of consumers who report purchasing store branded Non-Food Kitchen Supplies including paper products at least some of the time:

First, the “Industrious Country Living” segment is made up of high school educated, upper-middle class couples and families. These people are hard working, as their segment name implies. They are typically found in industrial remote towns and villages across the country. They earn their relatively high incomes in manufacturing, construction, retail and wholesale jobs, and typically there are multiple workers in their families.

Next, the “Working Rural Communities” segment is comprised of middle-aged, and middle-class, empty-nesting couples. These households tend to be in older, industrial towns. They earn their livings in skilled blue-collar construction and manufacturing jobs. They enjoy hobbies such as gardening, fishing, hunting, bird-watching, woodworking and needlework.

Providing a contrast to the two rural-based segments above, the “Minority Metro Communities” segment are primarily found in metropolitan areas. These households are concentrated in inner-ring suburbs. They typically are married couples or single-parent minorities. They tend to earn above-average incomes in service industry and white-collar jobs. They are budget conscious, but will splurge on some items like electronics.

In addition to these three segments, the store brand shopper also contains 3 segments that we saw in the National Brand profile: Family Convenience, Steadfast Conservatives, and Small Town Success.

Based on our analysis and the data available, we see that these three consumer segments that fall squarely within both of the profiles, meaning that they show tendencies to buy both private label and National Brands (See Figure 4). These consumers would be a strong target for marketing from both private label and National Brands.

Figure 4: Who's likely to choose between National Brands and private label products? These three segments of consumers appear in both the National Brand profile and the profile for private label purchases in the Non-Food Kitchen Product category.

So, how do we target them? We recommend two levels of targeting specificity. First, targeting the store locations where these consumers likely shop. Influencing these purchases at the point of purchase can be a highly effective method for acquisition and retention of loyal consumers. Second, we recommend targeting the consumers themselves in their households with direct marketing messages that are most likely to resonate with them based on what we know about their preferences and attitudes.

Targeting the Stores

One step in influencing the right consumers to purchase either store brands or National brands begins with where these consumers likely shop. Focusing on the profile of consumers around stores allows both National Brands and retailers with private labels to allocate their marketing resources and efforts to areas rich in consumers who are likely to shift their behaviors or show a predisposition for both National Brands and private labels. Using the same compiled consumer information that we used to understand the profile of the consumer purchasing National Brands or private labels, we can study the geographic areas nearby the retailer's locations to understand the relative potential for private label versus National Brands by store. Based on the consumer household-level data, we can actually score the trade areas around the retailer stores and rank the stores based on their overall shopper potential for both National Brands and private labels.

