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British Brands

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Valuing brands in the UK economy

Peter Urwin, *Westminster Business School*

Many brand-oriented companies have a good understanding of the value of their brands and the contribution they make to overall market capitalisation. However, any estimate of the financial value of brands to the UK economy as a whole rests on very thin evidence. To begin to rectify this, last year Westminster Business School was commissioned by the British Brands Group to undertake a study into just this economic contribution.

We defined brand as 'a reputational asset developed over time to embrace a set of values and attributes, resulting in a powerfully held set of beliefs by the consumer and other stakeholders'. These beliefs are built up over many years by those who create and manage brand. It can be argued that everyone in an organisation has a part to play in this, from the telephonist to the salesman interacting with customers, and including the CEO.

Such a broad interpretation of those who work to create brand reflects the fact that in many companies brand serves as a guiding principle aligning corporate, business and operational strategy. However, it poses practical hurdles when we want to estimate how many people work to create and manage brand in the economy as a whole. In our study we had to use a more narrow interpretation, concentrating only on those occupations quantified in the Labour Force Survey 2007 that can be considered as strongly associated with the creation and management of brand. These were principally those in advertising, marketing, design and sales.

From this analysis, we are able to estimate that approximately one million people are directly employed in the creation and management of brand. This is equivalent to approximately 4% of all those employed (or, for instance, a third of all those working in retail). The natural next step is to then ask what financial value is being created by these individuals in the economy as a whole.

However, in this we face many hurdles. One limitation is that when using official statistics any estimate of the financial value of brand created in the economy within a year must be derived primarily from analysis of expenditure on advertising, despite there being many other expenditures that represent an investment in brand. Even more important are the facts that (i) the value of any brand equity held by firms is simply not captured in official estimates of the value of the economy (gross domestic product or GDP) and (ii) activities such as advertising and marketing are subtracted from any measures of value added in the economy – as they are viewed as a 'purchased intermediate cost'.

This approach to valuation places these expenditures in the same category as, for example, electricity. As an article in *Business Week* in 2006 suggested, the treatment of Apple in the US national accounts is to take the value of its imported iPods and count them once when they arrive from China and again when they are sold. As the author suggests, this 'reduces Apple – one of the world's greatest innovators – to a re-seller of imported goods'.

This reflects a wider omission of 'intangibles' in the national accounts of most economies. This omission is of paramount importance as these are all expenditures that can be considered as creating [intangible] capital assets. There is a strong argument that they be considered as investment expenditures. Put simply, the amount of investment in the economy is the most important determinant of economic growth. In fact, if we want to increase the amount of GDP for each person (per capita), and we assume that there is a fixed level of natural resources, then investment and entrepreneurship are virtually the only things that matter.

So what value can we place on investment in brand in the UK economy? Building on some excellent work developed as part of the Treasury Working Paper series, we estimate that in 2006 £15.85 billion was invested, approximately 12% of all intangible investment in the UK economy that year. This is comparable to the contribution of all scientific R&D.

However, if we are to consider expenditure on brand as an investment, we need to identify specific 'returns' that flow from the development of strong trust relationships and reputations between consumers and firms in a way that adds value to the economy as a whole.

Some may wonder at this point why we could not simply take the value of brand to each individual firm and add this up to produce a figure for the economy as a whole. Essentially, brand allegiance, as well as being a valuable trust relationship, also raises the bar for new

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firms seeking to enter the same market, who will not yet have earned such a reputation. Some branding activity is also 'rival', that is it is highly firm-specific with at least part of its value derived from wresting market share from others.

So what are the specific characteristics of brand that justify its categorisation as a capital asset that, if invested in, will provide the UK economy with a future return?

1 Brand equity acts as 'surety', facilitating the quicker adoption of new technologies and business methods.

Research indicates that a major barrier to growth in online transactions is the issue of security. Established brands (or 'bricks-and-mortar' firms) were particularly important in providing the assurance of security and quality that was needed for many consumers who were (and perhaps still remain) wary of online purchases to enter this market. This is in some ways simply a version of brands reducing transaction costs, but we can also see how confidence in the brand supports innovation and progress.

Ultimately, the familiar firm that starts accepting online payments offers up its brand as 'surety', with consumers understanding that the company is taking a big risk if that 'gamble' does not pay off.

2 Brand helps build shared understandings of the role of business in society, allowing firms to offset negative side effects of consumption.

