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Private Labels in the Austrian Food Market:  
A Qualitative Forecast Using the Scenario Technique

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Introduction

The Austrian food market may be characterized by high competitiveness, market saturation and the fact, that listing on the shelves of trade organizations’ outlets has become the imperative success factor for food producing companies. Never before has it been harder, there have never been more obstacles in reaching the point of sale - because the shelves in supermarket stores are full. The degree of concentration within the food trade sector has reached an all-time high: The three biggest supermarket chains in Austria account for more than 80% of all sales (business to consumer, B2C). Therefore, distribution of food to consumers lies in the hands of only a few organizations, which gives them huge negotiation power, which has provoked irritations in the past and currently.

One concept, which further reinforces pressure on food producers are so called private labels (PL). In general, we name a label as private if a trade organization is the holder of the label’s rights. Trade organizations are eager to bring private labels to markets mainly because they can acquire higher profit margins. However, this is not the only reason for marketing private labels: private labels help the label owner to differentiate from competitors and to build intended company profiles for the market (Peters, 1998). As competition within the market has increased, private labels have become a strategic weapon in marketing (Sternagel-Ellmauer, 1997). E.g., the biggest retail chain in Austria REWE/Billa, analyzed why customers chose the relevant Billa store: one third said that the main reason was the Austrian eco-food label “Ja!Natürlich”, which is in fact the most popular label in Austria and is held by REWE itself. This private label, which gained the leading position within the Austrian market for eco-food products, helped REWE/Billa to achieve greater competitiveness within the food market (Haunold, 2005); it helped to gain a positive image (“eco-label”), to prevent other supermarket chains from introducing eco-products under the same umbrella brand, and to differentiate their own assortment from those of their competitors.

Following the success of private labels in Austria – the proportion is increasing year after year – it might be assumed that this success story is also a veritable threat to the food industry. If a trade organization decides to bring a private label to the food market, this is usually connected to the elimination of one or more food products, as space can no longer be increased on the shelves of supermarkets.

However, in contrast to the position of most food producers neglecting private labels in the past, many of them are now producing these labels for trade organizations. By doing so it is possible to AUSLAST capacities and to eliminate the risk of being listed amongst the supermarkets’ assortments. Of course, this strategy further increases dependency on single clients, which have – as mentioned above, high negotiation power. Successful companies (e.g., the Austrian food producer “Spitz”) prove that this can be a very interesting business field, to reach a sustainable market position.

Keywords: Private labels, scenario technique, economic forecast, food trade
1. Importance of private labels

