ESADE
Universidad Ramon Llull
CENTRO DE LA MARCA

The Economic and Social Impact of Manufacturers' Brands in Spain

Mass consumption markets

-Executive Summary-

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Introduction

This report evidences the importance of mass consumption brands to Spain's economic and social development. The study is ground-breaking, given that there are very few precedents for such research in Europe. It is also timely, since right now it vital to understand how building strong brands not only contributes value to the companies owning them in particular but also to the economy and to society in general. The study was carried out by a team of ESADE researchers co-ordinated by the School's Brand Management Centre.

The aims of the study

The study set out to: quantity the role played by manufacturers' brands in driving growth and market value in Spain's economy and in delivering social benefits. Among other things, this involved looking at these brands' contribution to: GDP in terms of final added value; direct and indirect job creation; R&D + I investment; communication; volume of exports; tax contribution.

The study's scope

Manufacturers' brands are understood as mass consumption brands that are not directly or indirectly managed by distributors. In other words, the brands are owned by manufacturing companies. The study is limited to the following sectors, as defined by the Spanish Commercial Coding Association [*Asociación Española de Codificación Comercial*] (AECOC):

- Foodstuffs and beverages
- Paints, varnishes, household chemicals, perfumes
- Baby sector (only baby foods and disposable nappies)

And the following distribution channels:

- Supermarkets over 100 m2 and hypermarkets
- "PDM" centres (perfumes and modern household chemicals)
- Discounters
- Specialised shops
- Traditional shops
- Catering channel (beverages only)
- Exports (sales outside Spain, through whatever channel)

Calculation method

Splitting the mass consumption sector into Manufacturers' Brands (MB) and White Brands (WB)[1] was a highly complex task. In performing it, a wide range of sources were consulted: wholesaler and consumer panels, MAPA (Spain's Ministry for the Environment), ICE (Spanish Commercial Information), trade associations and magazines, INE (National Institute of Statistics), among many others.

GDP is an indicator of a country's economic activity and can be calculated through three equivalent methods: (1) as the sum of gross added values in each sector; (2) as the sum of incomes; (3) as the aggregation of demand or final expenditure. Given the kind of information available, the third option was chosen. The formula applicable in this case is:

GDP = <u>Private consumption</u> + Private Investment + Exports – Imports + Public Spending

The calculation of MB contributions to GDP only covered private end consumer spending and exports. Public spending, imports and private productive investment were not included.

Summary of the economic impact dimensions

The following table sets out the main quantitative findings regarding the macroeconomic contribution made by MB. Where possible, this is compared with the contribution made by white brands.

2008		MF	WB
Internal demand	€ 000 m	57	13
	Average annual growth from 2004 to 2008 vs.3.1% GDP	5%	13.6%
	MBF make a notable contribution to GDP and outstrip average economic growth.		
Exports	(in € 000 m)	17	1
	% of total Spanish exports	9%	0.7%
	MBF are successful exporters that compete on quality rather than price. Strong national brands are vital to Spain's economic future.		
Contribution to the Spanish economy	consumption + exports as a % of GDP	6.8%	1.35%
	MBF generate 5 times more revenue than WBF, contributing more to Spain's GDP than either the car industry or the insurance industry.		
Gross added value to suppliers	€ 000 m	22	1.6
	Gross Added Value as a % of GDP	2%	0.1%
	The companies supplying manufacturers' brands add 14 times more value to goods and services during the production process than do firms supplying white brands.		
	MBF rank among the top 15 sectors in the Spanish economy terms of added value (INE)		

[1] Translator's note: The acronym "MBF" denotes "Manufacturers' Brand Firms", "WBF" indicates "White Brand Firms"