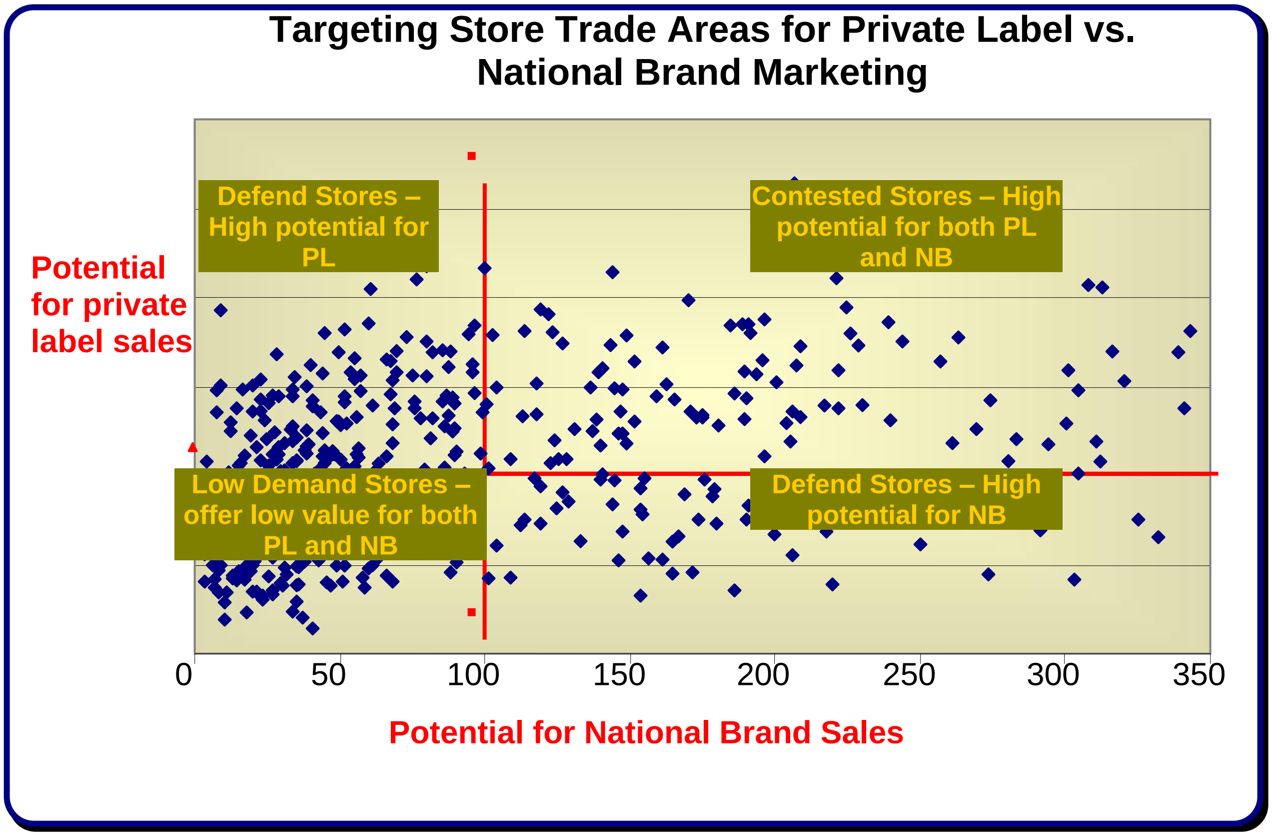
Using the scores that represent the overall potential for each store for both National Brands and private labels, we can prioritize stores so that marketing resources are leveraged to support areas where there is a high chance that consumers are switchers. Because we are looking at large groups of households that are geographically near store locations, we open up opportunities to use media as well as in-store advertising. We can use targeted ads and media, newspaper inserts, samples, and other marketing to the store trade areas. In-store promotions and sponsorships are also potential strategies that can be implemented at the store level. Retailers can also adjust strategies for product placement, shelf space and in-store advertising.

In Figure 5 we offer a potential classification system for store trade areas based on potential for Brands and private labels. Taking every location in a retailer's store network, we can understand the potential for Brands and private label sales based on what we've learned about the Brand and private label consumer profile and the households near the store locations. Based on the relative potential for private label potential versus potential for the National Brand, we have classified retailer store locations into one of four categories in our graph. In the top right quadrant, we have store locations that show high levels of potential for both National Brands and private label products in the category. The strategy for marketing near these stores should take into account that the return on the investment could be high, but that the competition for the purchasing dollars will also be high. These trade areas could require significant investment of marketing dollars to reach the consumers, but failing to market in these areas could result in a large loss of market share.

Next, we have the top-left quadrant, reflecting stores that have high demand for private label products, but low demand for National Brands. Private label strategy for retailers could involve a defensive stance against National Brands to maintain shopper loyalty. However, if focusing on expanding National Brand share, those Brands could also view these store trade areas as opportunities to motivate shoppers to try the National Brand.

A similar case is the bottom-right quadrant of stores. These stores show high shopper potential for National Brands but low potential for private label products. Similar to the top-left quadrant for the retailers with private labels, National Brands may also want to adopt a defensive strategy for marketing near these stores, while the retailer may want to focus on these areas of opportunities to take share away from the Brands.

Finally, the bottom-left quadrant shows stores that show low potential for both private label and National Brand products. Both Brands and retailers will likely want to ensure that stores falling into this quadrant don't receive inordinate portions of marketing resources, as they are likely not to produce a return on that investment. Also, failure to invest greatly in these trade areas offers little risk that market share will be lost due to the fact that potential for the product category is so low.



Once we have prioritized the stores that warrant marketing investment, we can develop what form that marketing investment should take. Taking a consumer-centric approach, we can tailor our contact strategy using the mode and message that is most likely to resonate with the consumers near the targeted stores.

Targeting the Consumers

To successfully target consumers likely to choose between brand names and store brands, National Brand marketers and retailers need to understand to what messages, modes of contact, and incentives these consumers are likely to respond to best. Whether subtle or in-your-face, the right message delivered in the right way can really motivate a consumer groups' decision to buy or not to buy. Understanding what messages each group responds to is an important step in crafting your overall marketing strategy.

