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The Effect of Generics on the Food Market Structure

Robert L. Wills and Rosanna L. Mentzer
(202) 447-6363

Generics—products in plain packages whose stark labels read “GRAPE JELLY,” “PAPER TOWELS,” or “SHORTENING”—have steadily grown in number on supermarket shelves since being introduced to U.S. consumers in 1977. Sales of generic products have expanded while breaking all the rules of successful branded food marketing: extensive advertising, enticing packaging, and a manufacturer’s or retailer’s logo.

How have generics done it? Their appeal is price. Generic products are usually priced 15 to 40 percent below the private label (store brand) and branded competition. The phenomenal success of these no-frills alternatives has shaken up their product markets.

Growth of Generics

U.S. food stores responded quickly to the introduction of generics. By October 1978, 12 percent of all supermarkets offered some generic items, according to Timothy Murphy, an industry analyst. That share has steadily increased—reaching 35 percent in 1979, and 51 percent in 1980. By January 1982, 80 percent of the Nation’s supermarkets were stocking some generics or generic equivalents. Generic equivalents, or neo-generics, are second-line private labels priced to compete with other stores’ generics. Together these products now account for 2 percent of food store sales, and an estimated \$4.4 billion in annual retail sales.

Characteristics

Analysis of data purchased from the A.C. Nielsen Company by USDA sheds more light on the generic phenomenon. The Nielsen data provide estimates of national sales for about 50,000 food and beverage items that were shipped from grocery warehouses in April and May of 1979 and 1980. The data are based on a sample of stores which account for about 1 percent of national sales and are representative of U.S. supermarkets in size, ownership type, and geographic distribution. USDA economists eliminated about 40 product categories that were incomplete because a significant por-

tion of those products were shipped directly to stores by manufacturers.

The USDA analysis compared several characteristics for three groups of product categories: the total sample which contained 384 categories, the 128 product categories that had generics in April/May 1979, and the product categories that offered generics a year later. This last group contains 54 product categories in addition to those categories with generics in 1979. The products included in this analysis were packaged processed foods because information on labeling of fresh meats and produce was not available.

While around 50 percent of stores carried some generic item in 1980, any particular generic item on average was carried by only 8.1 percent of the stores in that year. This percent of stores expanded between 1979 and 1980 for each group presented in table 1. The higher percentage of stores, 10.5 percent on average, carrying generics that were introduced prior to 1979 reflects the fact that product categories in which generics

Table 1. Average Percent of Stores Selling Any Particular Generic

Product Categories	1979	1980	Change 1979-80
All (384)	1.5	3.9	2.3
Categories with generics in 1979 (128)	4.5	10.5	6.0
Categories with generics in 1980 (182)	3.1	8.1	5.0

Source: Computed by the authors from A.C. Nielsen data for April-May, 1979 and 1980. Totals in the tables may not add because of rounding.



were initially introduced have experienced greater penetration.

Private label items make up a larger share of sales in product categories with generics than in other markets. Table 2 shows that private label foods had an average market share of 24 percent in categories where generics were also offered, compared with a 16 percent share on average for all products. Conversely, the market shares of the leading brands, those with the largest national sales, were smaller in product categories with generics than for all categories.

Private label items and generics both appeal to consumers who are sensitive to price. Therefore, it seems natural that generics should enter markets in which private label brands have been successful. Their success indicates an interest by consumers in low price alternatives and a lower probability that firms would take actions to make entry difficult for generics.

The food product categories with generics are larger in terms of total dollar sales than categories which do not offer generics (table 3). Average sales were larger for the product categories that had generics in 1979 than for the categories with generics in 1980. This suggests that the introduction of generics occurred first in the most popular

products and is spreading to items that compose a smaller portion of consumers' food spending. Consumers are more willing to experiment with products which they will not be stuck with for a long time if they are not satisfied. These tend to be products they purchase frequently.

Some analysts suggest that introducing a new variety is easier in product categories which are growing rapidly. On the other hand, consumers have more purchasing experience on which to base price and quality comparisons in stable, long established categories. Furthermore, categories that are large in terms of total dollar sales tend to grow slowly. These two factors contribute to the presence of generics in slowly growing categories. The average percent increase in sales between 1979 and 1980 was smaller in those categories with generics in 1979 than for the whole sample. And, average sales growth of categories with generics in 1980 was only slightly larger than the growth of the total sample.

