

Changing patterns in the global tissue market: private label versus brands



Special Feature: Private label and brands – global market dynamics

In the tissue market the key forces shaping private label versus branded tissue stem from consumer behavior, structure of the retail channel and supplier strategies. In this article we will examine examples of each force at play in the North American, European and Chinese retail tissue markets.

CONSUMER BEHAVIOR – WHO IS SHAPING THE MARKET NOW?

The North American tissue market is characterized by strong legacy brands. Private label market penetration is still significantly lower than in Europe – North American private label market share is 27% compared to 63% in Western Europe. However, private label tissue products have gained share from branded tissue over the past few years - a decade ago, private label market share in North America was only 18%. The increase has been driven by recession awakened frugality, increased availability of high quality private label tissue and the emergence of a new force shaping the consumer market – the millennials.

Private label preference and consumption is higher among millennials than more mature consumers. Significantly, millennials' will make up 46% of consumers by 2025, an increase of 15% from the 2014 level. Millennials have matured into consumers amid a surge of lifestyle brands. Retailers (such as Whole Foods, Trader Joes etc.) aim to offer a selection of lifestyle products and brands, including their own private label products. Moreover, millennials have grown up in the middle of a multitude of private labels across a range of sectors (from milk to apparel, from cookies to kitchen towels), often without a sacrifice on product quality. For them, a private label is a less “suspicious” product alternative than for older consumer groups.

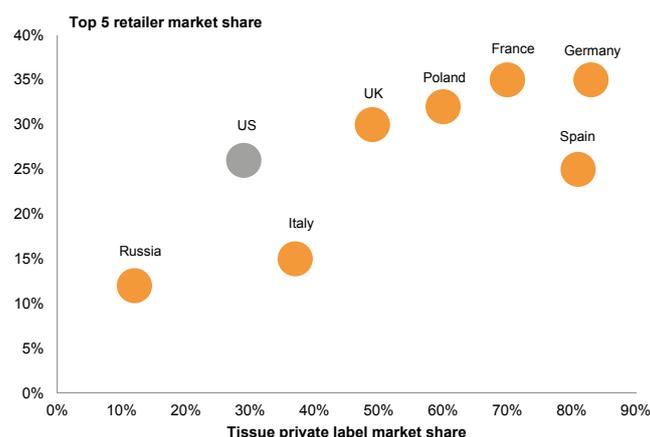
Although the millennials are the most-educated consumer group, they are earning less than the same age group did in the past; burdened by student loans, a slow economy, high unemployment and stagnant wages. Millennials' average earnings are \$33,883, the lowest inflation adjusted level since 1980 and down by 9.3% over the past decade. In comparison older full-time employed Americans have seen no fall in their wages (The New York Times, “We Are Making Life Too Hard for Millennials”, July 31, 2015). Frugality has taught millennials to discount product quality and brand status over cost. Tissue brands have been fighting back by introducing more affordable, less fluffy or strong “basic” versions of the branded products. They are also reaching into their deep pockets for promotional strategies to sway the price sensitive tissue market having realized that millennials have significantly higher price sensitivity than mature consumers.

RETAIL SECTOR STRUCTURE

The key driver for high private label penetration in Europe - in addition to general higher consumer value orientation, a challenging recent economic situation and the cultural challenges associated with building a pan-European brand - is the highly consolidated nature of the retail sector in many markets. For example, in Germany, the market is controlled by the top five retailers (Edeka Zentrale, Schwarz Beteiligungs, Aldi, Rewe, Metro) and private labels enjoy over 80% of market share. France has a similar retail sector concentration, with private labels owning more than 70% market share [GRAPH 1].

Discount stores, as well as super and hypermarkets with a focus on economy products, have gained in popularity in Europe. 2014 was the first year a discounter, Schwarz Beteiligungs, made the top five global retailers list, a development which knocked Tesco out of the list, highlighting the power of low-price and reduced assortment product positioning.

GRAPH 1. RETAIL SECTOR CONCENTRATION VS TISSUE PRIVATE LABEL MARKET PENETRATION IN LARGEST EUROPEAN MARKETS



These stores have strong private label programs and hence, developing and driving private label program growth has been a key strategy for the largest European retailers to counter their growth. The major chains, such as Carrefour and Tesco, have been developing private label lines with more upmarket positioning to attract higher income consumers. The leading discounter chains, such as Aldi and Schwarz Beteiligungs, have reacted by developing their own premium private label lines, making it harder and harder for brands to compete and differentiate. Kimberly-Clark is the only North American brand power house left in the European tissue market, after recent exits by Georgia-Pacific and P&G.

GROWING PAINS

China is still a young tissue market – both for brands and especially for private labels. Tissue demand in China has grown by 8.4%/a since 2008, yet it still only represents 22-50% of the per capita consumption levels in the West [GRAPH 2]. Private label products are available in Chinese supermarkets, but the majority of supermarkets have private label sales of less than 10%. Food, beauty and paper products are key private label categories in China, due to their relatively low technical complexity, high price sensitivity and purchase frequency.

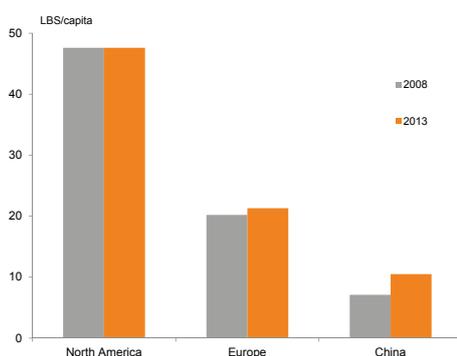
Momentum in the Chinese retail sector structure bodes well for private label growth. The Chinese retail sector has been very

fragmented and international chains have struggled. Hence, the sector has entered an era of active M&A. As European markets suggest, a more consolidated retail sector typically brings better opportunities for private label market growth.

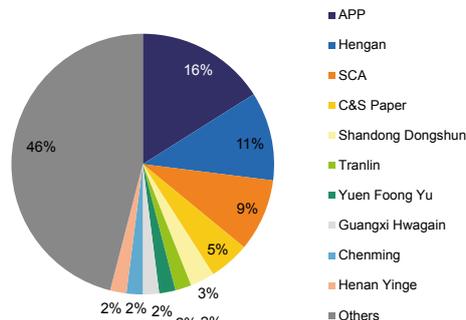
If the Chinese retail sector is fragmented, so is the tissue manufacturing space [GRAPH 3]. There are over 850 tissue mills in China, and the top 10 tissue manufactures have only 46% of the industrial scale manufacturing capacity in the country. APP is the clear market leader with only 16% capacity share and strong tissue product brands (e.g. Virjoy, Breeze, and Zhen Zhen). The tissue manufacturing sector has been booming and 5 million mt. of capacity has been added on the market since 2010, by more than 40 different groups. And more capacity is coming - 2.5 million mt. of new capacity will come online by 2020, from 25 different players. Although brands dominate the Chinese tissue market, high supplier fragmentation and rapid build up in capacity typically provides opportunities for private label market growth.

Reviewing the markets in North America, Europe and China, one can conclude that change is the only constant in life. Actions by consumers, retailers and suppliers together shape the market landscape and dynamics. The question is how to embrace change for a winning strategy in the tissue business?

GRAPH 2. TISSUE PER CAPITA CONSUMPTION



GRAPH 3. TISSUE MANUFACTURING CONCENTRATION IN CHINA: CAPACITY SHARE



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