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# Marketing



## GENERIC LABELING

By Charles Handy and Naaman Seigle

One of the newest competitive tactics adopted by many food retailers is the introduction of 'generic' or 'unbranded' products—also known as no-name and no-frills. Traditionally, retailers have sold two major types of brands: national or name brands, and store brands (private labels).

National brands usually receive heavy promotional and advertising support from their manufacturers and feature top quality and product image. Store brands are generally well established products, approximate to national brands in quality, feature economy and low price, and receive considerably less advertising support than national brands.

In recent years, however, the price differential between national brands and store brands has narrowed from an average of about 20 percent to about 13 percent. At the same time, continuing food price inflation is making many shoppers more price and value sensitive.

Introducing generic products is one way retailers can develop a more distinctive low-price image and offer consumers a greater choice in price and quality.

Generic products come in plain packages and carry no brand names or trademarks. The labels are generally black and white with bold lettering, state only the basic name for each product such as 'sweet peas,' and the essential complementary information such as ingredients, net contents, and name of manufacturer or distributor.

### Who Sells Generics?

Generic products, first introduced in late 1977 in the Chicago market, have quickly spread throughout the country. By the spring of 1978, over 20 retailers carried generic labels, and by mid-summer the ranks had swelled to approximately 100 firms. USDA contacted and interviewed 15 chains and 3 wholesalers that

handled generics. These firms generally said that generics are carried in most of their stores. Some large chains and wholesalers say it is up to their individual divisions or members whether or not to carry generic products.

Generic items carried by food stores number from around 10 to 100, but most stores carry between 25 and 50 of these products. Many retailers said they may slowly increase the number of items but had no plans to expand beyond 45 or 50. Retailers generally carry only one size of any item.

Virtually all firms carry some type or style of canned corn, beans, and peas. Other popular food items are canned tomatoes and tomato products, canned fruits, canned fruit and vegetable juices and drinks, packaged macaroni and cheese dinners, and larger sizes of dry pet foods. Carried less frequently are ready-to-eat cereals, baking needs—including oils and shortening—tea bags, peanut butter, mayonnaise, cheese, and packaged processed meats.

Among non-food generic products, paper goods are the best sellers, followed by laundry and dish detergents, plastic wrap, sandwich bags, and trash bags.

Most retailers place all generic products together in the store in one mass display. This makes the plain wrapped generic products highly visible and helps set off their distinctiveness. This display technique, however, makes it more difficult for shoppers to compare prices of generic products with their name brand and store brand counterparts.

Retailers contacted were generally satisfied with initial generic sales and expected sales to increase. But many stressed it was too early to assess trends.

One major unanswered question is the number of repeat sales. Having once tried generics, how many customers will regularly include them in their shopping lists? Many retailers claimed there was little or no drop-off in sales of private label or name brands due to the introduction of generics, though others say they have lost some private label and name brand sales to generics. One large regional chain said generics reached a sales peak in about 6 months and have since leveled off.

### What About Prices?

Available evidence shows that generics offer substantial savings over national brands and first line store brands. Specific price data are difficult to obtain, however. There are two published studies on this topic: one in the February, 1978 *Progressive Grocer*; the other in the June, 1978 *Consumer Reports*. Findings from these studies plus results of our telephone survey are summarized in table 1.

The Progressive Grocer study compared a shopping list of 30 food and nonfood items in one Midwest chain. Generics averaged 39 percent below national brands and 20 percent below the store brand. The Consumer Report article compared a shopping list of 16 food items in a single eastern food chain. This study found that

TABLE 1.—AVERAGE SAVINGS OF GENERICS

Study	Average savings of generics	
	Over store labels	Over national labels
	Percent	
USDA estimates from telephone survey	15	25
Consumer Union study	19	30
Progressive Grocer study	20	39

prices of the 16 generic food items averaged 30 percent below national brands and 19 percent below the chain's store brand.

Retailers contacted by USDA generally said price differences between generics and national and store brands were a little less than reported in the two studies above. Responses from these retailers indicate that consumers can expect to save an average of 25 percent over national brands and about 15 percent over store brands. These savings are averages. Savings can vary considerably—from no savings to over 50 percent, depending on the individual product and retailer.

Typical savings offered by generics over name brands for 13 food items are shown in table 2. Average prices were computed for each product over the 3-week period April 23-May 13, 1978 from major grocery ad books. Savings from these generic products ranged from a low of 8 percent to a high of 42 percent. Thus shoppers should compare prices in their own stores to verify savings for particular items.

