

# T h e V a l u e o f “Value Brands”

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**On the continuum of brand positions, which stretches from premium brands and national brands, all the way to private label (PL), nestled in between lies the much maligned and oft misunderstood value brand. Nearly every aisle has them, and in many cases these brands have a well-established history. Traditionally, these value brands are characterized by little or no brand-building or consumer marketing investment, with a few notable exceptions like Suave shampoo and Aim toothpaste. Some companies such as Church and Dwight’s Arm and Hammer brand is diversified into many different categories, but keep value pricing as a cornerstone of their brand strategy.**

Their existence is also traditionally challenged by branded manufacturers (Why trade down?) and by private label producers as well (Why cannibalize private label?). Just as consistent as the competitive pressures described, is the fact that value brands consistently perform. This article will challenge some of the misconceptions, from competitors and retailers alike, surrounding value brands by studying a couple of classic value brand examples.

The success of the value brand concept is more universal than you might think. To evidence that, let's look at three examples of non-advertised value brand items that our firm has studied over the past five years: Trim Grooming Implements, No-Ad Sun Care Products and Sundown Vitamins. None of these brands spent any meaningful consumer dollars as a percentage of total sales, all of the brands had major distribution gaps because some retailers felt the brand threatened their PL program, and all three brands outperformed the competition in retailers that did carry them in terms of either unit movement or Inventory Return on Investment. Furthermore, retailers that stocked these brands usually had category development and sales trends that outperformed their retail competition. Finally, the stocking retailers generated significantly more co-op dollars as they had another vendor vying for limited ad and promotional space, resulting in more frequent and meaningful promotions.

These findings are supported not only by studying the scan data trends, but also by conducting consumer surveys of buying attitudes and behaviors. Let's look at the "money stats" of each individually. Below are the particular value brands we studied, however, other value brands in each of these categories should react in a similar manner.

**Sundown Vitamins:** In the late '90s, this brand was one of the biggest drivers behind the surge in vitamin sales, particularly at Wal-Mart. The brand was priced about 15-20% higher than PL and 30-50% lower than most brands. Sundown's Herbal Supplement sales in the retailers stocking them outsold all competitors on a sales per SKU basis, including PL, by 50% in dollars and 100% in units. Their top three customers at the time – Wal-Mart, Phar-Mor and Publix – all had a category share well in excess of their market share.

Interestingly, two pieces of research conducted at the time showed the viability of a "value brand." First, a syndicated Gallup study showed that even in the segment with the highest PL share in all health and beauty care, letter vitamins (vitamin C, E, etc ...), 33% of these users say they hadn't bought PL in the last two years and 15% said they never will. Another study using panel data showed that new Sundown users did not take business from PL. In fact, these consumers actually *increased* their purchases of private label during the same period. The panel data also showed that Sundown Herbals had loyalty rates of 45% compared to 30% for the next highest competitor. These two studies combined with the in-market data clearly shows a distinct consumer segment that wants value pricing, but is uncomfortable with a store brand.

**No-Ad Suncare:** This is a value brand that has been a significant player in many retailers' suncare offerings since the early '60s. No-Ad is priced at parity with other national brands, but has two times more ounces. This brand took some distribution hits as retailers went to a vendor consolidation strategy. For example, one mass retailer replaced a mix of six No-Ad and six PL SKUs in 2001 with 12 PL SKUs in 2002. Sales in that space dropped over 20% year to year.

A study of four food retailers that carried both No-Ad and PL showed that: 1.) PL performance was stronger in these retailers than non-No-Ad retailers in terms of share and sales productivity and 2.) No-Ad was more productive in these retailers. These retailers were able to make a very strong value statement to the consumer, and the consumers responded.

Consumer research supports this conclusion. In an NFO study, less than one-third of PL buyers over a two-year period bought No-Ad even once. This compares to 81% and 55% for the top two brands in suncare. Importantly, just like with Sundown, the research showed that No-Ad had the number one loyalty rate, tied with the top market share brand. Again we see that there is a convergence between what consumers say and what they do relative to purchasing value brands. As stated previously in the article, other suncare value brands may produce the same results when studied.

**Trim Implements:** This is a brand that is the most profitable brand on the *cosmetic wall* in any retailer that carries it on a Return on Inventory Basis and usually on a profit per square foot basis. In fact, a dollar invested in this brand would give a retailer a *15 times better ROI* than an equivalent investment in one of the premium cosmetic brands. Not only does it blow away premium cosmetics, but it is at least three to four times more profitable than any other cosmetic, as well as nail care brand. Despite this disparity, most drug chains don't carry the line, and the ones that do carry it, give it no more than one to two feet of space as compared to 16 to 20 feet for the major cosmetic brands. Trim accomplishes this high profitability level by delivering very high velocity and very high gross margins. Listen to the private label and premium brands of implements and neither of them will tell you the real fact surrounding Trim Implements.

**The Real Story on Value Brands:** Retailers need to ask themselves: Are the stories being spun by the premium national brands and are the private label folks self-serving? Who benefits most with the elimination of the value brand? Any salesperson knows that the elimination of a competitive brand not only frees up shelf space, but relaxes the need for aggressive promotional programs to combat the everyday turns of the value brand. I guess we just answered who are the benefactors with the elimination of the value brand. Like the lobbyist making recommendations to a congressman, somebody needs to ask the hard questions, and ascertain all the facts. Clearly category managers need to dig in and question such recommendations. A little digging by the category manager may not only eliminate the question of "should a value brand be deleted," but the facts may prove that the value brands are a golden opportunity overlooked by many, except the most savvy of competitors.

Where value brands have been embraced by retailers, consumers have experienced the opportunity to satisfy their value needs without purchasing a store brand offering. These same retailers have been rewarded with greater category development and, not coincidentally, greater category revenue and profits. With the likely benefit of increased promotional dollars contributed by the value brand, it seems like there is little downside to the inclusion of a value brand.

While the ideal situation might be to have the value-end of the brand spectrum covered solely by private label, the scan data and consumer research clearly indicates consumers are not willing to allow that. Given that reality, value brands need to be an essential offering in most categories.

In the final analysis, the American consumer votes with their purchasing power. The message is a clear one – consumers like value brands, and they need to be part of an essential offering in most categories. •

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