Consumers often demand products and services that have what economists term 'negative externalities'. Examples include cigarettes, petrol and alcohol, their key characteristic being that, when an individual buys them, the true cost to society is unlikely to be represented in their price in a market left to its own devices. Thus, if I only paid for the 'direct' cost of producing and consuming petrol, I would not be paying for the damage to the environment. In economic terms, the efficient allocation of resources is only possible when the price of a product reflects its true costs, which is one of the main reasons why governments tax these products.

Seen in this light, consumers who wish to see oil companies reduce their impact on the environment by carrying out CSR-related activities are in many ways demanding that the firm accounts for the external cost of its activities in the price of its products. In such cases, firms are marketing not just the product itself but an additional assurance that any harmful effects are being reduced (for example through an assurance that a product is organic or fairtrade).

3 Brand may encourage innovation in companies, through a greater assurance that innovations will be brought to market effectively, ensuring a return on investment.

Even large firms with clear patents face significant problems in ensuring the profitability of their R&D findings, as patents in themselves do not assure sufficient returns. The firm must bring the newly patented product or service to market and commercialise it successfully in order to justify the initial investment. So what factors might influence this ability to bring a product successfully to market?

Where there are strong trust relations between a firm and its customers, that firm has an advantage when introducing a new product in comparison to a firm where these trust relations do not exist. Brand reassures consumers to overcome their inertia in taking up new technologies and therefore we may reasonably expect firms with stronger brands to be better placed when bringing new innovations to market. The logical next step is to assume that brand also acts as an incentive for firms to innovate in the first place, something for which there is a theoretical rationale but for which more evidence is required.

4 Branding has a spillover effect on people's perceptions of countries, and governments gain from these 'positive externalities'.

In his paper *The importance of national reputation*, Simon Anholt underlines the importance of national image and reputation in a global market where purchases of goods and services (both business-to-consumer and business-to-business) are made across borders. Given the huge expenditure on their brands by UK companies and the interaction between country perceptions and purchases of goods, it seems reasonable to suggest that expenditure on branding by UK firms has a substantial spillover effect. The development of strong brands in many UK companies is likely to spill over at the national level, raising the perceived standing of UK PLC as a result.

To conclude, brand plays an important role in building strong trust relationships and reputations with consumers which act as 'surety' in a way that can facilitate the quicker adoption of new technologies, business methods and ways of living and working. In a continuation of this role, brand acts as the medium through which companies and consumers build shared understandings of the role of business in societies, linking the interests of business with those of social responsibility. The continuation of trust relationships rests on the implicit understanding that any company with a strong brand takes a substantial risk if it undertakes any actions, for instance moving into new markets, without making sure that such actions are 'safe'.

We no longer live in an era where these trust relations can be built between local butchers, bakers and their clientele. However they are essential to the successful functioning of modern economies where commerce is carried out by agents who operate at a much greater commercial distance. In this modern world, brand plays a unique role in facilitating the process of trade, as it is the medium through which these trust relations are built. In the absence of brand it is hard to see how firms could reap returns from any consistent investment in the quality of their products.

British Brands Group

The British Brands Group represents the interests of brand manufacturers in the UK. Membership comprises companies of all sizes across a wide range of product sectors.

The role of the Group is to build in Britain the optimum climate for brands to deliver choice and value to consumers, through constant innovation and fair competition.

The Group is the UK representative of AIM, the European Brands Association based in Brussels.

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From the Chairman

John Bebbington, *Chairman, British Brands Group*

In these challenging economic times, shoppers are looking at price as never before. However it would be a mistake to think everyone is trading down to the cheapest alternative. Quality remains crucial and it is the trade-off between price and quality that shoppers are judging ever more shrewdly.

During a recession it is encouraging to find that branded products are more than holding their own against supermarkets' own label products. Figures from TNS exclusive to *The Grocer* show that branded products are outgrowing own label in both value and volume, with brand sales rising 3% since last year and own label sales declining by 0.7%. Part of the explanation, according to TNS, is consumers trading down from premium-priced own label to brands, but with no similar wholesale trend from brands to standard own label.