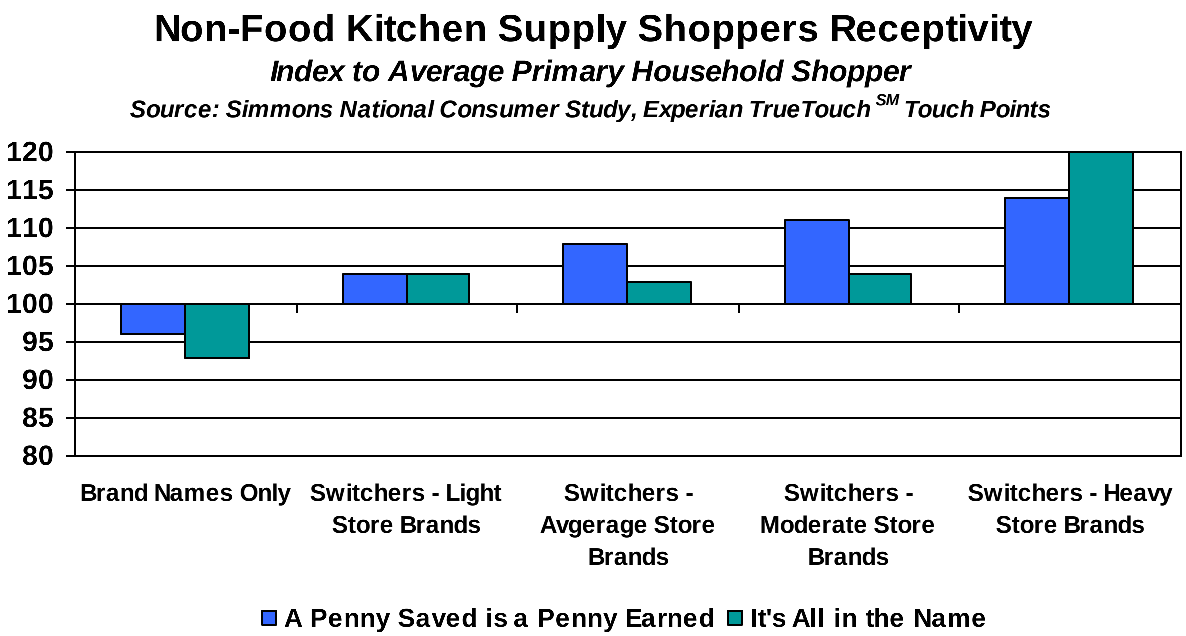
The Experian TrueTouch[4] system uses 11 Touch-points to define the motivational messages that appeal to various audiences.

Touch-Point	**Sales Approach**
Work hard, play hard	*Reward and compliment for being the first to take advantage of new products and services.*
Look at me now	*Communicate the strength and quality of your brand.*
A penny saved, a penny earned	*Benefit the family because it is the prime concern and focus.*
Stop and smell the roses	*Appeal to altruism, activism and appreciation for a down-to-earth message.*
Buy American	*Focus on pride, heritage and stability of your product or service.*
It's all in the name	*Use celebrity endorsements and testimonials to emphasize image and style.*
Never show up empty-handed	*Be sure to answer "What's in it for me?"*
Go with the flow	*Explain how your product or service already has been tried, tested and proven a winner.*
On the road again	*Demonstrate a fair value using a straightforward, logical approach.*
No time like the present	*Make it easy for recipients to reply, apply or finance.*
Show me the money	*Prove you're offering the absolute best deal.*

Figure 6 below demonstrates the difference in receptivity to two particular Touch-Points among brand name only shoppers versus switchers. Shoppers who only buy national brands in the non-food kitchen supply categories are less likely than the average primary household shopper to respond to messaging that focuses on saving money for the family ("A Penny Saved is A Penny Earned") and messaging that focuses on building reputation through testimonials and celebrity endorsements ("It's All in the Name"). The opposite is true for switchers. In fact, we find that the more penetrated a switcher is with store brands for non-food kitchen supplies (they buy store brands in more rather than fewer non-food kitchen supply product categories), the more likely they are to respond to the "A Penny Saved is A Penny Earned" and "It's All in the Name" Touch-Points.