Impact of Generics

In general, the introduction of generics did not increase total sales in the product categories; they displaced private labels or brand items, or both.

Several studies have looked at the relative impact of generics on private label and branded products. An A. C. Nielsen Company study found that for their sample of 50 food and nonfood categories, the initial generic growth was predominantly at the expense of private label items. Between 1979 and 1980, the 1.1 percentage point rise in generics' sales share was offset by a 0.9 percentage point decline in the private label share and a 0.2 percentage point decline in the brands' share. Between 1980 and 1981, there was a 2.7 percent increase in the share of sales by generics. This was offset by declines in private label and branded shares that were proportional to their share of sales. A Selling Areas Marketing, Inc. (SAMI) study of changes in sales shares of generic, private label, and branded items between May 1980 and May 1981, reported in *Private Label*, also suggested a proportional loss.

The result from the Nielsen data analyzed by USDA for the food product categories with generics in 1979 was startlingly different. While the average generic market share rose 0.75 percentage points, the brands' share also increased by 0.60 points and private labels' share of sales fell 1.35 points. The average increase in the brands'

Table 2. Average Market Shares for Largest Brands and Private Labels

Product Categories	Leading Brand			Number 2 Brand			Number 3 Brand	Number 4 Brand	Private Label			Generics		
	1979	1980	Change 1979-80	1979	1980	Change 1979-80	Change 1979-80	Change 1979-80	1979	1980	Change 1978-80	1979	1980	Change 1979-80
All (384)	45.40	45.93	.53	15.31	15.20	-.10	.10	.08	16.97	15.98	-.99	.35	.77	.42
Categories with generics in 1979 (128)	35.27	36.31	1.04	14.66	14.17	-.49	-.02	-.08	26.37	25.02	-1.35	1.05	1.80	.75
Categories with generics in 1980 (182)	36.37	37.18	.81	14.33	13.76	-.57	.06	-.02	25.06	23.85	-1.21	.74	1.63	.89

Source: Computed by the authors from A. C. Nielsen data for April-May, 1979 and 1980.

share was almost the same for all products (0.57 points) as it was for the group with generics. This suggests that nearly all generic growth among processed food categories between 1979 and 1980 was at the expense of private label items.

The discrepancy between USDA's analysis and the other two studies may be due to several differences. The Nielsen study looked at a much smaller group of product categories. Their sample included paper

products and household supplies as well as food. Also, both the Nielsen and SAMI studies cover different time periods. It is not clear what impact these differences would have. Although the SAMI study and the USDA analysis looked at a similar group of products, SAMI included categories in which a large proportion of product sales did not pass through warehouses. Branded products in many of these categories experienced large declines in sales shares. Because there may not have been

similar declines for branded items delivered directly to stores, product categories characterized by direct store delivery were not included in the USDA analysis.

Distribution of sales among branded items in the USDA analysis was apparently affected by the presence of generic competition. Overall, the leading firm in each product category increased its share by 0.53 percentage points between 1979 and 1980 (table 2). The increase was higher, 1.04 percentage points, in products with generic competition. This was partially offset by declines in the second through fourth largest brands. Surprisingly, the combined share of the fifth and smaller brands fared relatively well where they compete with generics.

Several factors may help explain this apparent success of the fifth and smaller brands. It appears that some of these brands are regional leaders. Thus, although their share of national sales is small, within a limited geographic area they enjoy the same high quality image and dominant sales positions as the leading brands. Other small brands in the sample may offer variations of the product which do not compete directly with the generic items. Most importantly, some of the small brands may be

Table 3. Two-Month Average Market Sales and Growth

Product Categories	1979	1980	Growth 1979-80
	1,000 dollars		
All (384)	21,620	24,969	15.49%
Categories w/generics in 1979 (128)	43,406	49,531	14.11%
Categories w/generics in 1980 (182)	37,951	43,983	15.89%

Source: Computed by the authors from A. C. Nielsen data for April-May, 1979 and 1980, projected to U.S. totals.

