Woolworths' plan to rebrand its private label ranges in an attempt to meet changing shopper demands and combat the growth of Aldi will simply play into the hands of this German discounter.

This new strategy, a replication of what Coles did in November 2015 , will see their existing "Homebrand" and "Woolworths Essential" product ranges combined under the "Essentials" brand name. However, in focusing on price and private label ranges, supermarkets are in a race to the bottom where there are no points of difference in products except for price.

The risks with the private label strategy

The fastest, although not the smartest, way to compete with a competitor like Aldi is to replicate; and that's exactly what Woolworths and Coles have been doing for the past five years . With both major supermarkets driving a message of "price" and increasing their private label ranges, more shoppers also started frequenting Aldi .

Internationally, grocery discounters like Lidl and Aldi continue to steal market share from the major full-line supermarkets , while supermarkets continue to discount heavily. The practice of deep discounting and private label expansion limits the differentiation between the grocery players and accordingly reduces shopper loyalty . As such, with no supermarket providing a point of difference, more and more customers simply shop around for the lowest price.

The problem with "no-name" products

Franklins No Frills was Australia's first low-cost grocer, with a narrow range of very low priced, generic, “no-name” grocery products . This concept of "no-name" products was new to Australian shoppers at the time and Franklin's market position initially worked in its favour.

However, Aldi's entry into the Australian market in 2001 changed the way we looked at private label products. While Woolworths "Homebrand" and Coles "Smart Buys" prices were generally as cheap, if not cheaper than similar entry-level private label products at Aldi, consumers considered the quality of these basic “no-name” products to be substandard to higher tiered private label products.

These lower perceptions are related to packaging. In a low involvement, routine shopping task, supermarket shoppers will often employ simple logic (often brand or price) to determine quality and aid selection.

Woolworths “Homebrand” and Coles “Smart Buys” were designed in plain packaging with no pictures to infer low price. However, shoppers also related low price and plain packaging to mean low quality.

In contrast, Aldi’s private label ranges mimic nationally branded products . As such, shoppers perceive Aldi’s private label ranges to look similar to the nationally branded alternative and correlate quality. The lower price then creates a positive value experience for the shopper.

Woolworths’ new strategy equally is about improving perceptions of brand, through new packaging, while maintaining, or even lowering price.

The rise and rise of supermarket private labels

Aldi has legitimised private label products and forced other players to lift their game . This left Coles and Woolworths scrambling to improve the quality and packaging of existing home brand ranges
.

Where once private label grocery products were considered a “cheap and nasty” alternative for the branded product, supermarket quality assurance teams have changed this mind set. Today’s supermarket private label products, offer quality on par with national branded alternatives, with some, so closely resembling the market leader, one would be forgiven for grabbing the wrong box
.

Australian consumers appear to be warming to the supermarkets' private label products. Research last year indicated that the number of Australians who tend to buy private label groceries over big name brands rose from 44% to 65% in the space of just six months. In comparable markets, like the UK, the proportion of private label sales is almost at parity with national branded products and across Europe, countries like Switzerland and Spain have already reached more than 50%.

The strategy of increasing the proportion of private label products will meet the needs of shoppers who seek value over brand, but also provides sufficient margin to allow supermarkets to slash prices further.

How will private label impact supermarkets in the future?

When it comes to choice in the supermarket, some is certainly better than none, but more is not necessarily better than less. Australian shoppers can expect less choice in the supermarket of tomorrow and this may not be a bad thing.

For many years, Australian supermarkets promoted vast ranges of brands and products, believing that broader, deeper ranges would satisfy shoppers. However, recent research suggests that, psychologically, this assumption was wrong . In fact, shoppers faced with excessive choice found it difficult to choose and were less likely to purchase.

Aldi has demonstrated the power of “less” . Selling only 1700 products, the supermarket’s small ranges may deliver less choice, but saves shoppers time, this creates less confusion and satisfies most.

Globally, where German discounters like Aldi or Lidl have entered the market, incumbent supermarkets have slashed range. Recently, Tesco cut 20,000 product lines from their 90,000 range , similarly Coles in 2012 reduced its range by some 7,000 products.

While this strategy responds to customers who are looking to make their grocery shopping more efficient, it also reduces supply chain costs for supermarkets.

Gary Mortimer does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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