As Bontemps et al. (2008) state, “By developing private labels (PL), which are their own brands, individual retailers now play an active role in the production of final goods”. Depending on the relevant retailer, the proportion of private labels within the assortment is largely varying. Furthermore, we may realize a huge discrepancy between the analysis of panel data by AcNielsen and the information coming from retailers (N.N., 2008a). Confirming AcNielsen’s calculations the proportion of private labels is below 15% with a slightly increasing tendency (1. semester 2008: +0.9%) (N.N., 2008b). In contrast to these figures, trade organizations report sales figures from about 25%, which are yielded via private labels. There is no doubt that the proportion has increased significantly during the last years. However, we have to take into account that specific trade organizations like the Austrian hard discount supermarket chain “HOFER” (belonging to the German equivalent “Aldi” and responsible for a market share of more than 20%) sells more than 70-85% via private labels. Furthermore, a major part of fresh products such as meat or vegetables are manufactured via the retailers’ own companies (N.N., 2008a) which further increases the proportion of private labels. Giving some key figures for the Austrian food market: The biggest Austrian retailer, REWE, reports a share of private labels of 20% with an increasing tendency (confirming the corporate report system REWE-DWH of 2008). The second most important retailer, SPAR, has achieved a level of 27% confirmed by SPAR-head Mr. Drexel (1st semester 2008); SPAR increased their proportion within 6 months by+21%, reaching the highest share of PL (exclusive hard discount stores) (vgl. N.N., 2008c). Estimations for HOFER, Austria’s biggest hard discount retailer (overall market share of about 20%; no. 3 of all retailers) are a private labels’ share reaching up to 89.5% (+0.5%) (vgl. Schuhmayer, 2008). As mentioned before, these figures differ from AcNielsens’ analysis. Confirming the market research institute, the overall share of private labels reached 13.2% (2007; hard discount not included) from 10% in 2001. The general trend may be approximated on the basis of a linear trend ($R^2=0.94$; see fig. 1). Confirming this analysis, we can expect that the proportion of PL will reach 15% (AcNielsen classification) until 2010. However, in the long term, this trend will not continue on a linear basis (e.g. drug sector: proportion of PL increased steadily until 2004; since then, the proportion has remained almost stable). To summarize the present situation in the Austrian food sector, we may estimate the overall proportion of PL in the food retail market as 25% (including all product categories and retailers). This proportion should increase further. Some author’s estimated – rather unrealistically – market shares beyond 50%; (Riesenbeck und Perry, 2004, 17).
For Germany experts expect a share of PL until 2010 of about 30% (Michael et al., 2002), a trend that may be valid for Austria as well. In other European countries (e.g. UK and Switzerland; Koppe, 2003) this proportion is, or might become much higher, which is an indicator that there is still potential for PL in Austria and Germany. Therefore, the future of PL seems to be quite positive (on a global perspective) for retailers, meanwhile demanding for food producers and their national brands. It seems to be clear that the latter are usually rather concerned about the introduction of private labels. “Competition between ‘national brand’ and ‘private label’ products has been a primary concern of managers in the retail food industry for some time now” (Cotterill and Putsis, 2000, 18). Furthermore, the effect of an increase of PL on public welfare has to be taken into account. Depending on the relevant circumstances, an increase of the PL share might also cause a decrease in overall welfare (shown by Gabrielsen and Sørgard, 2007, on a theoretical point of view). The consequences might become ambivalent – harmful and/or positive depending on the position of the relevant market partner.

Usually, PL can be found amongst traditional food assortments, as less costly alternatives to national labels (e.g. “S-Budget” from Spar. In this case, PL work as signals to prove price competency – a strategy to compete against hard discount stores. However, more and more PL are positioned as premium products, like the eco-label „Ja!Natürlich“ from REWE or the regional concept “Zurück zum Ursprung” (“back to origin”) from HOFER. These are so called 4th generation private labels (vgl. Bruhn, 1996); they are highly innovative, are positioned comparable to or even better than national labels and, in general, communicate as the better alternative (and not the cheaper one). In addition to this, other classifications are possible, like those of Bontemps et al. (2008) who distinguish between “low price”, “me-too” (or standard) and “high quality” private labels (the first two categories characterize the herein mentioned traditional private labels).
Confirmed by results of a study conducted at the University of Natural Resources and Applied Life Sciences Vienna, three main trends are possible in the private labels’ sector:

(1) The private labels’ share will further increase, also in the premium sector of food assortments. They will obtain significant market shares; the competition with national labels will be continuously reinforced. National labels will be listed out from supermarket shelves.

(2) The private labels’ share has reached its maximum level; no further increase may be expected. During the last years, their share increased steadily to reach a proportion of about 25% (including all food assortments) and 13-15% (confirming AcNielsen classification), respectively.

(3) On the basis of the third case we may expect a decrease of the proportion of private labels. However, case (3) seems to be rather unrealistic in the near future and therefore only of theoretical importance.

The probabilities of cases (1) to (3) depends on diverse factors and cannot be separated from general economic development, concentration in the retail sector, social trends, national and international legislation, and other influencing variables. Therefore, we have developed different scenarios, taking into account the specific implications, which may significantly influence the development of private labels’ share. All estimations and settings were generated by experts involved in the Austrian food supply chain. The experts cover the complete supply chain, coming from the food industry, the retail sector, science, media, governmental and market research institutions. They all play an important role within the supply chain and are working at the top level of the relevant organizational hierarchy. The analysis was done for the Austrian food market only, representativeness for other countries cannot be expected, unless general developments are comparable to the Austrian situation.

