Death knell or rebirth?

Building FMCG brands in the age of the discounters

The privilege of living and working in Munich for two years gave Richard Nall a dispassionate position from which to judge the UK retail scene on his return. Having supported a number of CEOs in the last two years, he believes that all is not rosy, and that companies are struggling for answers to current market turbulence. In this interview, he gives an alternate view of the UK retail market situation and suggests a route forward for brand owners. >>

The proximity battle

The exceptional job that traditional multiple grocers did in reinventing the convenience, or proximity, shop is well recorded. For this, they deserve high praise and yet, following the law of unintended consequences, they also enlarged the window of opportunity for Aldi and Lidl through sensitising shoppers to the experience and value of being able to shop for high quality goods, at reasonable prices, locally.

The 2008 financial crisis accelerated the inevitable as consumers responded to the quality propositions of the discounters, moving spend away from the multiple grocers, whose recognition of the need to change value propositions came slowly and late.

The UK is not Germany...yet

In trying to foresee the UK retail scene of 10 years' time, a trip to Munich might do wonders for your introspection. There is no particular reason for choosing this lovely city but you might as well take in the opera, Viktualenmarkt and the Hofbrauhaus whilst you are there!

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Remember Aldi and Lidl have a 40%+ share so visiting Real or V-Markt will be instructive. You will see a very different retail landscape. You might notice two things amongst others: the large amount of space given over to Home & Gardening (suggesting Mike Coupe might be onto something with HRG) and the seemingly random allocation of space to categories and brands.

You will note that categories such as dairy and alcohol are thriving and brands such as Tempo hankies and Milka chocolate appear to have intriguingly large amounts of space; a seemingly 'distorted' space allocation in comparison to UK norms. The truth is that these retailers back the categories and especially the brands that support an appealing, differentiated offer for which shoppers will treat them as a destination. Aside from these, ranging is also very tight.

> "...the inconvenient truth is that there has never been a time when [UK retailers] have needed powerful, distinctive brands more to help differentiate offers and attract shoppers."

Back in Blighty, whilst discounter share in some categories is racing towards 20%, the traditional multiples have busily pillaged suppliers' P&Ls to prop up profitability. Yet the inconvenient truth is that there has never been a time when they have needed powerful, distinctive brands more to help differentiate offers and attract shoppers.

False economy and earning reward

And herein lies the rub. Too many FMCG companies, whilst proudly broadcasting brand guardianship, have been undermining those very bastions of long term profitability through one or more of: cost-engineering dressed up as quality improvement, excessive promotional activity to sustain volumes, and inconsistent application of basic branding principles.

Please indulge me for a moment. My father retired some time ago. He has always had a sweet tooth. He has bought a certain impulse brand since before I was born... until a couple of years ago. He rang to tell me what he thought (he's always been very good at that!) of those who had cheapened his favoured purchase in that renowned 'new improved' way. He used to be intensely loyal to that brand but, alas, no more. In fact, when I quizzed him in preparation for our discussion, he hadn't purchased it since. He has damned them to hell... and they can surely stay there. He has replaced it with a much better, and cheaper, Lidl product.

As Adam Morgan noted in his seminal book Eating The Big Fish, brand leaders have always been masters of 'being just good enough' whilst the poor old follower has had to over-commit in order to gain traction. Worryingly, not only brand leaders' but also brand followers' short-term tactics to boost profitability have resulted in them gaining the perception of 'not being good enough', significantly undermining their performance and brand power as a consequence.

The great benefit of observing new brands emerge is that they remind us precisely what we should cherish about our own. Whilst attractive packaging does all the pre-trial work, it is the product's quality that converts this from an unknown, risky one-off into a must-have discovery to be recommended to friends and family... and leads to the next entry in the sales ledger... and the development of intangible brand value. Consider Innocent or Yollies.

In other words, we all know that financial performance is the direct reward of providing products that our customers need, want, and for which they will return in future... but we ignore the evidence in front of us, and myopically covet the numbers in our latest P&L report.

Driving consistent, superior profitability

Luckily, there is clear evidence that superior profitability comes from focusing back on the basics. In their excellent 2013 Harvard Business Review article 'Three Rules for Making a Company Truly Great', Messrs. Michael E. Raynor and Mumtaz Ahmed from Deloitte LLP analysed in excess of 25,000 companies listed on the US exchanges between 1966 and 2010 to understand how companies with superior profitability

Market snapshot

UK

A relatively positive start to 2016, following a long needed stint of consistent economic growth in the UK, gradually waned after Q1 as insecurities regarding the June referendum on EU membership began to seep into consumer and business consciousness. Consumer confidence, which had remained high up until April took a tumble in May and that coincided with a slowing down of GDP growth – lower in fact than the overall growth of the Eurozone.

Although the prospect of a Brexit was certainly one of the likely reasons behind this turn of fortunes, moderate demand for British goods leading up to the mid-point of the year also had an impact. Businesses may be cautious making investment decisions in the uncertainty following the vote and as a consequence, the UK's growth projection for 2016 will be lower than expected at the end of the year.