

Fighting Mushroom Brands

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Recession or no recession, most Pakistani consumers are hard pressed. While the so-called Pareto effect (affluent few control most resources) is there in all economies, perhaps its severity is the most in Pakistan. In years of economic growth, benefits were arguably restricted to upper tier of society. And now in times of stagflation (stagnant economy and high inflation), it's the middle and lower classes that suffer most. For them often the mundane purchase decision becomes 'whether' to buy, rather than 'which to buy'. As a consequence, making a right purchase decision has never been so critical for housewives – they simply can't afford to make one wrong decision and hence waste the money which is already scarce.

This is an ideal situation for mushroom brands, which mainly appeal consumers for their better value for money (*not only being low priced*). Different people refer to these brands with different names, some of the most popular being: local brands, private labels, mushroom brands, dealer-own brand, second tier brands, etc. for the simplicity, these shall be referred as mushroom brands in this article.

Rise of mushroom brands is a global phenomenon, the trend cut across developed and developing world. However, the reasons of their growth are different in two parts of the world. In west, large departmental stores had triggered their initial growth. Mushroom brands were offered at 15-25% price discount with the quality of national brands (read nationally distributed brands). This created a wow among the consumers and they not only stick to these brands but started trying them in other product categories. Nowadays, mushroom brands are growing across the channels and said to have more than 20% unit market share in US in FMCG categories.

On the contrary, mushroom brands have grown for different reasons in developing countries. Here it's more of affordability than value for money. Choice often is to have something or nothing, more so in areas marked by poverty/ lower socioeconomic classes. These brands also offer better trade margins as a result their primary channel of trading was *kiryana* shop or neighborhood general stores. Basics for many mushroom brands have remained unchanged even today – comparatively low price with better trade margin offering a quality that would *just* keep the consumer satisfied.

It is also not unusual for small mushroom brands to change names all too often. More prominent examples of this can be seen when some major event takes place. For example after 9/11, we saw emergence of dozens of Osama washing powder to Osama teas or after T20 win last year we saw many Hero teas, etc.

However, as a mushroom brand becomes strong, the manufacturer usually tries to maintain the quality and starts promoting the brand, initially by advertising in local cable-network.

Next stage is the distribution building – making it available in a wider area. Tapal tea started as a mushroom brand only to become a prominent industry player as we know today.

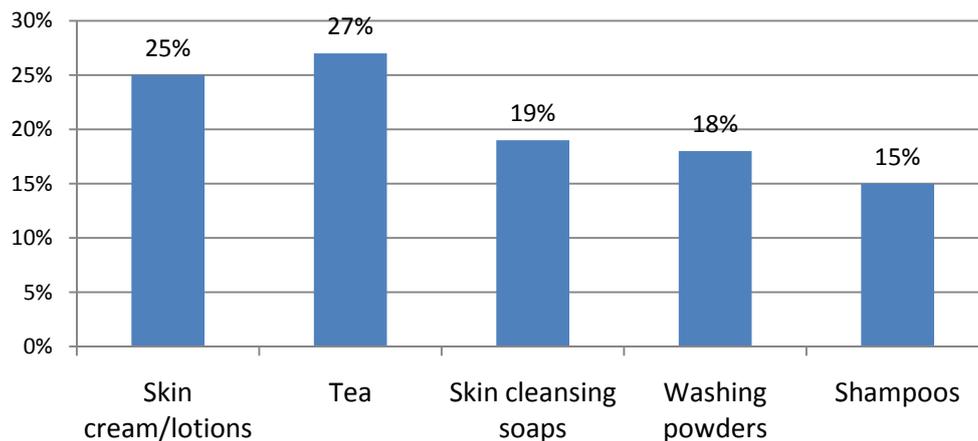
While the super store brand (likes of Makro washing powder, etc) is a recent phenomenon in Pakistan, mushroom brands had been there for many decades, perhaps more prominent in some categories than other.

Foresight Research (Pvt.) Ltd. runs the only household panel in Pakistan. The panel currently covers about 25 FMCG categories on the National Pakistan basis, i.e. both urban and rural Pakistan are covered. This article explores the mushroom brands phenomena based on Foresight household panel (numbers are slightly masked).

How big are mushroom brands in Pakistan?