Number of jobs	Direct (thousands)	381	29
	Indirect (thousands)	768	239
	Total employment (thousands of jobs))	1,149	268
	% of total employment	5.3%	1.2%
Employment quality	According to MERCO 08, the Spanish organisation monitoring corporate reputation, two thirds of MBF are listed among the best foodstuff, beverage, household chemical and perfume companies. There is not a single company manufacturing exclusively white brands in the list.		
2008		**MB**	**WB**
Employment quality	Hours worked under collective bargaining arrangements: in WBF, staff work 20 hours more a year on average than do staff in MBF		
	Average wage: workers in MBF are paid between 30 and 40% more on average than are employees in WBF.		
	There are three times more workers receiving a measly €1000 a month in WBF than in MBF.		
	Temporary employment accounts for a whopping 30% of Spanish jobs requiring little training and a 23% of jobs requiring higher training.		
R&D +I investment	€m	564	71
	% of sales (vs. 0.9% sector)	1.0 %	0.5%
	Launching of new products	80%	20%
	€260 m invested in purely scientific and technological R&D, carried out entirely by WBF		
	In 2007, the big MBF covered by this study invested a total of **€23,952 m in R&D worldwide.** This represented 2.1% of their net sales. WBF accounted for no global innovation whatsoever.		
	This huge annual investment facilitates continuous improvement to many MB product made in Spain, benefiting consumers and improving the country's quality of life. Such investment also improves the competitiveness of Spanish industry.		
Taxes	€m	12	1,5
	% of total Spanish tax revenue	7%	0.9%
	This includes all the taxes paid by suppliers, their staff and consumers: Corporation Tax, Social Security contributions, Income Tax and VAT.		
	MB directly and indirectly generate 8 times more revenue for the public purse than do WB.		
Advertising (investment in conventional media)	€m	1,352	152*
	Advertising as a % of sales	5%	1.1%
	% sales/ total advertising	20.5%	2%
	% advertising investment / GDP	0.13%	0.015%
	A 10% loss of market share by MB to WB could lead to 669 job losses and the disappearance of 223 advertising companies.--> general demand		
	Media survival largely depends on advertisers (ads, sponsorship, television sales). Advertising makes up the following shares of total revenue: public TV (43%) **; commercial TV (93%); radio (60%); newspapers (43%; magazines /36%).		

	The survival of most sports, social and cultural events also depends on brand sponsorship. Even wealthy soccer clubs such as FC Barcelona and Real Madrid earned 30% of their revenue from commercial sponsorship.

Summary of the social dimension and the market

The table below shows the impact of MB and WB on markets and on Spanish society.

Competitive landscape	The 1,000 biggest MBF make up 81% of sales. Only the first 20 biggest distributors have similar sales volumes. Furthermore, in 2007 the five biggest food distribution companies (the Carrefour group, the Mercadona group, the Eroski group, the Alcampo group and El Corte Inglés group) **concentrated over 75% of the market**. This concentration is growing year by year.
	This situation has turned the mass consumption market into a **demand oligopoly**, with few buyers and many sellers. The distributors are winning the day, which is harming the market itself. For example, a study carried out by the Basque Fair Trading and Monopolies Commission in April 2009 revealed that some distribution firms adopted practices that restricted competition and acted against the consumer interest.
	The fact is several large chains impose **harsh terms** on MBF. This is made possible because a distribution chain may account for up to 25% of the distributors' business but in the best case, only around 3% of the outlet's business. This can lead to distribution chains imposing additional discounts, payments for store listing, shelf and merchandising space rental, payments for sales and advertising campaigns and the hosting of special events and even charges for product returns.
Sales prices	The **index of mass consumption price index** is above the average for the EU-15 between 2000-2008 despite strong growth in white brand sales.
	The **average price difference** at the point of sale between a manufacturer's brand and a white brand was 38% - which for some consumers is not justified by the superior quality of manufacturers' brands. However, one should bear in mind that when the same company supplies both the manufacturer's brand and the white brand, the latter benefits from the economies of scale achieved by the MB and does not reflect development costs. This gives the white brand an unfair advantage, which is expressed as a lower retail price.

	When a distributor has successfully introduced its own white brands in a given category, this is used to beat down suppliers and **wring bigger profit margins** by paying less, demanding free services and/or bigger discounts and charge-backs. This is all reflected in the MBF costs, further widening the price gap between the manufacturer's brand and the competing white brand. The distributor's profit margin is thus artificially boosted as a result. If MBF were not forced to meet additional expenses, the price gap between manufacturers' brands and white brands could be narrowed to under 10%.
	There is general agreement that the distributor's gross profit margin in MB sales is higher in absolute terms than is the case with white good sales, although possibly not in relative terms. In addition, it is recognised that **MB generally turn over 10% less than WB**. Even so, some chains promote their white brands to the point where they are sold <u>virtually at cost</u> (given the chains are purchasing oligopolies) and because they demand additional payments from manufacturers that are not reflected in the store's own brands.
Social welfare	One of the hallmarks of our society is **freedom of choice**; in consumer markets this boils down to choosing those brands we think are best for us. Of course, product availability at the point of sale is of prime importance. Proximity of the outlet also plays a key role for <u>52% of consumers and 44% of customers would shop elsewhere if their favourite manufacturer's brand were not stocked</u>. Thus the absence of a regular brand on the shelves stops consumers exercising their right to choice.
	In most markets, manufacturers' brands are linked in consumers' minds with **"better quality"** or "a product one can trust". Although some white brands have greatly improved standards of late, in general one can say that MF still have a clear lead in terms of quality and consumer confidence.
	Given equal shop floor areas, between 2001 and 2008 the number of references sold by MB rose by 84.2% compared with a paltry 7.3% for white brands. This reveals that **the distribution sector has given more emphasis to white brands and less to manufacturers' brands**, which in practical terms means cutting the quantity and quality of shelf space for the latter. For any store product, less shop presence means less chances of customers buying it and by extension, less consumer choice.
	Recent studies reveal that **that the optimum share of white brands** as a total of all references in a given category **is around 20%.** This ensures that consumers are given sufficient choice, whilst maximising shop sales in monetary terms. In Spain, white brands now represent well over 30% in household chemicals and some 37% in perfumes. This suggests there are inefficiencies in the brand mix displayed on shop shelves.

