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Consumer News

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Consumers Opt For Private-Label Products

A new trend in consumer buying habits is surfacing, and if the experts are correct, the trend could end up saving shoppers a lot of money at the checkout counter.

During the recession, many consumers tried private-label, or store brand products, in an attempt to save money. Once they realized that the private-label products usually delivered the same quality for up to 50 percent less money, many consumers never went back to the brand-name products they used to buy.

Statistics show that consumers are becoming less brand loyal and more price conscious. In 1976, the percentage of consumers who claimed to stick to brand-name goods hit a high of 82 percent. But last year, that percentage hit an all-time low of 59 percent, according to an annual survey of consumer loyalty conducted by the advertising agency DDB Needham Worldwide, Inc.

Apart from price considerations, the departure from brand loyalty can also be attributed to the increasing choices a consumer now has. The variety of private-label goods available has never been more plentiful; these store brands now make up 18 percent of what supermarkets sell nationally, up 3 percent since 1987.

"More and more, consumers are saying they don't need to buy a brand name," said Judith Langer of Langer Associates, which tracks consumer behavior. "Some brands do matter to consumers for products such as deodorants, coffee or detergent. But consumers are only semi-loyal to many brand-name products. They look for bargains and low prices."

Consumers are looking for more than just low prices, however. They also want good quality. The current trend probably occurred only because private-label brands have improved dramatically since they were introduced in the 1970s as "generic" goods, packaged in white and black and usually far inferior in quality to their brand-name counterparts.

"Basically, in the last ten years, private label has really come into its own in terms of quality, better packaging, more marketing support," said Philip B. Fitzell, editor of a trade magazine and author of a book about private-label marketing.

However, private-label goods still cost less because companies avoid the high cost of advertising, which adds considerably to the price of brand-name products.

Manufacturing of the products varies from small, little-known companies to well-known manufacturers of brand-name products. For example, H.J. Heinz Co. is the world's largest supplier of private-label pet foods, including brands that compete directly with its 9 Lives brand-name cat food. While Heinz also makes soups, gravy, and pickles for private labels, it refuses to produce ketchup for anyone else's label.

But for a shopper, it is almost impossible to tell if a major brand-name or a small no-name company produced the private-label good. That is because most private-label goods only carry the name of the retailer, such as the grocery store, or the distributor. The name of the manufacturer rarely appears on the label.

So the best advice for consumers is to try the private-label item in a small quantity to see if they like it. "Try it. And if you have a bad experience, complain to the headquarters of the store. Hopefully, the stores will get the message that they must insist on quality," said Marcia A. Smith, who publishes the trade publication *Private Label News*.

Of course, this trend has made brand-name producers anxious. In an attempt to protect their premium brands from losing market share, two companies have announced price cuts. Philip Morris Cos. announced a promotional campaign that will cut the cost of its Marlboro cigarettes by 40 cents per pack, and Procter & Gamble Co. will drop prices on its Pampers and Luvs diapers by 5 and 16 percent respectively.

In the cigarette market, low-cost brands have increased their share of the market from 1 percent to 36 percent in the last 10 years. Brands such as Doral, Bucks, Viceroy, and Bull Durham can cost up to a dollar a pack less than premium brands.

At the same time, the number of people who smoke has dropped dramatically in the last two decades. In the past, cigarette makers have resorted to price hikes as high as 10 percent a year to make up for sales volume loss. But the price cut for Marlboros may signal an end to that practice.

"This is one of the most significant shifts in internal strategy of any consumer company in the last several years, if not the decade," said David Adelman, a securities analyst with Dean Witter. "American consumers have been trained to accept modest price increases [in cigarettes]. Now, that is going to change."

Marlboro is still the country's leading cigarette, commanding a 22 percent share of the market.

Procter & Gamble is the leader in the diaper market, with a 43 percent share. But newcomer Paragon Trade

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Brands has already captured 18 percent of the market since its entry just two years ago.