### Profit Margins

Of the five retailers who would comment on profit margins, three said they receive their 'normal' or 'traditional' margins on generic products. One said he had no intention of using generic products as loss leaders and another said margins on generics were a little lower than margins on store brands. While USDA has no firm data, these interviews plus trade

reports indicate that lower prices for generics do not come primarily (if at all) from below normal margins. That is, generic products are not less expensive simply because they are 'loss leaders.' Where, then, do savings come from?

### Sources of Savings

Then come primarily from three sources: (1) product quality (cheaper ingredients); (2) reduced advertising and promotion; and (3) less expensive packaging and labeling.

*Quality.* All retailers agreed that the standard minimum specification for generic food items was USDA Grade C, with some Grade B to fill in where needed. National brands and top line store brands, on the other hand, use primarily Grade A and some Grade B. One retailer said grades for generic products were 80 percent 'C' and 20 percent 'B', while their private label was about 80 percent Grade A and 20 percent 'B'. All three grades are safe, wholesome, and nutritious and are packed under the same sanitary standards.

The use of USDA grade standards and inspection service is voluntary, and is paid for by the user. But most canned and frozen fruits and vegetables are packed and priced according to their quality even though a Grade is not shown on the label. The USDA Grades B and C are acceptable quality for table use, cooking, and casseroles, sauces, tarts, puddings.<sup>1</sup> Grade C products may have less uniform size, color, texture, and maturity.

A major source of savings is the substantial wholesale price difference between Grade C and Grades B and A. Grade C is typically priced from 10 to 35 percent below Grade A. For example, in June 1978, the wholesale list price of whole kernel corn per case of 24/303 cans was : Grade A, \$5.50-\$5.75; Grade B, \$5.30-\$5.50; and Grade C, \$4.25-\$5.30. This represents a price difference between Grade A and C of up to 26 percent and does not include any discounts or allowances which are often negotiated.

Many retailers said they would not go to a Grade B product if they ran out of Grade C; others said they would use higher grades temporarily and not raise prices; a few said they would raise prices of generic products if they had to use higher grades. There is some concern that there will not be enough Grade C products to meet the increased demand from generic products. It is estimated that about 10 to 20 percent of the fruits and vegetables packed each crop season are Grade C, depending on disease, weather, prices, and other factors.

*Advertising.* While our research showed that reduced or no advertising of generics contributed to savings, it is probably less than that due to using less expensive ingredients. National brands are the most heavily promoted. Retail prices of national brands support not only national advertising campaigns, but also the more costly and complex sales distribution networks and new product development activities of these firms.

Store brands avoid much of the new product development and introduction costs by imitating established national brands. While advertising expenses for store brands are considerably less than for national brands, store brand advertising has increased in recent years. This probably contributed

in part to the narrowing price difference between store and national brands.

Most retailers stated generics received strong advertising support only during the initial two week "kick-off" campaign. During this period retailers advertised generics heavily in local newspapers and radio or television and some held press conferences. About one-half the retailers contacted said they planned no regular advertising after the kick-off campaign, instead relying on in-store point-of-purchase promotion. The other half said they planned follow up reminder ads about every two weeks in addition to in-store promotion.

*Packaging/labeling.* Almost every retailer interviewed said cheaper packaging and labels were sources of savings for generic products. Many said they used any suitable package available, (can, jar, or plastic) depending on the

best buy. Lighter weight packages, some with slight imperfections, and more utilitarian packages (no spouts, protective coatings, or pull tabs), were used. One retailer reported their generic packaging costs were up to 15 percent less than for their private label or national brand products.

Generic labels are black and white, printed on lighter non-varnished paper. They contain no back labels on glass jars, and minimize design, photography, and lithograph expense. Plainer generic labels, however, represent only a very small source of savings. The cost difference between color and black and white labels is a one-time set up cost of about \$150 for black and white compared to \$500 for color.

Some savings also come from limiting selection to only one size for each generic product. This helps reduce handling, ordering, and warehousing costs.

TABLE 3.—SAVINGS OFFERED BY GENERIC LABELS OVER NAME LABELS FOR 13 FOOD ITEMS

Item	Size	Name brand	Generic label	Savings offered by generic <sup>1</sup>
				Percent
	Oz.		Cents	
Corn, whole kernel	16	32	23	26
Sweet peas	17	33	21	42
Cut green beans	16	34	22	39
Tomato catsup	32	88	65	29
Tomato sauce	8	20	16	20
Fruit cocktail	17	45	39	8
Fruit cocktail	34	85	65	12
Cling peaches	29	59	45	20
Apple sauce	16	34	31	10
Peanut butter	18	105	75	28
Grapefruit juice	46	53	49	8
Dry roast peanut	16	136	105	24
Macaroni & cheese	7½	26	20	22

<sup>1</sup> Percent savings calculated on a per ounce bases to compensate for slight differences in package size between generics and name labels.