Table 4. Average Percent of Stores Selling the Largest Brands and Private Labels

Product Categories	Leading Brand			Number 2 Brand			Number 3 Brand	Number 4 Brand	Private Label		
	1979	1980	Change 1979-80	1979	1980	Change 1979-80	Change 1979-80	Change 1979-80	1979	1980	Change 1978-80
All (384)	63.5	63.7	.2	39.6	38.8	-.8	-.7	.1	35.3	34.2	-1.2
Categories with generics in 1979 (128)	75.7	77.2	1.5	57.4	54.8	-2.5	-.4	-.7	63.4	62.2	-1.2
Categories with generics in 1980 (182)	73.5	74.4	.9	52.9	51.1	-1.7	-.5	-.4	58.3	56.9	-1.4

Source: Computed by the authors from A.C. Nielsen Data for April-May, 1979 and 1980.

new low-priced brands introduced by leading manufacturers to meet the generic competition. Sales growth for small brands due to these factors may have offset declines in the sales of other small brands within the combined category.

Industry analysts have suggested that generics replace some brands in stores. Already generics may be reducing the percent of outlets selling the second and fourth brands. The percent of stores carrying the leading brand increased an average 0.2 percentage points overall from 1979 to 1980 but increased by 1.5 percentage points in the product categories which had generics in 1979 (table 4). And, although the average sales share of the leading brand was lower in product categories with generics, the average percent of store carrying the largest selling brand was 77.2 percent in 1980 for those categories, compared with 63.7 percent of the stores overall.

On the other hand, the percent of stores selling the second through fourth brands and private label items declined in the product categories with generics in 1979. However, only for the second and fourth brands was the decline substantially more in markets with generics than overall. In conclusion, in the USDA analysis the national leaders appear to be benefitting from the shakeup caused by the introduction of generics.

The Future of Generics

National opinion surveys by the Roper Organization show that more consumers are trying generics (63 percent in 1980, versus 48 percent in 1979). They are also becoming more discriminating in terms of product quality. Consumers apparently find that some generic items serve the purpose of the products as well as their branded competition. In 1980, 13 percent of the shoppers who had tried generics mentioned that some generics are as good or better than branded equivalents, while others are not. The Roper Organization reported that no shoppers had given this judicious mixed response in 1979.

The upheaval in the food industry, stimu-

lated by the introduction of generics, is continuing. Generics have most often entered markets with high private label shares. They have been least successful in markets in which one or two brands have a high market share, such as soft drinks and canned soups. Brands with high market shares may have been successful in building strong consumer loyalty. They may have sold at prices which other firms could not undercut sufficiently to attract customers. They may also benefit from patents or formula secrets which have given them an insurmountable quality advantage. The same factors which help them exclude generics are those which have enabled brands with large market shares to exclude private label and other competitors.

Some leading brands with large market shares appear to be potentially more vulnerable to serious erosion of their market shares than the above analysis would suggest. The SAMI study states that among the few retailers handling generic potato and corn chips, generics have captured 39.8 percent of the potato chips sales and 43.6 percent of the corn snacks sales. A trade publication reports that in 1980, generics in Canada's Loblaw stores did very well against such dominant brands as Pampers, Tide, Maxwell House, Kraft, Ritz, and Perrier water. In the future, generics may make substantial inroads into categories in which profit margins are generally high and production in relatively small quantities is not difficult.

On the other hand, the introduction of generics in a product category prods retailers to reevaluate the items they have been selling. Each item must justify itself in terms of its contribution to the retailer's profits. Some items will continue to be eliminated as they fail to meet this market test.

Several major retailers have introduced hybrids or neo-generics (Safeway's Scotch Buy, A&P's P&Q, and Kroger's Cost Cutter) to promote store loyalty. Neo-generics are priced below national brands and private labels to compete with generics. Yet they are similar to private label in that they display the store's name on their labels. These neo-generics give price-sensitive shoppers items that carry the store's

reputation for value. Neo-generics blur the distinction between generics and traditional private labels. Since industry analysts, including Nielsen, classify neo-generics as private labels they mask the trends and may make it appear in the future that generics are losing favor. In fact, it is unlikely that their share will decline.

Retailers have replaced the plethora of private label names with one or two well identified private label lines. They have clarified the price-quality relationships among the brands, private labels, and generic or neo-generic varieties that they sell. Generics and neo-generics have demonstrated that a clear image and rock-bottom prices attract a sizeable group of customers. In the process, generics and neo-generics have replaced many low quality private labels and become a permanent item on retailers' shelves. ■

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