To anticipate the problem of “fuzziness” of future developments, especially if we consider a longer period of time, we decided to use the so-called scenario technique. This method takes into account that the validity of estimations is depended on the further development of the influencing factors. The results of the application of the scenario technique will be presented in the following chapters.

2. Development of scenarios for the Austrian food market

The basics for the following results can be found in Leitner (2006). All interviews were finished in 2006, so the actual dramatic developments within the global economy could not be foreseen. Therefore, the results have to be interpreted with consideration of the actual situation, which is in fact possible, being one core characteristic of the scenario technique. Usually, not a single future outcome but a whole bundle of possible outcomes is provided via this technique – depending on the existence of a specific economical, social, environmental, etc. situation.

Actually, the global economy is in a veritable crisis, experts expect the deepest recession since 1945. The starting point was the so-called global financial crisis, but harmful consequences have already reached other economic sectors to an extent never seen before. Of course, this will have huge impacts on the strategic focus of retailers concerning their private labels. Consumers will change their shopping behavior; food producers will also react to different market conditions. In general, the economic conditions are much worse compared to 2006, when the expert interviews were conducted. However, this is not influencing the general validity of the provided outcome, as negative (as well as positive) developments above average expectations were included when forecasting the future development of private labels in Austria.
On the basis of the conducted interviews two extreme scenarios were generated: The optimistic scenario, which forecasts a positive economic development until 2015 (the maximum validity of the forecast presented herein), social stability and only a few irritations to the general welfare of the Austrian society. On the other side, the pessimistic scenario forecasts a deep economic (and as a consequence) social crisis. Between these two (from the point of view in 2006 rather unrealistic but still possible) scenarios we find the trend scenario, where the situation in 2006 (and before) is extrapolated into the future. In general, these forecasts may be visualized in the framework of a “scenario funnel” (Graf 1999; von Reibnitz, 1991; see fig. 2).

We elaborated the scenarios in co-operation with experts from the Austrian food supply chain under consideration of general literature and related data sources (provided by Statistics Austria, Chamber of Commerce etc.). In general, we followed the methodological approach of von Reibnitz (1991) and Gauesemeier et al. (1995). Von Reibnitz’ method is conceptualized as an eight step scenario process: (1) task analysis, (2) influence analysis, (3) projections, (4) consistency analysis, (5) scenario interpretation, (6) consequence analysis, (7) analysis of disruptive events, and (8) scenario transfer. As step (6) and (8) focuses on the analysis of environmental scenarios and not on the development of possible strategic options we refrained from including step (6) and (8) explicitly. Therefore, an in-depth analysis of the last two points is still missing but could be useful to develop adequate individual tactical plans for market participants (which was not the main focus of this study).

1. On the basis of a detailed task and status quo analysis we derived descriptors (i.e. influencing factors).
2. The descriptors might have positive or negative impacts on the further development of the interesting variables (in our case PL in Austria), or they might be considered to be neutral or independent.
3. On the basis of (1) and (2) it is possible to develop future projections (scenarios).
4. These future developments are checked with respect to consistency. We get a consistency matrix (Gauesemeier et al., 1995) where all descriptors are analyzed to see whether or not they support each other. We now get extreme scenarios which are obviously consistent; the “true” future path which the variable of interest will take usually lies between these extreme scenarios.
5. Finally, the relevant scenarios are interpreted, also taking into account possible future developments (7) and their influence on future projections (a step which proved to become important within the short future because of disruptive events).
The descriptors relevant for our purpose – these are stated quite regularly if economic projections are analyzed via this methodology (Reibnitz, 1991) – are sales and supply markets, competition, politics and legislation, technology, and further general economic and social developments. For private labels, in particular the following variables seem to be of high relevance (Leitner, 2006):

- General development of the society, especially with special emphasis on consumer behavior
- Competition between private labels and national brands (with respect to the share between PL and national brands, quality/price ratio of PL, brand image, etc.)
- Competition within the trade sector (concentration tendencies, share of hard discount stores, market shares of all competitors, coverage rate, image of trade organizations, etc.)
- Innovativeness with respect to adoption of new technologies, product innovations, premium price products, investments into new technologies
- General economic welfare and development (growth rates, unemployment rate, inflation, disposable household incomes, etc.)