	The recent development of modern distribution and its relentless concentration led to a long period of steady growth for brands. The other side of the coin is that it caused the disappearance of over **32,000 traditional shops** between 1995 and 2005. A collateral effect is the massive increase in traffic (with all of the pollution and other problems this implies) as shoppers use their cars instead of walking to supermarkets. The current growth in neighbourhood supermarkets may rein in the adoption of American shopping habits.
Other kinds of impact	**Regulatory framework:** • MBF have pioneered the adoption of quality certifications in the mass consumption sector and have applied waste recycling and reduction policies, established product tracing norms etc. and sought the involvement of their staff in such initiatives. • Some MBF lead initiatives in co-operation with other companies to combat child obesity (the so-called NAOS Strategy) and foster self-regulation policies on advertising (The PAOS Code of Practice).
	Corporate Social Responsibility: • Most MBF are aware of the impact of their activities on the environment and thus strategically manage their business models to not only make profits but also to ensure positive results for the environment and for society at both the global and local levels. • Leading companies in the mass-consumption sector have CSR and Environmental Sustainability Committees whose members are drawn from all parts of the firm. • Many MBF carry out charitable activities in collaboration with NGOs such as *Ayuda en acción*, *Fundación para la diabetes*, UNICEF and support fair trade initiatives and both help and monitor suppliers to improve product quality and the supply chain both locally and at the world level.

Main conclusions

As noted earlier in this study, MB play a key role in the Spanish economy, fostering steady growth in GDP as well as internal consumption and exports. The sector makes a bigger contribution to GDP than either the car or insurance industries, both of which are of strategic importance to Spain.

However, perhaps the most important finding concerns the gross value added by MBF. Taken together, they fall within the group of the 15 business activities that contribute most added value to the Spanish economy, putting them on a par with the foodstuffs and beverages industry.

All brands constitute intangible business assets and are a source of value for the companies that own them. This study shows that brands are also a source of value for the economy and society as a whole. It also reveals that the stronger a brand and its value proposition, the more resources it has to invest in vital areas of the Spanish economy such as innovation, the creation of quality jobs, exports. It also makes a considerable contribution to the public purse through both direct and indirect taxes.

In the current crisis, when white brands are gaining ground and are frequently mentioned on radio and TV talk shows, it is essential that Spain grasps the fact that manufacturers' brands are the only ones that: are truly innovative both at home and abroad; open up valuable overseas markets; create quality jobs; underpin the Information Society; provide wide consumer choice; are preferred by most consumers.

Building strong brands is a vital element in forging the new economy Spain needs if it is to start growing again and drive down unemployment. There are two aspects to this.

The first concerns competitiveness. Brands make it possible to differentiate one's products and convey their benefits to consumers, workers and suppliers. Sustained investment in innovation is the key to improving the competitiveness of Spanish companies in global markets. Some products are confined to domestic markets, others make the leap to international ones but in both cases a strong brand protects investments and yields handsome dividends. Healthy brands are the best way of enhancing Spain's productivity and competitiveness.

The second bears on internationalisation. Exports will play a key role in leading economic recovery. In general, Spain is not competitive in terms of world costs. That is why it has to compete in high-value segments if it is to successfully compete abroad. Evidently, such segments require more time and effort but once Spanish companies have made the breakthrough, they can achieve growth and profits. The only companies that dispose of the time and resources for this purpose are those with strong domestic brands. Only they can earmark some of their domestic profits to opening up international markets for their brands. This benefits Spain's economy, stimulates growth and helps narrow the country's trade gap.

In conclusion, this study reveals the great economic and social impact of manufacturers' brands and the comparatively meagre impact of white brands.