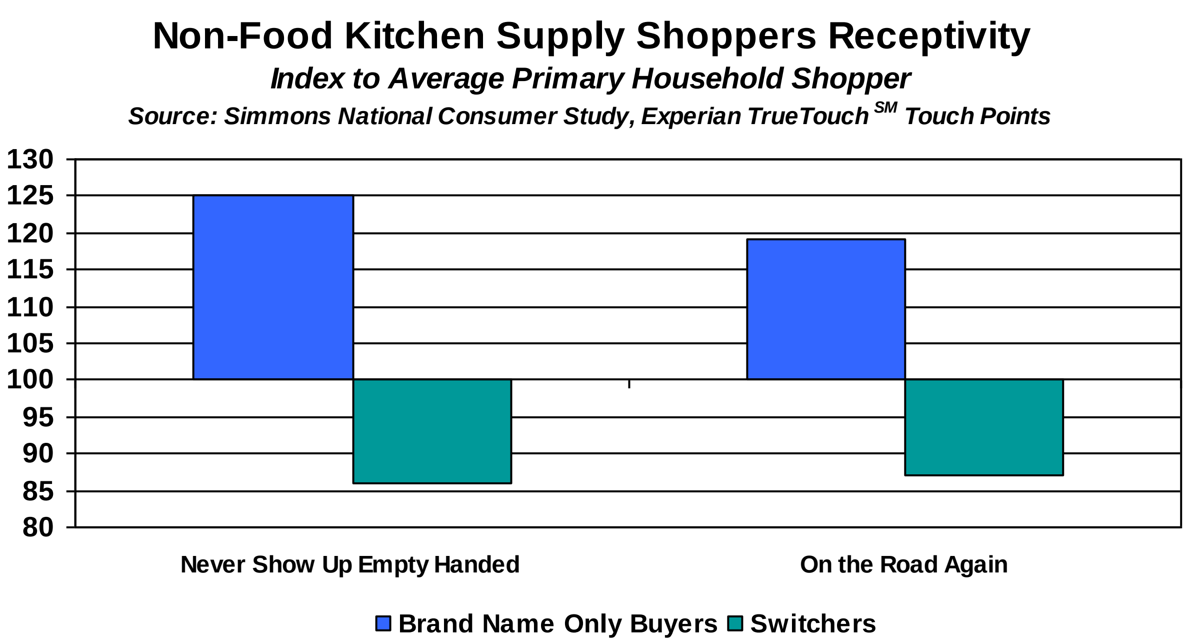
[4] Experian TrueTouch[SM]

Figure 6



Examining the Touch-Point messages for a perspective on messages national brand buyers respond to, we find that for those primary household shoppers highly likely to respond, brand name only buyers in the non-food kitchen supply category are more highly likely to respond to the “Never Show Up Empty Handed” and the “On the Road Again” touch-points.

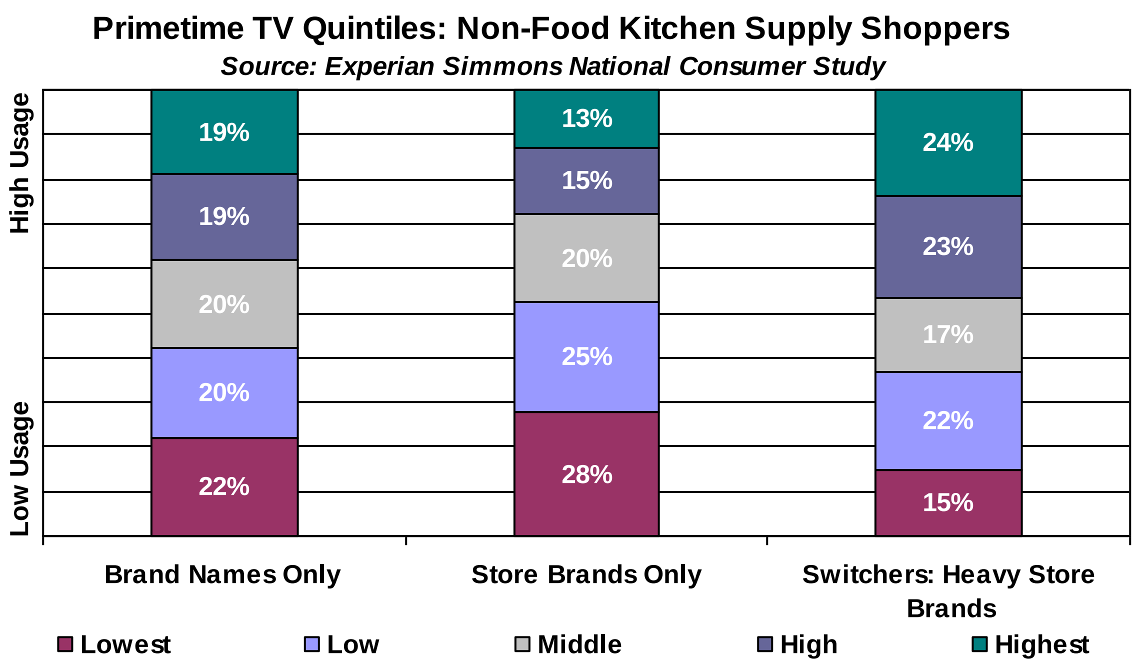
Figure 7



In addition to messaging, marketers need to understand how to best reach customers. Whether through mass media or direct marketing efforts, reaching your target consumer is critically important to drive both product awareness and the potential to purchase.