Also worthy of note is the re-launch of a number of familiar branded products, with Birds Eye's Arctic Roll dessert, Cadbury's Wispa chocolate bar and Mellow Birds coffee all making a comeback, while old favourites such as Birds custard and Fray Bentos pies are performing exceptionally well, with sales rising by 17% and 42% year-on-year respectively. When times are hard, shoppers rely more heavily than ever on the reassurance and consistency of products they know and trust.

These are themes that featured strongly in an exhibition in the House of Commons early in the year organised by the Group. Titled 'Branding for Britain', the exhibition showed brands as stalwarts of the economy, many having been with us for generations, surviving world wars and the Great Depression. Brands also support an extensive range of jobs from research, through manufacturing, logistics and marketing, to retail, conservatively estimated at some 1 million in the UK. It is also important to remember, now more than ever, how brands create new categories (for example, chocolate tended to be in tablet form before the Mars bar appeared), grow existing categories and drive export performance.

As Peter Luff MP highlights in his article *Brands – the backbone of Britain*, brands are hugely important economically but at the moment they seem to be flying under policymakers' radar. We read much about potential sources of economic recovery but we see no mention of brands, despite brands attracting some £32.55 billion of investment annually and accounting for 12% of all intangible investment. This seems a worrying oversight and one the Group continues to highlight to Government.

Details of the exhibition and the case studies it featured can be found at www.britishbrandsgroup.org.uk/pages/branding-for-britain.

To help throw more light on the economic importance of branding, the Group recently commissioned a study by Westminster Business School, its main findings being featured in Dr Peter Urwin's article *Valuing brands in the UK economy*. Despite the limited availability of base data for this kind of analysis, this work is clearly important, not just because of the scale of this contribution but because such a study has simply not been conducted before. That such little work has been done by Government or anyone else to measure the importance of branding to the economy reinforces the view that there is a dearth of real understanding in this area.

Returning to the consumer, a new research study into similar packaging of consumer products has been commissioned by the Group. Undertaken in January and February this year by BMRB amongst over 900 shoppers, the study is the largest of its kind ever undertaken in the UK in terms of the number of products explored. Its findings, outlined by Don Edwards in his article *I can't believe it's not copying*, are telling. As many as a third of shoppers admit to having bought a product by mistake due to its similar packaging and there is a strong positive correlation between similarity in packaging and a belief that such products come from the same manufacturer as the brand.

As shoppers seek to identify best value in these straitened times, it remains outrageous that products in misleadingly similar packaging continue to be peddled, leading shoppers to think they are buying something they are not. However for those deploying such tactics, the rewards can be great. The study shows that duping shoppers by packaging products to look like familiar brands can increase sales by over 50%. Brand owners are essentially powerless to act to protect consumers against these tactics, so the Group has passed the research findings to the Office of Fair Trading and Trading Standards Services, urging them to act. Let's hope they do so.

Shoppers' ability to identify products correctly and to know what they are buying is not just undermined by similar packaging. The idea that tobacco products should only be marketed in plain packaging has gained some traction during the passage of the Health Bill, despite the evidence for such a policy being 'speculative'. Restricting brand imagery on packaging for policy purposes is damaging not only to consumers' ability to make informed choices but also to effective competition, while encouraging those involved in illicit trade. Furthermore, it would breach the harmonised regime of intellectual property rights and contravene the UK's international treaty obligations. A breach of these principles would reverberate across the world, calling into question the UK's commitment to an effective IP regime.

Finally, we are delighted that this year's Brands Lecture will be delivered by Lord Bilimoria, founder of Cobra Beer, who is taking *In brands we trust* as his theme. Details can be found on our website at www.britishbrandsgroup.org.uk.

Brands – the backbone of Britain

Peter Luff, *MP, Chair, Business and Enterprise Committee*

We all have our favourite brands. Just a few months ago Members of Parliament were polled on their choices and it prompted a quick response, with Cadbury winning the top spot. They play an integral part in our lives, some helping to define who we are (what car do you drive?) and some helping to define us as a nation, like Burberry, Pimm's or, if you are Scottish, perhaps Irn-Bru. As MPs, we can instantly quote which brands are important in our constituencies and we certainly know they are valuable – over 50% of the market value of consumer goods companies can be attributed to their brands.

Brands are all around us, in our personal lives, as consumers and parliamentarians, but has their ubiquity resulted in us taking them for granted? Do we know, for example, what role they play in our economy, in the competitiveness of the UK, in successfully commercialising our R&D or in our export performance? How effective are we in leveraging our brands, compared to other countries? Arguably we should be leading, with our record for innovation and our outstanding creative industries, but do we know?