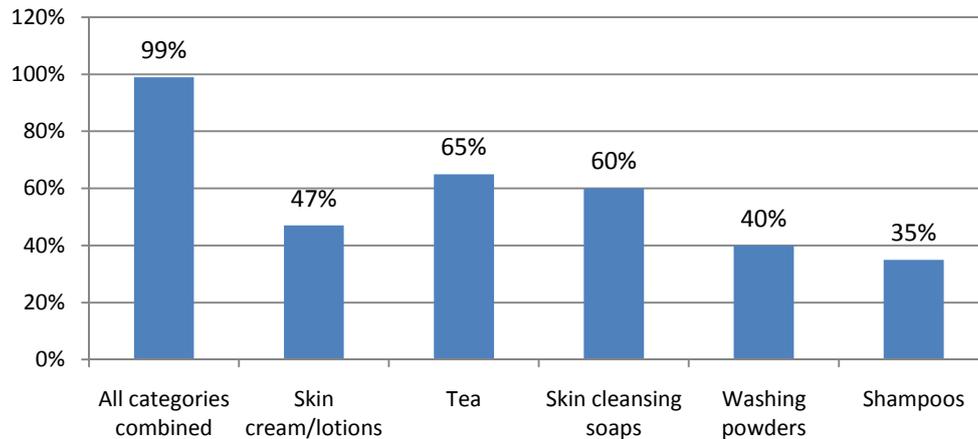
Pakistan FMCG markets are usually bi-model, i.e. both premium as well as low-priced products are available. Volume share of mushroom brands in couple of product categories are shown in chart 1 (source: Foresight household panel). Not only mushroom brands have significant shares, they are growing much faster than category growth.

Chart 1: Mushroom brands' volume share - 2009



How many households buy mushroom brands?

Almost everybody ... penetration of mushroom brands is very high in Pakistan. Nearly all households had used some mushroom brand in one of the above mentioned 5 product categories during 2009. (Chart 2 below shows the category-wise penetration). This clearly explains the potential of these products.

Chart 2: Penetration of mushroom brands - 2009

How much consumers pay for mushroom brands?

Not much, as one would have expected ... however, this vary category to category. Mushroom brands are very cheap relative to national brands in skin creams/ washing powder categories, while not so low-priced in some other categories. Their indexed price (i.e. how low-priced are they vis-à-vis average category price) is given in table 1 below.

One might also say that branding plays a much stronger role in categories like skin creams, whereas product is far more important in categories like tea – this is cued by price differential between mushroom brands and of national brands.

Table 1: Indexed Pricing for mushroom brands - 2009

Skin creams/ lotions	0.60
Washing powders	0.63
Skin cleansing soaps	0.70
Shampoos	0.72
Tea	0.80

Are mushroom brands growing?

In times of economic pressures, these brands do provide a good substitute to a relatively expensive national brand. So it comes as no surprise that mushroom brands are on accelerated growth in recent past. And as it happens, more consumers are buying them and buying them more frequently.

Does private label pose a serious threat?

Of course ... yes. They are nice, cheap and usually come with shopkeeper strong recommendation. In recessionary times, consumers' instinct takes them back to basics. While the basic consumer needs remain the same, but the ways consumer satisfy those needs becomes different. So all that aura that marketers have built around their products after years of marketing, becomes less significant to consumers and they become more and more interested in the product itself. That's exactly what these mushroom brands are: only the product with no (or little) emotional benefits. So value for money equation becomes increasingly weaker for the national brands, while the reverse is true for mushrooms.

How do national brands deal with it?

In the heat of fighting with mushroom brands, all too often we see marketers cutting the price to improve the parity. Similarly, when faced with keeping the margin intact in rising costs, many prefer to cut the SKU size rather than increasing the price. Time and time again, we have witnessed brands suffering from this. While it does give a momentary growth many a times, it is very rare that such a move bring the growth back to the brand. All it does is to start a downward spiral of pricing competition between national brands and mushrooms – in which national brands are sure losers.

What instead national brand should do is to come up with consumer-centric innovations so as to give more reasons to consumers to buy their brands. So, instead of lowering the price (making your brand more affordable) its about giving more reasons to consumers to purchase the brand. Sure, its' tough but that's the only solution.