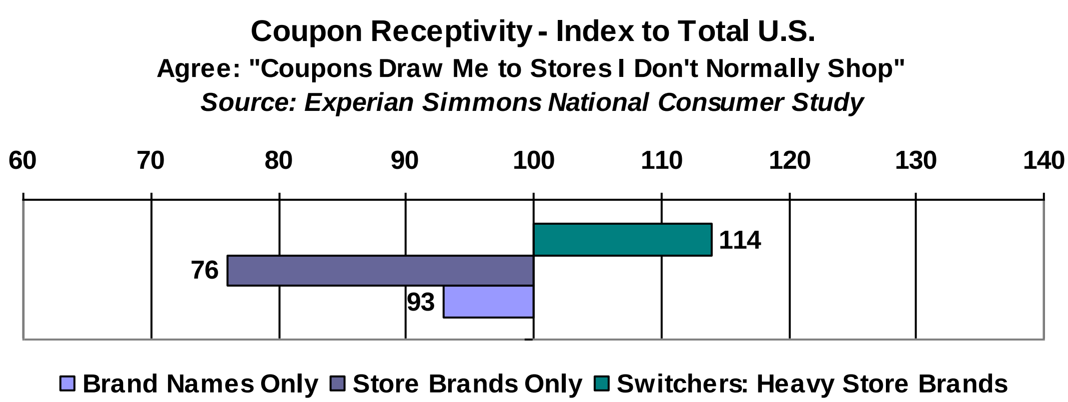
Here, consumer survey information is ideal for providing insight on the target consumer group's media behaviors. In Figure 8 we see that a larger percentage of the highly store brand penetrated switcher consumer group spends a greater amount of time with prime time TV than consumers that buy only national brand names or only store brands in the non-food kitchen supply category.

Figure 8



Survey data also demonstrates that the switcher group is more likely than the average consumer and more likely than consumers buying exclusively national brands or exclusively store brands to indicate they are drawn to stores because of coupons.

Figure 9



A Plan for Marketers

By creating and using strong consumer profiles for National Brands and private labels, marketers not only gain key insights as to who is likely buying their products, but also are able to leverage that insight into actionable strategies for marketing support. The data is readily available to understand these consumers and their profiles and to create consumer-centric and store-level action plans. As the competition between National Brands and private labels for CPG dollars increases, these profiles will also increase in value and allow both Brands and retailers to develop innovative strategies to grow and maintain their business by effectively targeting consumers most likely to respond to the marketing message.

By focusing marketing efforts and dollars on the consumers that are likely making decisions between National Brands and private label products, marketers can increase the return on investment of their marketing dollars. Marketing efforts can be prioritized at the retail store or consumer household level, depending on the objective at hand. CPG manufacturers who have adopted this strategy to date have seen dramatic increases already in direct marketing campaign performance, some even showing the most successful campaigns in the history of their brands.

As we have noted in our case study here, there is a clear action plan for both retailers supporting private label brands and for National Brands. The plan begins with understanding through a comprehensive data source, who likely is purchasing your product and who is likely to purchase the competing product. Once these two respective profiles are derived, the overlap of the two profiles can be extremely informative in order to isolate the consumers that show propensities for both brands. A well informed profile for a National Brand recognizes that the consumers who buy their products at different retailer may look different themselves. A specific retailer profile for each National Brand aids in prioritizing each retailer’s stores for marketing investment.

Once the needed profiles are available, we recommend using those to prioritize areas for marketing investment. Whether the investment is made in media, direct marketing, or in-store advertising, geographic analysis is important to determine which areas are most likely to show a return on investment of marketing dollars.

Finally, once targeted areas have been prioritized, consumer data should be used to develop a marketing plan that is relevant to those being targeted. Taking into account who the message is for, how that consumer is likely to respond to different messaging modes, and what types of incentives might be effective, an informed strategy is consumer-centric to ensure effectiveness. For National Brands and Private Labels, their messages for their loyal shoppers could be very different from their messages to the shoppers they are trying to convert. Understanding which message is likely to resonate based on maintaining and defending shopper relationships as opposed to establishing new shopper relationships is a key step in refining the execution strategy.

This plan, if enacted fully, can result in highly efficient marketing which gets the right message to the consumers most likely to respond. As private labels and National Brands increasingly compete, innovative strategies such as this one can enable both National Brands and retailers to compete even more effectively for consumers’ CPG dollars.