Elsewhere in this edition of *British Brands* is an article by Westminster Business School on its study that pointed to the potential scale of branding's contribution to the UK. It identified some 1 million people employed in creating and building brands (4% of all those employed) and that companies spend some £32 billion a year on branding (the same that is spent on all scientific R&D and computer software combined). This represents a £15.8 billion investment in the UK economy, or 12% of all intangible investment.

While these figures are impressive, what really struck me was that this study is breaking new ground. No previous work has been undertaken into the economic relevance of branding to the UK economy, by Government or anyone else. Certainly such an exercise is not straightforward, the statistics are not in a form conducive to such analysis, but does that mean that we should simply ignore branding as an economic force? Without this understanding, it is too easy to undervalue intellectual property rights such as trade marks, to under-resource anti-counterfeiting initiatives, to dismiss industry claims that the UK is fertile ground for companies to trade parasitically off the reputation of others, or to adopt policies that raise barriers to brand creation such as restricting advertising and brand imagery on packaging.

To press home the point that branding may have been overlooked, it is salutary to ask which Government department plays the lead role? Is it BERR, or perhaps DIUS, with its focus on innovation and its responsibility for the Intellectual Property Office and the Design Council? Perhaps it is DCMS, as the creative industries are so important, and so skilful, in explaining the benefits of branded products and services to consumers, generating strong rational and emotional bonds. I suspect that not only do we not know how important branding is (though the Westminster Business School study suggests it is very important), we also do not have a co-ordinated view of its role.

The midst of a severe economic downturn may seem a strange time to be advocating the role of brands. However the timing is crucial. Firstly, brands have been with us through world wars and deep recessions and are still with us, suggesting they are stalwarts of the economy. Also, we must have an eye to the recovery, ensuring when it comes that our economy is well-placed to compete. As we seek to identify the wealth generators of the future, with less reliance on financial services, should we look to branding, hand in hand with innovation, research and development and all its associated trades, as part of the solution, one that up until now seems to have been largely ignored?

This article originally appeared in *The House Magazine* (No. 1292, February 23rd 2009).

Peter Luff MP sponsored a recent House of Commons exhibition on branding, details of which can be found at www.britishbrandsgroup.org.uk/pages/branding-for-britain.

2009 Brands Lecture

This year's Brands Lecture, *In brands we trust*, will be delivered by Lord Bilimoria CBE DL, founder of Cobra Beer, on Thursday 11th June 2009. Further details can be found on the Group's website at www.britishbrandsgroup.org.uk.

A World of Cracking Ideas

At this new exhibition at the Science Museum, London, Wallace and Gromit guides visitors through the world of innovation to discover how simple ideas can transform into life-changing products and how intellectual property impacts on everyday lives.

A World of Cracking Ideas runs from 28th March to 1st November 2009.

Competition policy in the internet age –

Thomas Buettner, *CRA International*

The degree to which suppliers should be free to restrict the distribution of their products, in particular via the internet, is the subject of an ongoing policy debate. The recent round table discussion on 'opportunities in online goods and services' which was held by Competition Commissioner Neelie Kroes crystallised this debate. On the one side, the essence of the argument (in particular as proposed by eBay) is that any attempt by suppliers to restrict distribution of their goods via the internet must be to the detriment of consumers and can only have anti-competitive purposes. On the other side, many suppliers argue that there are legitimate reasons to restrict the distribution of their products and that such restrictions, even when they involve restrictions on internet sales, are often in the interest of consumers. The debate will culminate in a revised version of the European Commission's *Guidelines on Vertical Restraints* for its application of EU competition rules in 2010.

This article provides an economist's perspective on a particular vertical restraint used by many suppliers of branded goods: selective distribution.

What is selective distribution?

Under a selective distribution system, a supplier specifies objective conditions for the admission of retailers to its distribution network. For example, a branded goods supplier may require its retailers to run a traditional brick-and-mortar store in an upmarket location that meets certain quality standards in terms of pre- or post-sales advice, shopping experience for consumers, presentation of products and so on. By excluding retailers that do not fulfil these conditions (such as discount or 'pure play' internet only stores for example), selective distribution reduces 'intra-brand' competition between retailers offering the supplier's brand. However, in contrast to retail price maintenance or forms of exclusive distribution, selective distribution does not eliminate 'intra-brand' competition.