These are the main influencing factors which dominate the further development of the economic system of “private labels”. If some or more descriptors change in the future, this will definitely influence the strategic decisions of trade organizations and all other business partners in the food supply chain – inducing modifications with respect to private labels as well. Therefore, these factors have to be included into the analysis of strategic options and forecasts, in fact we
have to develop causalities in order to validly look into the future. Analysis of causalities is done via a simplified pairwise comparison: all elements of the descriptors’ system are compared with all other elements via a 3 point scale: scale value 0 = no direct influence between two variables; scale point 1 = weak, indirect influence of one factor on another; 2 = strong, direct influence. Of course, the interviewed experts further evaluated this simplified data generation via a verbal description. They needed to explain in detail why a given value was valid for the interrelation between two descriptors. The latter analysis leads to a qualitative interpretation and validation to guarantee maximum trustworthiness. The whole process is called “cross impact analysis”.

3. Cross impact analysis

The aggregated results of the cross impact analysis can be viewed in table 1 (containing the modal values of all statements). Confirming the analysis, only two factors are relatively independent, the general development of the society and the competition between private and national labels. All other impacts are at least weak and indirect, with a lot of them even strong and direct. The row and column sums can now be taken as indicators, if a factor is actively influencing other variables (active sum) or if a factor is influenced by others (passive sum). Gausemeier et al. (1995) further aggregates these figures by calculating the so called impulse index (IPI) and dynamic index (DI).

Table 1. Influence analysis

<table>
<thead>
<tr>
<th>Impact of influencing factor A on influencing factor B?</th>
<th>Influencing factor B_i</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale values: 0 = no impact 1 = weak and delayed impact 2 = strong and direct influence (Mode out of 10 expert interviews)</td>
<td>Development of the society</td>
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<td>------------------------</td>
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<tr>
<td>Development of the society</td>
<td>A_1</td>
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<tr>
<td>Competition between private labels and national labels</td>
<td>A_2</td>
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<td>Competition within the trade sector</td>
<td>A_3</td>
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<tr>
<td>Innovativeness (application of new technologies)</td>
<td>A_4</td>
</tr>
<tr>
<td>General economic development</td>
<td>A_5</td>
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<tr>
<td>Passive sum</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Leitner, 2006

If a descriptor has a strong influence on other variables within the system (a stronger influence compared to the impact of the other variables on this specific descriptor), then the IPI is larger than 1. The IPI is calculated using the following formula (i.e. ratio between active and passive sum). Therefore, the IPI can be taken as an indicator concerning the importance of a relevant descriptor within a specific system, compared to all other variables of the system. The maximum range of IPI extends from 0 (no influence on the system) to ¥ (descriptor is not influenced by other variables, but has an impact on others – division by 0).
Another important indicator is the dynamic index DI mentioned above. It is calculated using formula (2) and ranges from 0 (no integration into the system) to $2n^2$. DI is a measure for the integration of the relevant variable into the system.

$$DI = \sum_{i=1}^{n} A_i \times \sum_{i=1}^{n} B_i, \text{ n ... number of influencing factors}$$ (2)

For the system “Private labels”, the most interesting variable seems to be “General economic development”. The IPI amounts to 1.5 (the highest value within the system), The DI amounts to 24 (the lowest value within the system). Therefore, the economic development seems to have the largest impact on the further development of private labels in Austria (and all other descriptors as well). PL are more or less not influenced by the other system variables. This is of special interest with respect to the actual global economic situation (we will come back to this point later). Therefore, this variable seems to be by far of key importance to the whole system. The variables “Development of the society” and “Innovativeness”, are the variables which are cross-linked the most within the system of “Private labels” (highest DI). These variables are so-called dynamic factors.