Because consumers did not abandon private-label products when the recession ended, many market analysts predict that other brand-name companies will also start to feel the pinch and lower prices on their goods. If their predictions are correct, this consumer-driven demand for lower prices could change the shape the consumer goods market — and save consumers a lot of money. ❖

When Disaster Strikes, You Can Lose More Than the Roof Over Your Head

In a move that will make property insurance more costly and more difficult to obtain, insurance companies increasingly are limiting coverage in areas of the country that are prone to natural disasters such as hurricanes and earthquakes.

Hardest hit will be the owners of houses, condominiums, and apartments in Florida, where insurance companies paid out $16 billion after Hurricane Andrew wreaked havoc in Southern Dade County in August 1992.

But the insurance companies say they will also limit policy writing in other areas of the country prone to violent storms or other natural disasters: New York's Long Island and New Jersey's coastal shores, California, Louisiana, and Hawaii. By limiting the number of policies they write, insurance companies are hoping to reduce their risk in case another devastating storm or natural disaster hits.

The move comes after more than a year of mounting losses in the insurance business. The American Insurance Services Group, an industry trade organization, calculated losses in 1992 at $23 billion, up from $4.7 billion the year before. For the first quarter of 1993, losses totaled $2.8 billion. The losses are attributed in part to the unusually large numbers of disasters recently: Hurricanes Andrew and Iniki, the riots in Los Angeles, the World Trade Center bombing, and the East Coast blizzard that shocked the South in March 1993.

In Florida, the state's insurance department said 36 companies, including Allstate, State Farm, Prudential, and Travelers, have announced they will either stop writing property insurance policies or severely limit them.

Allstate, which is Florida's second largest insurer, announced in April 1993 that it will eliminate 25 percent of its homeowner, renter, and condominium policies over the next two years. For those whose policies do get renewed, the rates will increase as much as 40 to 60 percent.

"We regret the need to take these actions," said Ed Young, a vice president of Allstate, which is owned by Sears, Roebuck & Co. "The decision to reduce the number of property policies we write in Florida was indeed our last resort." Young said Allstate has not been able to buy enough catastrophe reinsurance recently, which is the insurance that insurance companies buy to protect themselves in case of disaster.

While about 300,000 of Allstate's 1.3 million Florida customers will lose their insurance, the insurer said it will not cancel any policies in areas of Dade County affected by Hurricane Andrew.

After Allstate's announcement, Florida's insurance commissioner Tom Gallagher ordered an investigation into plans by insurers to eliminate coverage.

"The citizens here are not going to just sit back and watch this homeowners' insurance crisis disrupt their lives," Gallagher said. "We want answers. We want to know why, after all these years of collecting money from the citizens here, the companies think they can justify big rate hikes and massive policy nonrenewals."

Before the hurricane battered the state in August 1992, insurers were in a fierce competition for customers, aggressively writing policies and offering relatively inexpensive rates.

But now, many Florida property owners will find insurance difficult — if not impossible — to find. Experts predict that as many as 500,000 Florida homeowners will have no choice but to buy insurance from the state-created joint underwriting association ("JUA").

Known as the "insurer of last resort," the JUA provides less coverage for more money than most standard homeowner policies. The state requires the premiums for the JUA insurance be at least 25 percent more than the premiums of the state's five largest private insurers.

In another effort to stem losses, the insurance industry has renewed its interest in developing a grading system for local building code departments, similar to one now in place for fire departments. Under the grading system, if a community has lax codes or weak enforcement, insurance premiums in those communities will be increased.

The system could discourage shoddy construction that can lead to increased damage during a disaster. In South Florida, for example, insurance experts blame about a quarter of the losses on faulty construction, particularly of roofs, that did not meet local building codes.

"People should not lose their homes, or their lives, in a hurricane or an earthquake because of shoddy construction," said Dean Flesner, a State Farm vice president who is a member of the National Committee on Property Insurance, the industry group devising the grading system. "If we implement a grading system for building code enforcement, everyone wins." ❖