Source: Major Grocery Ad Books, April 23-May 13, 1978, Majors Corp., P.O. Box 549, Omaha, Nebraska 68101

<sup>1</sup>How to Buy Canned and Frozen Vegetables, H&G 167, Food Safety and Quality Service, USDA, Nov. 1977.

## Retailers' Response

Introducing generics is one of several marketing strategies retailers can use to attract price oriented consumers, provide a wider price-quality choice, and create a low price store image. Some adopt generics as a defensive measure to prevent lost sales to competitors. While generics have spread rapidly, there are still many markets in which they are not available. Many retailers have not followed the trend to generic labels. Some are choosing to compete with generics by lowering prices on some of their existing store brand products. Others are consolidating their second and third line store brands into a new store label that is similar to generics in quality and price but will retain the retailer's label. In any case, the consumer benefits from reduced prices.

Some problems with generics have been noted. Separate displays of generics make price comparisons difficult, although still possible. Some retailers are getting complaints on uneven quality, though most customers seem satisfied. Retailers need to stress quality control programs and make consumers aware they may be purchasing a product that, while wholesome and nutritious, may not be of the highest quality. Some out-of-stock problems may occur if supplies of Grade C run low.

In summary, generics generally cost significantly less than national store brands. While generics often use lower grade ingredients, the quality difference from the consumers' point of view may not be that significant. It is still too early to measure the long run success of generic labels. Initial sales show generics have hit a responsive chord with many consumers. It is up to each consumer to decide if the savings offered by generic products represent good value.

## BE A BETTER SHOPPER—BUYING IN SUPERMARKETS

By Evelyn F. Kaitz

The key to consistently spending less at the supermarket is to develop a food-buying system.

Heinz B. Biesdorf, a consumer economist at Cornell University, has written a guide to help the consumer save money by applying a few money-saving tricks. Biesdorf says that the food purchase guide entitled, 'Be a Better Shopper' can consistently save the consumer 10 to 15 percent in the supermarket. To get started the food shopper needs some 'start-up' money, some extra time, and some extra storage space.

The premise of 'Be a Better Shopper' is to 'buy when the price is right, and buy in quantity for future use.' The program also advocates keeping records of food purchases as an aid in learning to recognize specials and to distinguish them from advertised products at regular price. Color-coded record sheets with categories for meats, vegetables, dairy products, beverages, and the like are provided as part of the kit when the publication is purchased. The food-buying system described is not restricted to food only, but is applicable to any kind of buying.

To learn more about comparison shopping, supermarket specials, store brands and national brands, labels and packaging, unit pricing, open dating, record-keeping keeping and more—a copy of the Cornell Extension Bulletin 86, 'Be a Better Shopper—Buying in Supermarkets' can be ordered by sending a check or money order payable to Cornell University for \$2.50 with your name and address to Better Shopper, Box 191, Dept. M146, Ithaca, New York 14850. The price includes shipping and handling.

## AN UPDATE ON SUPERMARKET SCANNING

By Jon Weimer

Four years ago a Marsh supermarket in Troy, Ohio, became the first in the United States to use scanners. Many observers contended that the introduction of this technology would quickly revolutionize the supermarket industry.

This would be accomplished by computer-assisted electronic cash registers with laser scanners that 'read' universal product code (UPC) symbols on package goods and retrieve from computer storage the item identification and price. The store would presumably improve inventory control and lower front-end labor costs, while increasing revenues by reducing errors at the cash register. The benefits to consumers expected with this technology included lower prices, faster checkout, more accurate totaling of purchases, a detailed transaction tape, better merchandise selection and fewer stockouts, and generally quieter and more pleasant surroundings (5, 9).<sup>1</sup>

Scanning manufacturer representatives were predicting that front-end scanning would be quickly implemented in food supermarkets throughout the country. A widely circulated estimate was that there would be 7,500 installations by the end of 1975 (4).

The actual number of scanner installations, however, has fallen short of manufacturer expectations. As of June 1978, only 309 supermarkets were fully equipped in this country (an additional 9 have been installed in Canada) (table 1). Seven food firms have about 40 percent of all installations; 15 States have over

<sup>1</sup>Numbers in parentheses are used to identify references at the end of the article.