### Table 2. Calculation of IPI and DI

<table>
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<tr>
<th>Influencing factor</th>
<th>IPI</th>
<th>DI</th>
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<tr>
<td>Development of the society</td>
<td>1,17</td>
<td>42</td>
</tr>
<tr>
<td>Competition between private labels and national labels</td>
<td>0,71</td>
<td>35</td>
</tr>
<tr>
<td>Competition within the trade sector</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Innovativeness (application of new technologies)</td>
<td>0,86</td>
<td>42</td>
</tr>
<tr>
<td>General economic development</td>
<td>1,5</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Leitner, 2006

4. **Projections – scenarios**

**Extreme scenarios**

On the basis of this impact analysis, the experts involved in the survey are now able to work out extreme scenarios for the system “Private labels”. Hereby, it is worth mentioning that these bi-polar scenarios are rather unrealistic but still possible. The quality of the whole forecast is dependent on the quality of the description of these scenarios. Therefore, once again it is very important that all participants pay best care and attention to this point within the process (Gausemeier et al., 1995). Taking the most important corner stones of the bi-polar scenario development, the following description was generated:
1 Society
1A Positive development of the society, short innovation cycles, time pressure, high purchase power, quality approach
1B Negative development of the society, high income gap, price orientation
2 National vs. private labels
2A Share of national labels increases, positioning of private labels is problematic, relaunches work well
2B Share of private labels increases, excellent quality, customer’s trust in private labels
3 Competition within trade sector
3A Diversity within the trade sector, supermarket chains are successful against discount stores, smaller distribution channels can survive
3B Discount trade sector rockets, unification of assortments, monopolistic market position of trade chains
4 Innovation, Technology
4A Huge numbers of innovations, GMO, high specialization within the chain
4B Me too products, innovations are too expensive, unified, unspectacular products
5 General economic development
5A Economy is doing well, good education on labor markets, eastern Europe is the most interesting market for Austrian companies, in general stable development of all economic sectors
5B Negative growth rates, low price imports, high unemployment rate, cheap labor forces, migration of industries to low-cost countries

Consistency analysis

Of course, a huge number of combinations can now be built on the basis of these extreme scenarios. However, only those combinations where the conclusions are largely consistent are relevant for any further analysis. After analyzing the relevant outcomes of the extreme scenarios with respect to consistency, only two scenarios remain realistic. These are the combinations of “1B 2B 3B 4B 5B” and “1A 2A 3A 4A 5A”, respectively, having no complete inconsistencies and all combinations predominantly consistent. The referring consistency matrix can be taken from table 3.

Table 3. Consistency matrix (mode)

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<th>2A</th>
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Question: “How consistent is projection A with projection B?” (confirming Gausemeier et al., 1995; Gausemeier, 1998):
1 = total inconsistency
2 = partial inconsistency
6 = neutrality or independency
8 = consistency
9 = strong consistency

Source: Leitner, 2006
As one can see from the above description, following this analysis we disposed of the widely optimistic scenario (A), where we assume a good general economic condition, positive social developments and a tendency in consumer behavior towards national labels (and less towards private labels in the low price segment). In contradiction to these assumptions, scenario (B) stands for pessimistic expectations – assumptions, which have come to be true since mid 2008. As general economic difficulties within a society lead to less disposable income in households, consumers tend to look for cheaper alternatives. Therefore private labels in the discount sector are expected to boom whereas national labels as well as private labels in the premium price sector are likely to drop in sales.

**Trend scenario**

In 2006, the time period when this study was conducted, no expert suspected that the global economy could drop as dramatically as it has within only a few months. Therefore, most of the interviewed experts assumed that the coming years after 2006 would follow a more or less stable trend with slight economic growth rates, moderate inflation and a rather low unemployment rate in Austria,–relative to the average European unemployment rate. The Austrian society to benefit from the eastern European expansion of the EU significantly above average (in contradiction to these benefits, the Austrian population to become more and more concerned about the EU in general – threats concerning loss of employment because of relocation of production to foreign countries, more immigration to Austria, higher competition in labor markets, cross border crime, etc.). In general, the development of the society to ground as well on its economic development. In particular, Austria should face the following trends such as: aging of the society, income gap, more pressure on middle class segments and less job guarantees. However, concerning these moderate developments which might be expected within this trend scenario, there are also a lot of chances and opportunities within the Austrian society like good opportunities to earn money, high flexibility and mobility, social mobility between social classes, etc.

