Executive Insights

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New Brands, Big Brands and the Battle for Consumer Spending

For decades since the "Mad Men" era of the 1960s, big brands have dominated consumer goods. Large advertising budgets and benign terms with retailers have left smaller competitors unable to challenge market leaders for product awareness and sales.

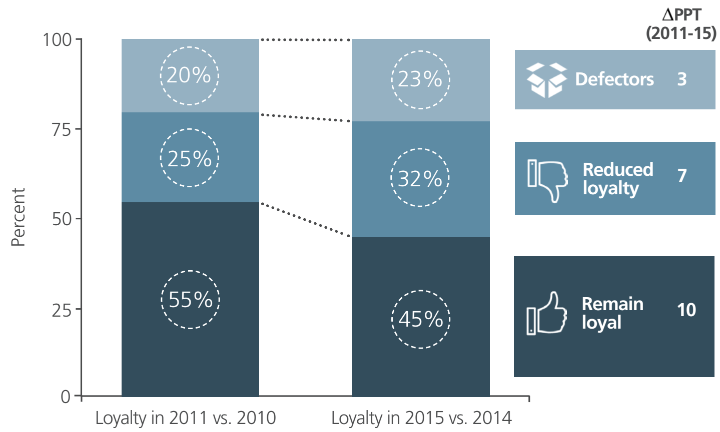
Yet consumers are showing signs of increasingly promiscuous shopping habits. Millennials especially, born between 1980 and 2000, are using technology and online advice to secure the best deals. Internet-based distribution channels and new marketing models are becoming crucial in the fast-moving consumer goods (FMCG) sector.

These changes mean small brands are beginning to punch above their weight, and there is a growing perception that they pose a serious threat to the existing order. How are they doing this, and what can the big brands do to defend themselves?

Analysts are increasingly voicing concerns about the performance and sustainability of the top FMCG brands. Research by Catalina, a retail and digital marketing agency, compared changes in loyalty to packaged consumer goods between 2010 and 2011, finding that 55% of customers remained loyal to big brands across the two years. But when 2014 was compared with 2015, loyalty had slipped to 45% (see Figure 1).

Indeed, in North America, small brands now account for the largest proportion of growth in FMCG sales at 47%, with large brands representing 29% and medium brands 24%.

Figure 1
Loyalty and defection for big brands in consumer packaged goods (2011-15)



Source: Catalina Research

The pivotal factor in the growth of the small brands has been the internet and social media. As online services and mobile apps have proliferated in the past two decades, online channels have become increasingly important — both in distribution and marketing.

Combined online retail spending in the U.S. and European Union has almost doubled in the past four years, from £279 billion in 2013 to £547 billion in 2017. That represents a compound annual growth rate of 18%. Expansion has been especially large in the U.S., where online spending more than tripled from £101 billion in 2013 to £354 billion in 2017.

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L.E.K.

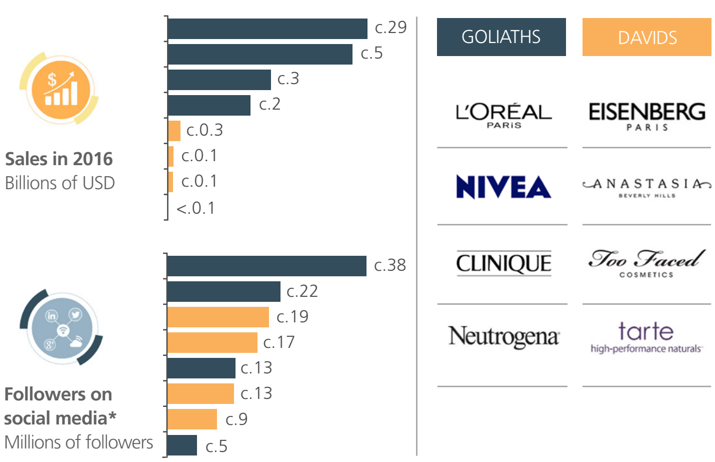
Yet while online retail offers consumers convenient ways to shop — and shop around — social media platforms have also become crucial tools for promoting products and engaging customers, and not only among tech-savvy millennials. Facebook influences 52% of purchases, both on- and offline, according to a survey of e-commerce in 17 countries by digital marketing agency DigitasLBi.