Economic principles

The economic foundations of vertical restraints such as selective distribution are best illustrated using the example of a monopolist that supplies its product to retailers for distribution. Assume first that the demand for the product does not depend on retailers' efforts other than price. The monopolist has then no interest in weakening intra-brand competition through a selective distribution system. The reduction in intra-brand competition only leads to retailers charging higher prices to consumers, which reduces demand for the product and hurts the supplier's profits. The higher prices charged by retailers under a selective distribution system are therefore a cost to the supplier.

However, if the brand image of the supplier's product can be enhanced through investments by retailers – for example in pre-sales advice on the product, a pleasant and comfortable shopping experience, an exclusive showroom at upmarket stores, and so on – then the supplier will want to stimulate such efforts by retailers to increase the demand for its product and the value of its brand. Since such activities are costly, retailers will only engage in them if they can be sure that their efforts will be rewarded. There are two main reasons from the perspective of economic theory why unrestricted intra-brand competition may lead to too little investment by retailers in the brand from the supplier's point of view.

The first reason concerns the possibility of free-riding on brand enhancing investments by retailers. If consumers can seek pre-sales advice or sample products at one store but then buy the product at a cheaper price at a different store or online, the benefits of one retailer's investments in brand image will largely be felt by other retailers. Each retailer therefore has an incentive to 'free-ride' on the investments in brand image made by others rather than invest itself. As a result, with unrestricted intra-brand competition, retailers' incentives to invest in brand image are compromised.

The supplier can address this issue through vertical restraints. Some dimensions of retail effort that help promote brand image (for example the up-market location of stores) can be directly specified as admission criteria in a selective distribution system. But there are other dimensions (for example enthusiasm of sales staff) that are more difficult or impossible to verify. By restricting intra-brand competition, selective distribution reduces the free-riding problem on such difficult to verify dimensions. Being protected from competition from retailers outside the network, each retailer in the network will be able to appropriate a greater share of the benefits of its investments in the supplier's brand. This increases retailers' incentives to make such investments and, as a result, there is greater aggregate investment by retailers in a product dimension which is valued by consumers: the brand.

There is another, perhaps less obvious, reason why a monopolist might want to use selective distribution. If consumers differ in the extent to which they are willing to trade higher prices for higher retailer service, then unrestricted intra-brand competition between retailers may lead to an excessive focus on price competition from the supplier's perspective: retailers may find it optimal to focus on winning price sensitive customers from other retailers; the supplier, in contrast, may prefer its retailers to invest more in brand image to attract new, less price sensitive customers to its product.

selective distribution of branded goods

By reducing the extent of intra-brand competition, a selective distribution system is a way for the supplier to better align the retailers' incentives with its own. In a selective distribution system, there is less opportunity for retailers to take business from other retailers offering the same product. Retailers will earn higher margins and have more of an incentive to increase demand through investments in brand image.

The fact that there are clear pro-competitive reasons for selective distribution does not imply that selective distribution can never have anti-competitive effects. But the circumstances under which a selective distribution system can have anti-competitive effects are very limited. For example, one such theory is a situation where a group of suppliers is being collectively pressured by a group of retailers to avoid distribution via discount or internet only stores. If this is the driving force behind the selective distribution system, supporting evidence may be easily obtainable by competition authorities.

Restrictions on internet sales

The internet is clearly a new medium which offers exciting new ways to shop to consumers and new opportunities to distribute products or services to suppliers. But does this mean that the economic analysis of selective distribution does not hold for internet distribution? Is a strict competition policy called for that regards any restrictions on internet distribution by suppliers as being against consumers' interests?

From an economic perspective, the answer to these questions is 'no'. Where an important part of the brand value or service is generated by traditional brick-and-mortar retailers, the internet is likely to be a major channel which the supplier would (legitimately) want to restrict in its selective distribution system. This is because the ease of access to the cheapest online shop makes free-riding over the internet a particularly severe issue. For sure, internet shoppers purchasing a branded good at a bargain price would benefit from the low price. But this is the essence of the free-riding argument: purchases by consumers at the cheapest retail price available would undermine retailers' incentives to invest in the brand and would therefore lead to the brand losing (at least some of) its value to consumers. There is nothing special about the internet that would imply that the economic principles behind the trade-off between breadth of distribution and the potential for free-riding do not apply.

