

Lessons from Behavioural Economics for managing the balance between Private Label & Brand

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What I will try to convince you of today

- Behavioural Economics challenges us to reconsider how consumers make decisions
- It tells us that our typical focus – brand perception, quality, value, etc. – are not as important as we imagine
- It tells us that other factors – the way choices and categories are presented and framed – are more important than we typically allow
- It suggests different strategies for business success
- And finally, that price is a powerful but destructive lever that creates a market where *everybody* loses – producers, brands, retailers and consumers



Thinking, Fast & Slow – the engine of human decision-making

LEFT

left

upper

lower

right

LOWER

RIGHT

upper

RIGHT

UPPER

left

lower

LEFT

LOWER

right

upper



Heuristics – The Power of Simple Rules



Region	Wine Name	Price
NEW ZEALAND	2006 Neudorf Brightwater	100
	2006 Felton Road Black I	90
		115
AUSTRIA	2006 Schloss Gobelsburg Gausling	125
	2005 Hiedler Maximus	115
	2005 Schloss Gobelsburg Alte Reben	120
	2004 Hirsch Heiligenstein	75
	1995 Salomon Kogl Library Reiter	130
	2005 Möniger Dürnsteiner Federputz	
	2004 Karmeliter Knoll Leithenberg Sauvign	
GERMANY	2006 Max Ferd Richter Brunsberger Juffer Kabinett	80
	2006 Dr. Loosen Bernkasteler Lay Kabinett Trocken	85
	2004 Markus Müller Zeltinger Sonnenuhr Spätlese Trocken	90
	2004 Max Ferd Richter Wilbacher Sonnenuhr Spätlese	105
	1997 Joh. Jos. Prinz Wilbacher Sonnenuhr Kabinett	115
	2007 Wittmann Dis	70
	2006 Franz Kusterer Hockheimer Hülle Kabinett Trocken	95
	2005 Georg Breuer Badstuber Faust	70
	2005 Robert Weil Trocken	95
	1990 J.B. Beckler Halligter Hattenberg Spätlese Trocken	105
	2006 Dönhoff Schloßkeller Hattenberg Kabinett	120
	1997 Dönhoff Oberhäuser Leutenberg Kabinett	105
	2006 Müller-Catoir Kabinett Spätlese Trocken	80
	2005 Von Bühl-Feldman Furst Spätlese Trocken	175
	2003 Dr. Bürklin-Wall Jureggarten G.C.	185
Müller-Catoir Gimmeldinger Mandelgarten Spätlese Trocken	115	
Alsace		
Alsace		



Wine Lists = “Second Cheapest”

“Middle-class success,
without the effort”



Category Shape trumping Brand Preference



30p
C



£1
A



£2
B



£4
D

	Percentage of people choosing			
	C	A	B	D
A and B	-	33%	67%	-
A, B and C	0%	47%	53%	-
A, B and D	-	0%	90%	10%

How to respond to this challenge

- Understand to rules that work in your category, then:
- Shape useful ones
 - E.g. if people look for the presence of a certain ingredient (e.g. “100% real cream”) and you can win against this rule, then pursue it.
- Eliminate unhelp ones
 - “They all come out of the same factory”
 - “It’s the same stuff in different boxes with a higher price”
 - “I can’t tell the difference”
 - “I can’t go wrong if I buy the cheapest”
 - Shift categories from price & value cues to quality & premium cues
- Create new ones
 - Grown-up crisps bought premium values to the category
 - ‘Soft’ Whiskey, Fresh Soup, Feed-your-family-for-a-fiver, etc.



The Perils of Price

- Price promotion distorts people's preferences away from decisions based on perceived quality and revealed preferences





NICK
SOUTHGATE
CONSULTANCY





15c

Vs



1c



15c

Vs



1c

73%

Vs

27%





14c

Vs



0c



14c

31%

Vs

Vs



0c

69%

The Perils of Price

- Price promotion distorts people's preferences away from decisions based on perceived quality and revealed preferences
- This means that private label and brands lose because people are making choices that do not reflect their preferences
- It also means that retailers are losing because consumers leave with a basket of goods they might not have otherwise chosen
- *And* consumers lose because they buy products they might not otherwise have chosen
- The paradox is that it is *easy* (if expensive) to compete on price but *hard* (if ultimately less expensive) to build profitable category heuristics



Thank You

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