



SWP 28/88 THE FALLACY OF GENERICS IN THE UK

DR LESLIE DE CHERNATONY
Lecturer in Marketing
Cranfield School of Management
Cranfield University
Cranfield
Bedford MK43 0AL
United Kingdom

Tel: +44 (0)234 751122
Fax: +44 (0)234 781806

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ABSTRACT

By clarifying what is meant by brands, own labels and generics this paper shows that neo-generics, rather than generics, were launched in the UK. It clarifies that neo-generics are in a terminal stage and through an understanding of consumers' perceptions explains why this has occurred. The advent of true generics in the UK is described and the transition from neo-generics to own labels abroad is noted.

**Dr L de Chernatony
Lecturer in Marketing
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
BEDFORD
MK43 0AL**

INTRODUCTION

Carrefour's introduction of "generics" in 1976 gave rise to considerable interest in a new tier of grocery retailing which further increased multiple retailers control over their product range and which also increased the pressure on branded groceries for shelf space. Yet by 1987 all those UK multiple retailers with a generic range had withdrawn from the "generics" arena. This paper considers why "generics" were not a success in the UK and describes the way "generics" have been transformed both in the UK and in France.

CLARIFYING BRANDING TERMINOLOGY

With the appearance of at least three different competitive tiers (brands, own labels, generics) in the packaged grocery market, it is essential that precision in language be employed. Schutte (1969) developed a framework for clarifying branding terminology, from which I contend that a manufacturer's brand is an added value entity conceived and primarily developed by a manufacturer, which portrays a unique and distinctive personality through the support of product development and promotional activity. By contrast an own label is an item produced by, or on behalf of a distributor, displaying the distributor's name or trademark, sold and controlled solely by the distributor and quite often positioned as a comparable alternative to manufacturers' brands. To solely rely upon McEnally and Hawes' (1984) view of a generic brand being "a distributor's brand that does not include a traditional brand name on its label" begs a whole series of further clarifying questions (one of the more salient ones being what is a traditional brand name?). To clarify what is understood by a generic grocery item, it is important to question whether a new third tier in grocery retailing was developed, or was it an extension of the own label concept?

WERE TRUE GENERICS LAUNCHED?

Until April 1976 manufacturers' brands and own labels represented the two alternative tiers in packaged groceries, however Carrefour were reputed to have challenged this convention by introducing their range of "Produits Libre". While most writers talk about this representing the start of the generic era (eg: Faria, 1979; Hawes, 1982), Carson (1976) was one of the first authors to question whether Carrefour had innovated with a new competitive tier, or had they further developed the own label concept? It should be realised that during 1975 in France, own labels only accounted for 7.5% of packaged grocery sales and the frequency of price promotions were confusing consumers' assessments of competing brands (Sheath and McGoldrick, 1981). Within this context, Carrefour saw an opportunity to launch, for the first time, its own range of items. These were positioned to match the quality of brands, were packaged in white packs with the tricolour CF logo, had £3m of advertising support and were priced 10-30% lower than brands. These characteristics come closer to describing retailers' own labels and not generics.

The term generic implies retailer controlled items which are packed in such a way that the prime concern with the packaging is product protection, with minimal concern for aesthetic appeal and displaying only the legal minimum amount of information. Without careful reading, the generics from one grocery retailer would be virtually indistinguishable from those of another grocery retailer. No promotional support would be given to generics and in view of the cost savings on packaging and promotion they should be cheaper than own labels.

Yet in the UK, while they were referred to as generics, the generic concept was not widely enacted by the major multiple retailers who entered the arena (excepting Fine Fare's trial of Pack Your Own). The reality was that eye-catching, multicolour

packaging was used, with one retailer even branding their "generics" (BASICS from Argyll). Each retailer adopted a corporate pack design further emphasising the association of specific generics with certain retailers. Promotional packs appeared (eg: BASICS aluminium foil flashed "10% extra free") along with a small amount of advertising support (McGoldrick, 1984). The once Marketing Director of Fine Fare (Allan, 1981) even went as far as saying:

"Incidentally I deliberately said brands for two reasons. First of all we have more than one brand, Yellow Pack as well as Fine Fare Brand. Secondly, we see both of these product ranges as Brands adding value to the shopping experience Fine Fare customers get at Fine Fare." (p 9)

Thus from an analysis of the marketing mix of generics launched in the UK, it becomes apparent that these neo-generics (to coin the term from Hawes and McEnally (1983), which more aptly describes this tier) have more in common with the own label concept, rather than being a unique tier.

WHAT STAGE OF THE PRODUCT LIFE CYCLE ARE NEO-GENERICS IN?