The benefits to the supplier of increased distribution via the internet may well outweigh the loss in brand value. There may also be different ways for suppliers to maintain their brand value. Indeed, many suppliers that traditionally relied on distribution of their products via brick-and-mortar retailers have embraced the internet as a principal means to distribute their product (for example airlines). Others, such as many suppliers of luxury goods, have chosen not to distribute their products via pure internet retailers or limit their distribution over the internet. Suppliers are best placed to decide whether the nature of their products is such that they would benefit from distribution via the internet. For the reasons explained above, there should be no presumption that the suppliers' choice of distribution system is systematically against consumers' interest.

Policy implications

The mainstream economic view of selective distribution when applied to branded goods is that it can be viewed as an investment by suppliers, which stimulates retailers to contribute to the value of the supplier's brand. Just as there is no rationale for anti-trust authorities to regulate suppliers' advertising expenditures on brands, there is no compelling rationale for tight regulation of selective distribution.

By enhancing brand value which is valued by consumers, selective distribution systems often improve consumer welfare. While consumers' and suppliers' interests are not always aligned, and while there are some limited circumstances under which selective distribution systems can have anti-competitive effects, there should be no presumption that selective distribution systems are systematically against the interest of consumers. For these reasons, selective distribution should be assessed by competition authorities under a rule of reason approach that places the burden of proof on authorities rather than suppliers.

Moreover, while the existence of fierce inter-brand competition between suppliers is a sufficient condition to rule out any anti-competitive effect of selective distribution, the example of the monopolist above has shown the existence of inter-brand competition should not be considered a necessary condition for such a conclusion.

Finally, anti-trust authorities do not need to worry that selective distribution systems would hinder the development of the internet to the detriment of consumers. There is no need to give the internet special treatment with respect to suppliers' freedom to restrict it in a selective distribution system.

This article is based on an economic paper which was submitted on behalf of LVMH to the Commission's public consultation a version of which is published in the European Competition Journal: T. Buettner, A. Coscelli, T. Vergé and R. A. Winter (2009), The Use of Selective Distribution by Luxury Goods Suppliers, *European Competition Journal*, Vol. 5, No 1 (April), 201-26.

I can't believe it's not copying

Don Edwards, *Don Edwards & Associates Ltd*

Products in similar packaging to familiar brands can mislead consumers and undermine brand distinctiveness but in the UK legal and regulatory counter-measures are largely ineffective. Evidence is therefore required to inform the authorities, notably the OFT and Trading Standards Services, on whether action under the Consumer Protection from Unfair Trading Regulations is appropriate. Meanwhile, the Government has undertaken to review its implementation of the Unfair Commercial Practices (UCP) Directive in 2010, for which evidence is required to inform future policy.

The last major consumer studies were undertaken in 1998, so new research was conducted in January and February 2009 to update information on consumer perceptions of and attitudes to similarity in packaging between a selection of branded products and their equivalents.

The objectives of the study were to understand, measure and evaluate consumer perceptions of similarity in packaging between a selection of branded products and their equivalents, and the effect of similar packaging on consumer perceptions of value, likelihood of purchase and origin of the product.

Two research projects were carried out on behalf of the British Brands Group by the agency BMRB between 8th January and 1st February 2009.

Face to face research

The first study was face to face market research amongst a representative sample of 1,199 GB grocery shoppers over the age of 16. Respondents were given image statements and asked how much they agreed or disagreed with each statement.

65% of shoppers agreed that it can be confusing or misleading when the packaging of two grocery shopping items looks similar (only 23% disagreed).

64% of shoppers agreed that it would concern them if the packaging of a grocery item suggested that the item was connected to a long established make or brand when actually it was not (only 19% disagreed).

38% of shoppers admit to having been confused or misled by the packaging of two grocery shopping items which look similar, rising to 48% amongst 16–24-year-olds.

A third of grocery shoppers admit to having accidentally bought the wrong grocery shopping item because the packaging design was similar to the item they wanted. Over half of the 16–24-year-olds admit to having made such a mistake.

With over 24 million households in the UK, if one third of households buy the wrong product once in error because of a similar packaging design, this would result in over 8 million products bought by mistake. As grocery shoppers average over 50 grocery shopping trips per year, the strong likelihood is that this figure is a vast underestimate of the number of products erroneously purchased due to similar packaging.

