Store-branded Goods or Branded Goods: the Choice of Christmas Past

By

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As we enter the peak of the Yuletide season, an ever present phenomenon is the impromptu disregarding of “common cents” by consumers. The giving of gifts and the consumption of tons of food are two of the most symbolic and anticipated activities epitomized by the season.

The forced tightening of belts induced by the economic conditions and made even more difficult by our over consumption during this period, is usually enough to cause consumers to look carefully at their budgets and be converted to prudent, nitpicking price watchers. As they inevitably look to stretch each dollar, one choice that they will have to consider is the decision to buy either store-branded goods or national-branded goods to serve for dinner or gift.

In 2015 the Staff of the Fair Trading Commission (FTC) assessed the nature of competition between store-branded goods of the retailers and national-branded goods to determine the impact on consumer welfare. The study consisted of interviews and observations of major retailers (supermarkets) and merchandisers.

What are store-brands? Store-brands are those brands that are sold under the retailer’s brand and can be found only in the retail outlet of the brand owner, while national brand are those brands that are not limited to any particular retail outlet. In Jamaica, numerous supermarket chains have store-brands: there is the MegaMart brands, the Hi-Lo brands, PriceSmart brands, Empire brands (baked goods), Brooklyn brands (baked goods) etc. Examples of national-brands are Grace, Lasco, Eve, Geddes, National Bakery, Pepsi, Colgate, etc.

One key finding of the study is that store-brands are most likely found in categories of goods that are consumer goods with high sales volumes. Traditionally, store-brands have been labeled as being cheap in price but also cheap in quality. However, based on the study, the participants believe that store-brands are improving in quality. One participant – a supermarket – even stated that there is no real significant difference between store-brands and their national-branded counterparts:

> *The major difference between our brands and the national brands is price. We provide [a more affordable] alternative to the national brand. In terms of quality, both brands are comparable. In fact, for a number of the products both brands are manufactured and packaged by the same source. So we do not compromise on quality – we stand by the quality of our products.*

Another participant – a merchandiser – also confirmed this position stating that:

> *The only major difference, I would say, in most instances is the branding/labeling. Oftentimes store brands and branded goods come from the same source i.e. they are manufactured and packaged in the same plant. There are even cases of rival brands manufacturing products for each other. So what merchandisers have to do is to ensure that their product loyalty base is strong and work on building that.*

This may not be true in all cases but there are instances in the market where consumers are paying more for the product only because they have always purchased that product and have grown to be a loyal customer of that national branded product. In trying to swing customers to the store-branded products, retailers have made a significant push to improve their price-to-quality ratio through advertisements as well as improved sources of supply. This has had a positive effect on consumer welfare.

Another key finding of the study is that the groceries sector represents a distributive chain in which merchandisers exert minimal restraints, if any, on retailers. This is critical as it means that merchandisers are not imposing unreasonable prices on retailers. The benefits of this to consumer welfare are also positive. In fact, retailers are often privy to better prices from the merchandisers, through their negotiating powers, which, by extension, tend to pass through to consumers in the form of lower prices. In support of this notion, the results of the survey indicate that retailers are highly motivated to secure lower prices for final consumers. In one instance, a retailer explained that it had to insist on a lower price from a particular merchandiser. The retailer stated that its reason for doing so was that it had to offer consumers a lower price or risk losing their business. In this regard, therefore, consumer' "kingly" powers saw retail outlets exercise their buyer power to the benefit of consumers. In another strategy a retailer introduced its own store-brands influenced primarily, again, by the consumer's demand for better prices. The introduction of store-brands offers evidence that retailers have alternatives and are willing to employ them where necessary for the benefit of competition and by extension consumers.

Conclusion

As you go through this festive season, do not neglect your power as consumers. These powers include your ability to demand better prices, quality and service. Even though the economic environment may have forced consumers unconsciously to reassert this power in their capacity as drivers of the economy, you should always be aware of these powers regardless. In this study, the participants acknowledged consumers as royalty and accordingly their treatment of them as such means they have the power to determine what products get stocked or docked. Case in point: the drive to develop store brands has been a direct influence of these consumers who demanded a lower price for products that they buy. In addition, the study has shown that there have been significant improvements in the quality of service offered by retailers as well as their facilities (see extended parking lots, drive-throughs and the general aesthetics of the stores).

Conversely, the power of merchandisers has waned. The study pointed out that the increase in the number of merchandisers (which intensifies the competition among themselves for retailers' business) as well as the increase in the partnering of retailers among themselves to purchase some items in bulk has seen a shift in power from merchandisers to retailers. This buyer power has allowed them to negotiate lower prices which, by extension, allow them to offer a lower price to consumers. This same phenomenon has been observed in the relationship between consumers and retailers. Given that there are a number of retailers offering the same products from similar suppliers, consumers stand to benefit from this competition.

The FTC has had few reasons to intervene in the groceries sector over the preceding two decades. This study confirms the FTC's observation that the sector is competitive and that consumer's welfare is well served.

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