Moutinho (1987) claims that generics are in the maturity stage of their product life cycle. This claim is disputed since, as table 1 shows, multiple retailers started withdrawing from groceries as early as 1984 in the UK and by the start of 1987 no multiple retailers were stocking generics. Even allowing for Moutinho being vague about whether he is describing the UK or USA, his graph of the share of sales accounted for by generics in the USA shows a maximum figure in 1982, from which point generics' share of sales have continually fallen - ie conforming to the decline stage.

| RETAILER | GENERIC RANGE | LAUNCH DATE | WITHDRAWN DATE |
|----------------------------|------------------|--------------|----------------|
| Argyll | BASICS | October 1981 | 1987 |
| Carrefour (Gateway) | Brand Free | March 1978 | 1986 |
| Fine Fare (Gateway) | Yellow Pack | March 1980 | 1987 |
| International (Gateway) | Plain and Simple | July 1977 | 1984 |
| Tesco | Value Line | October 1981 | 1986 |

Table 1: UK Multiple Retailers Who Launched a "Generic" Range

Contrary to another of Moutinho's claims, generic opportunities are not being increased supposedly because of consumers becoming more sensitive to grocery prices. In a retailing environment in the UK characterised by the abolition of resale price maintenance, inflation, changing pack sizes, increased price competition and special offers, Ellert (1981) reported that in excess of 40% of shoppers no longer try to keep track of grocery prices. In 1961 Gabor and Granger reported that across seven packaged grocery products, 51% of respondents correctly recalled prices last paid, with price awareness varying by product. More recently, McGoldrick and Marks (1986) found that only 29% of shoppers were able to correctly recall grocery prices. Research by de Chernatony (1987a) provides further evidence of consumers' uncertainty about grocery prices. Two groups of consumers were shown competing examples of either kitchen towels or washing up liquids and each group was asked to give their perception of the price difference between the most expensive and cheapest items on display. Store visits had shown that the prices of the competing tiers in the washing up liquid market were well differentiated (44p price difference between brands and generics, or a 164% price differential) while a smaller price difference existed between brands and generics in the kitchen towels product field (13p or 22% price differential). Yet at the 0.05 significance

level there was no significant difference between respondents' perceptions of price differences between these two product fields. Thus any product range launched on a low price platform needs to have the magnitude of the price reduction clearly advertised to consumers.

WHY DID NEO-GENERICIS DECLINE?

In the UK an analysis of consumers' perceptions of the competitive tiers provides insight as to why retailers withdrew their generics. By first identifying the dimensions that consumers, rather than marketers, use to assess brands, own labels and generics, de Chernatony (1987b) developed a series of image-attribute batteries to collect data on how consumers perceived these three tiers. Six packaged grocery product fields were the focus for this research. By using cluster analysis, he showed that in each product field consumers perceived own labels and generics as being members of a similar cluster which was consistently dissimilar to brands. Since perception is one of the variables influencing purchasing (Engel et al, 1986), one possible consequence of this research finding is that consumers are more likely to switch from own labels to generics. If, as Shircore (1983) suggested, generics achieved their low prices through lower margins and if own labels are more profitable than brands (Euromonitor, 1986), then this switching behaviour is likely to reduce retailers' profitability. International's profitability was reported to have fallen as a consequence of changing consumer behaviour (McGoldrick, 1984).

A further reason for retailers withdrawing from generics is their down market image. Jacoby and Mazursky (1984) showed that retailers with a good image who started to stock poorer image items were adversely affected. Clearly retailers such as Tesco who have been using own labels to help shift their image up market were being hindered by selling generics. This would be a further reason for Tesco eventually restricting their

generic range to their previously owned Victor Value stores prior to abandoning their generics.

THE FUTURE FOR GENERICS IN THE UK

Contrary to Moutinho's (1987) assertion "trade attitudes generally favour the development of generic brands in the future" (p 10), as early as 1983, Simmons and Meredith reported evidence of strong trade hostility towards generics. Even amongst retailers once stocking generics, there was strong resistance to such activities (eg: Tesco (McGoldrick, 1984)).

With own labels accounting for nearly 30% of packaged groceries in the UK during 1987, and with a concentrated multiple retailer environment, experience has shown that the neo-generic concept did more harm than good to the major multiple retailers. A more appropriate route for innovation in the competitive tiers is the true generic approach pioneered by Fine Fare with its Pack Your Own range. Shoppers were able to go along to bins of produce, select the quantity they wanted by weighing the item and packing it themselves. *The Grocer* (1987a) reported Gateway expanding their Pack Your Own departments and several smaller multiple groups have since opened with the prime objective of only selling generics (eg: Weigh and Save, and Pick n' Pack). Having had to first overcome consumers' concern about hygiene, these dedicated generic stores are becoming more apparent (eg: *The Grocer*, 1987b).

Meanwhile outside the UK, the wheel of retailing for generics continues to turn. In France, Carrefour has been pushing "Produits Libres" into "Les Produits Concertés" (Poyner, 1986). Consumer interviews were undertaken to assess satisfaction with Carrefour's own labels and those achieving an 80% level of success were branded with a

consumer seal of approval in the form of a red triangle. The metamorphosis from generic to own label has finally occurred.

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