Moreover, the online research demonstrated that younger age groups were generally more brand aware than older groups. The lower percentage of older respondents admitting to having bought the wrong grocery shopping item because of similar packaging design is very likely to be because some older people are embarrassed to admit they have made such a mistake. This means that the 33% of the total GB population who admit they have made this mistake is likely to be an understatement.

Online research

The online market research was conducted over four weeks, amongst a sample of over 900 GB grocery shoppers per week.

Ten branded products were researched across different product categories, including Bold, Stella Artois, Kleenex, Red Bull and I Can't Believe It's Not Butter. Each branded product was compared with a product deemed to have similar 'parasitic' packaging to the brand (the test product), and separately, with a different product in the same product category but in more distinctive packaging (the control).

For example, the brand I Can't Believe It's Not Butter was compared with the 'parasitic' test product You'd Butter Believe It, and separately with the control, Buttery Gold.

Same manufacturer

When asked how likely it was that the pair of products was made by the same manufacturer, in nine of the ten product groups, the parasitic (test) product had a much higher percentage than the control product thinking it was made by the same manufacturer as the brand.

57% of respondents thought You'd Butter Believe It was likely to be made by the manufacturer of I Can't Believe It's Not Butter, versus only 27% who thought it unlikely.

The oldest age group (55-64) were more likely than the youngest respondents (16-24) to think that the two products were made by the same manufacturer in all twenty pairs of products – both the ten pairs with the test product, and the ten featuring the control.

Degree of similarity

Respondents were asked how similar or different the two products looked. The net score of those who thought they looked similar minus those who thought they looked different was positive for all ten test products. For example: 90% thought You'd Butter Believe It and I Can't Believe It's Not Butter were similar versus only 9% thinking them different.

Those respondents who thought the products looked similar were asked what it was about them that made them look similar. The most common answer was Colour(s), followed by Shape, Overall Design and Size. However, it was clear that it usually took a combination of factors to drive the similar appearance.

Mistaken purchase

Respondents were asked how likely they thought it was that one of the two products shown could be bought by mistake believing it to be the other one. For nine of the ten test products, grocery shoppers thought it more likely than unlikely that such an occurrence could happen.

75% thought it likely that one of I Can't Believe It's Not Butter and You'd Butter Believe It could bought by mistake, versus only 13% thinking it unlikely.

Propensity to buy

The test and corresponding control products were given the same price to allow the likelihood of purchase of the products to be compared when displayed next to the branded product.

For eight of the ten test (parasitic) products, there was a higher stated likelihood of buying than for the corresponding control product.

33% would definitely or probably buy You'd Butter Believe It, versus only 24% for Buttery Gold at the same price.

If a product's packaging is closer to that of a leading branded product, there is a higher propensity to buy that product, thus influencing consumer buying behaviour.

Conclusions

The research demonstrates not only that similar packaging is a topic that causes concern to grocery shoppers, but that there is currently a serious issue with the packaging of 'parasitic' products, clearly designed to resemble the packaging of existing, familiar brands. Where products are similar to existing brands, there is a clear link to shoppers believing that there is a likelihood of the two products having the same manufacturer.

These 'parasitic' products are influencing consumer buying behaviour, with many shoppers buying products by mistake believing them to be a different product. There appears to be a stronger likelihood of shoppers buying a product that is in packaging similar to a familiar brand than another product at the same price, which is in more distinctive packaging.

An ombudsman – in consumers' best interests

The Competition Commission has recently consulted on proposals for an ombudsman to oversee the groceries market. Such an ombudsman would clearly be in consumers' best interests:

- shoppers would face more choice, higher quality products and more innovation;
- prices will be lower in a number of instances;
- any additional costs, if not borne by retailers, are most likely to be passed to suppliers, not to shoppers.

An ombudsman is the Commission's preferred remedy to stop large grocery retailers passing unexpected costs and excessive risks to their suppliers. It requires the voluntary support of retailers if it is to be introduced and would address anti-competitive practices that were first identified in 2000.

Packaging a sustainable future

A new exhibition has recently opened at the Museum of Brands, Notting Hill. The exhibition, which is sponsored by Tesco, looks at the essential functions of packaging and the green credentials of different forms of packaging material. More details can be found at www.museumofbrands.com.