


CHAN NEL UNO 09 WINTER



ROSE[★] TINTED

Whatever terminology Mr Swan (Treasurer) wants to use, every term being any that don't start with an 'R', the economy has lost some of its recent shine. Many countries may be doing it tougher than us and although that will no doubt affect exports it doesn't make many of us feel any better about our current predicament. However, although we appear to have dodged the big recessionary bullet, there has been a slowing of the market, but there is still a market. This quarterly edition of Channel UNO is going to discuss some of the contrary companies who do well during less friendly economic times and suggest a few reasons why. 

Firstly, let's do a quick character sketch of middle Australia, bear in mind this is a sketch and is not meant to be anyone we know with access to a good defamation lawyer. So, the sketch goes like this; a couple, both working, plus two kids, recently purchased a house, one main wage and a supplementary income through a part-time job. Typically it's this second income that covers all the additional, nice to have items and although this is not a lot of money we're talking about it is the bulk of the discretionary income. The main wage being used to cover the mortgage, utility bills, base food shopping, fuel etc – stuff we all know. At this point I could go off and do a basic economics 101, but that's all fairly rational and to be dead fair, a bit depressing in the current climate, so we're going to skip that and go straight to the far more cheerily titled 'Lipstick Index'.

Recession Proof Rouge

The whimsically named 'Lipstick Index', is based on the strange occurrence that coincides with a depressed market, which is that lipstick sales go up. Okay, so maybe not the kind of news that's going to address the imbalance on global cred-

it markets, but before you wander off pouting in your new shade of 'regal rouge', let me suggest why. The reason is also why chocolate sales go up, especially upmarket chocolates, and why alcohol sales go up. People are also keen to maintain small treats such as the daily ritual of having a freshly made coffee and so coffee sales tend to remain fairly constant. If we were completely rational beings we would all pull our heads in and reduce our spending to the bare minimum, paying off our debt and essentially hibernate within our homes, but we are

all anything but rational, we do weird stuff everyday. So when faced with a grey and depressing strategy for survival we recognise that the actions are necessary but we also need those little treats and 'nice to have's' as a way to inject a degree of colour into the otherwise uniform grey. These relatively inexpensive treats are an almost guilt free way of being able to sit tight within our prudent plan but also allow it to be bearable, giving us the little boost to our will power that allows us to endure the situation. □



The ritual of chocolate and take away coffee - a necessary indulgence

There's unfortunately not much middle ground for products, because consumers are either working to a budget or they're having small and considered indulgences. If your product falls into neither of these areas then you could be in trouble. This is probably not news to you anyway as this area of the market has suffered the most impact from the on-going 'own-label' activity of the supermarket chains.

Own Label


The 'own-label' issue is another area I want to give some time to, as there could be some movement there as well. Own label products really got traction in the last recession, more so in the UK, where they became part and parcel of every supermarket's core offer. Consumers wanted products that were priced at a base level, a 'no frills' offer, and most brands were happy enough for them to take this role as it was regarded as dangerous ground for their brands and at that time largely uncharted territory. Unfortunately for brands, the supermarkets were not content with just the crumbs and wanted a slice of the rich and heavily iced cake that the brands had been doling out with only other brands

to compete with. Own Label in the UK now sits at nearly 40% of all consumer packaged goods (food, beverage and personal care) sold in the UK, amounting to over £42bn (Aus\$85bn).

The growing acceptance of consumers to 'own-label' products typically accelerates within any economic downturn, as the financial incentive to trial is greater. The supermarkets have also increased their ownership of the store's real estate, so in many ways they are playing from a position of strength as they are able to control access to the store and therefore to the market, as well as positioning products adjacent to the brands they are actively competing with. In the case of Woolworths, they also possess deep enough pockets to support the heavy discounting, which although not a highly imaginative strategy is very effective in making own label products a worthy candidate for consideration by even the most brand loyal consumers.

The increase in 'own label' products is heralded by supermarkets as offering a cost effective alternative to branded products and so by adopting this mantle



of the consumers price fighting champion they are implying that brands are driven to price gouge consumers at every turn, yet there is another side to the story, which is that supermarkets are retailers and not manufacturers, the 'own label' product is rarely innovative in what it delivers, has no discernible strength apart from being price competitive. The cost of funding new product development does not fall to them, but is considered part of doing business. The fallout of this, in general terms, is that the brand owners end up chasing their own tails, as any 'successful' innovation they bring to market, to support and differentiate their own brands, is then 'appropriated' by the supermarkets and served up in the livery of 'own label'. Long term this can lead 

Woolworths Select and Tesco Finest packaging are 'strangely' similar, or is it strange given Tesco's success with 'own label' and their development of the 3 tier pricing policy; entry(value) - mid (tesco) - premium (finest).

to a greying of categories as innovation can start to languish as smaller 'non-international' brands reduce their overheads and are less able to support new product launches.

Companies who focus on producing for supermarkets and who understand the mechanics of such a role are also likely to benefit, although there are strings attached, as contracts do end and suppliers can be changed.

There are categories which have been closed to 'own label' entry, such as upmarket personal care, cosmetics and clothing, but even these areas have been breached, with ASDA's (UK) 'George' label (an ASDA sub-brand) now successfully offering a wide range of clothing within the confines of the store. Personal care, especially upmarket skin care and cosmetics is still a difficult area as supermarkets still lack credibility in this area, but they are working on the fringes with suncare products, so the barriers are being eroded.



Billabong - Danger of bottom falling out of US market

Discounting of product is a traditional strategy to encourage sales, but some brands have refused to discount their products as they believe that the danger of devaluing their brand could outweigh the loss of sales and have a longer and more damaging effect on profitability. Australian surf brand 'Billabong', refused to discount their product in the US, a market which in turn accounts for just under half of Billabong's gross revenue. Billabong has the margins to enable them to discount but this runs the risk of making their product a commodity. Billabong are by no means alone, but many high level fashion/lifestyle brands have succumbed to discounting their lines just to keep stock moving and maintain some level of cash flow.

The pattern of consumer spending during an economic downturn highlights that when times get tough we draw clear distinctions between what we really care about and what we can live without. This polarisation of choices is also significant in that it highlights products that are price sensitive and rational, so typically commodity products, and those which are more esoteric in terms of value. The challenge in these times for many manufacturers and brand owners is understanding where their product or brand lies



and acting appropriately, and this is obviously more challenging for those whose products lie in the middle ground. Companies such as Kraft, whose inventory of brands is largely in this area is attempting to move upmarket, as their traditional area is subsumed by the supermarkets. The ongoing trend over the past 8 years has been the erosion of this middle ground but the recent economic uncertainty has accelerated this process creating a 'jump' or be 'pushed' situation for key decision makers, with all the inherent dangers that this carries for the future. Perhaps Kraft's approach of pushing upmarket is more challenging and fraught with many difficulties, it is to my mind their only option, as standing still or following the downward path leads to brand extinction and the transformation of a globally recognised company into yet another contract manufacturer, or to put it another way, 'Vegemite' to 'Yeast Spread'. ■

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