Concerning trade, we may expect a more or less saturated food market with further increases within the discount segment up to a level of +10%. As well, positive growth rates within the private labels segment should continue during the next years; after that the share of private labels should be consolidated on a level comparable to the German market. Experts predict this share to go up to 30%–35% until 2015. In particular, the following trends within the private labels segment may be expected within this trend scenario:

- Some product categories may be completely covered by private labels (e.g. eco foods in Austria), whereas private labels with less success will be taken off the shelves.
- In general, most of all private labels will be introduced in the discount segment.
- Selected premium price segments will be of high importance for private labels (actually true for eco food or “chilled food” in the Austrian food market).
- Consumer’s differentiation between national and private labels shall continuously diminish.

5. **Scenario 2008/2009**

As mentioned above, these expectations are highly dependent on a number of influencing variables, whereas the general economic development seems to be of prior importance for the private labels sector. Therefore, the global economic crisis (with the financial crisis of 2008 as a starting point) will lead to a different view into the future of private labels compared to that of 2006. The crisis shifts the trend scenario downwards to the pessimistic scenario (B). It is now
necessary to modify the more or less positive expectations of the trend scenario, and to move away from the optimistic scenario (at least concerning the next months and years). Therefore, the share of private labels in the discount segment of the trade organizations’ assortments will augment above expectations and will reach the forecasted level of 30%-35% prior to 2015. National labels and premium private labels will become under pressure, as consumers look for cheaper alternatives. The negative consumer climate will be basically caused by a higher unemployment rate, declining disposable household income, and negative future attitudes. The share of the discount segment will further increase; trade organizations will prove their price competence via enlargements of discount assortments. Market conditions will further amplify the competition within the trade sector.

In contradiction to the assumptions within the trend scenario, the trend line will therefore move towards the pessimistic scenario. Future developments can be included into the forecasts as long as they are incorporated into the scenario funnel; this is a major advantage of the scenario technique. If the analysis is carried out cautiously and carefully then different future paths are considered at the time of forecast. The financial and economic crisis may therefore be considered to be a disruptive event within the scenario analysis, which leads to a different trend line in fig. 3.

![Scenario funnel 2008](image)

**Figure 3.** Scenario funnel 2008
**Discussion and outlook**

The forecast presented above shows how difficult it is to take a glance into the future, when considering complex systems. However, the scenario technique proved to be an adequate method for the likes of this study. The fact that different future paths may be included at the time of the forecast was of great significance to our case. No expert expected a dramatic development like the one we have today on global markets. The latter lead to modified strategies of the Austrian trade organizations; as a consequence the strategic focus concerning private labels was also modified (such as, increasing discount segment, private labels mainly as a low price alternative to national labels, etc.). However, the strategic options are still in line with the expectations of 2006, the shift towards the pessimistic scenario did not result in the invalidity of the outlook created in 2006.

From the scenario analysis we may assume that conflicts within the trade sector, between the trade sector and within the food processing industry will increase. To react on potential conflicts, proactive strategies seem to be advisable. Emphasis on long term relations, consideration of trust building elements, and adequate contractual agreements may make for a new deal or codex within the food sector, which could help to prevent a decline in the relations of business partners. Some food producers might now be willing to manufacture private labels by order and for the account of trade companies to make use of their free production capacities. However, this one sided dependency involves potential conflicts, which is only acceptable if food producers can form fair and trustful business relations. This may include co-operative product development, cautious assortment decisions (in accordance with deliverers concerned and all mutual agreements) leading to a long lasting, trustful business relation. Finally, this might help to endure the coming difficulties caused by the, in general, worsening economic situation of global food markets.

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