Most importantly, social media engagement can be achieved regardless of brand size and market position. Where FMCG brands once relied on expensive aisle space to reach customers, smaller brands have proved highly effective at building online relationships with customers, often attracting social media followers out of proportion to sales figures.

Neutrogena, for example, a global cosmetics and skincare brand founded in 1930, has almost 5 million followers on Facebook. Too Faced Cosmetics, launched as recently as 1998 and with a fraction of Neutrogena's revenues, has already amassed 2.9 million followers (see Figure 2).

Figure 2

Social media platforms level the playing field for smaller brands



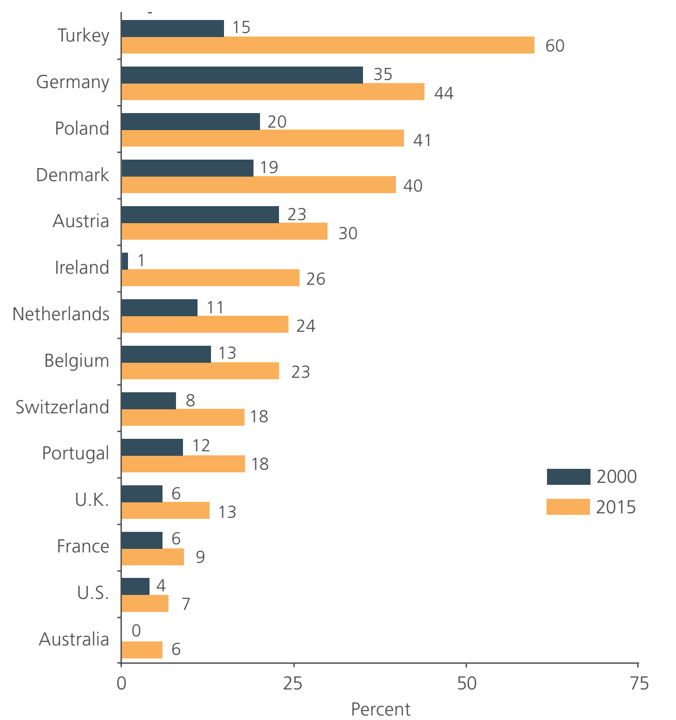
Notes: *Total combined number of followers on Facebook, Instagram and Twitter
Sources: Facebook; Instagram; Twitter; Brand Finance; Forbes; Euromonitor; Wells Fargo; Trade Press

Meanwhile, big brands' in-store sales are being squeezed by a rise in discounting. In the U.K. grocery market, for example, stores such as Aldi and Lidl have gained share from established outlets such as Tesco and J. Sainsbury. In 2000, discounters represented just 6% of the U.K. grocery market; by 2015, the figure had grown to 13%. The trend is reflected in many other countries, too. In Germany, discounters rose from 35% of the grocery market in 2000 to 44% in 2015 (see Figure 3).

Smaller brands are also proving nimble, as outsourced manufacturing allows access to scale and lean processes shorten product life-cycles.

Figure 3

Grocery discounters' market share in selected markets (2000-15)



Source: Planet Retail

There is no doubt that these developments present significant challenges for big FMCG brands. Yet there is also reason to believe that big brands can remain successful — if they are correctly managed. Though small brands are making headway, many believe that the level of intrusion is limited. Scaling, for instance, remains a significant challenge for many small businesses.

Big brands must address four key areas:

1. They must be clear on what they stand for.
2. They must ensure they represent quality and value for money, especially among bargain-hungry millennials, whose affluence and market importance are growing.
3. They must build innovation capabilities to ensure they stay relevant.
4. They must become at least as good as their smaller rivals in using technology and consumer channels. This means harnessing data and insight to reinvent customer engagement.

The overall strategy is about coming to life in the hearts and minds of consumers. By doing so, big brands can continue to compete with smaller rivals and prove that they still have plenty to offer.

About the Authors

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