

The Lowest Price Is Not Always the Best Price

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SUMMARY: Store brands continue to outperform brands in most categories in the U.S. Retailers' focus on cutting prices (for both brands and store brands) and increasing store brand assortment is positively impacting unit sales, but negatively impacting dollar sales. The most successful retailers are the ones who are collaborating with manufacturer partners to complement current pricing strategies with a strong commitment to other shopper needs and building a stronger platform for long-term success.

U.S.-based store brands are benefiting big time from the current economic downturn. As consumers continue to turn to better prices and value, retailers have clearly stepped up their game by enhancing their brands overall product quality and by adding strong marketing muscle behind store brand initiatives. But a Nielsen review of U.S. department-level price gaps between store brands and manufacturer brands shows that retailers may be hurting themselves in the long run—and missing out on opportunities to collaborate with manufacturer partners to drive stronger category sales.

Retailers may be hurting themselves in the long run...

Within food, drug and mass-merchandisers (including Walmart), Nielsen reports that the price gap between store brands and manufacturer brands is considerable—especially for non-edible departments such as health & beauty and general merchandise where gaps ranged from 74% and 63% respectively. Food departments have a smaller percentage gap—store brand prices in the deli department were 22% lower than branded and up to 50% lower in the dairy department. Since the same period in 2006, price gaps have widened in four of seven departments (deli, frozen foods, dry grocery, dairy, non-food, general merchandise, health & beauty).

Retailers:

- Don't let price gaps get too large or risk declining category sales.
- Don't de-list high-penetration, high-frequency or strong niche brands or risk driving shoppers to retailers who do carry them.
- Do promote store brands with brands where there is limited shopper overlap to drive category sales.
- Do promote store brands along with non-competitive or complimentary branded offerings to build larger baskets.
- Do select credible suppliers and hold them to high standards.

Manufacturers:

- Do branded versus store brand pricing analytics and show retail partners which branded offerings make good promotional partners.
- Do proactive assortment analytics to demonstrate why your brands align well with store brand assortment.
- Do take a collaborative approach to how you assess branded versus store brand risks and opportunities – retailer focus has never been greater.
- Do explore options for using excess capacity for store brand production.

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