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Is the end of the big brands near?

As the market continues to wrestle with the uncertainty of Brexit, another 'B' is also polarising investors – Brands. In the last 12 months, several high-profile consumer goods companies, most notably Kraft-Heinz, have issued profit warnings. This has prompted some commentators to proclaim that the era of the big brands is over and that the future belongs to smaller, so-called 'craft' brands. However, to paraphrase Mark Twain, I believe that reports of the death of big brands have been greatly exaggerated.

Driving much of the rush to call the end of the dominance of the big brands is the disruptive influence of technology. Perhaps this should come as no surprise given how technology has laid waste to so many traditional industries in recent years. In the consumer goods arena, we are told that technology is helping new entrants overcome the traditional hurdle of capturing consumers' attention. In days past, big brands had a near monopoly on our eyeballs through primetime TV and print slots which commanded millions of viewers and readers. However, a cursory glance at the share prices of advertising agency WPP compared to Facebook and Google's parent company Alphabet is a stark reminder of just how much the advertising and media landscape has changed in recent years. In theory at least, any company, rather than a select few, can now capture our attention using these new advertising channels.

I would argue the reality is a little different from the theory, however. Both Google and Facebook use an auction system to set the price and the position of adverts. Inevitably, this results in those companies with the deepest pockets commanding the prime slots. This matters, as according to advertising agency Wordstream, 41% of clicks go to the top three Google adverts while the top advert is four times more effective than the average. Clearly, the economics of the new technology still overwhelmingly favours those brands with the largest advertising budgets.

But what of changing distribution channels, the rise of Amazon and the shift to online shopping? Surely this creates opportunities for new companies to enter the market and 'eat the lunch' of the big brands? The rise of the supermarkets had a profound effect on smaller companies who, unable to produce their wares at scale and deliver them nationally, found themselves squeezed out of existence. The result was a significant decline in independent and regional brands, and a huge capture of market share for large multinational brands (the continued pre-eminence of Scotland's other national drink, Irn-Bru, at the expense of Coca Cola and Pepsi being a rare exception).

Will the unlimited 'shelf space' offered by the likes of Amazon reverse this trend by putting small brands on an equal footing, a near impossibility on the limited shelf space of the local supermarket? I think not. There is a big difference between being listed and actually selling. Amazon's data suggests that a remarkable 70% of consumers do not get past the first page of product search results on its website while some 35% of consumers purchase the very first item. So much for the discerning consumer! On top of this, the top four search results on Amazon are sponsored listings which are auctioned by Amazon. Again, the odds are stacked in the favour of those with the deepest pockets.

Of course, there are brands that have successfully challenged bigger and more established rivals: Fever-Tree with tonic water and Dollar Shave Club with razor blades are two of the most high-profile examples. Undoubtedly, both companies have executed their strategies very impressively, but I would argue that their success has been given added impetus by mistakes from the incumbent brands. In the case of tonic water, the UK market leader Schweppes, hindered by a complex ownership structure, failed to maintain the prominence of its brand in the minds of consumers through limited marketing and little product innovation.

Meanwhile, Gillette was offering new products at increased prices which consumers perceived to offer less value for money - how much better really are 5 blades than 4? However, even this story had a happy ending for the big brand owners as in 2016, Dollar Shave Club was bought by Unilever for $1bn. Proof that if the new kid on the block has something innovative as Dollar Shave Club did with its direct to consumer subscription business model, then the big boys can always buy them.

As with any industry, there will be always some turnover in brands as consumer tastes and preferences evolve. However, this shouldn’t be conflated with an existential threat to all big brands and the companies that own them. While the proliferation of craft brands shows that it has become easier to launch a brand, the evidence suggests that barriers to success remain high. I will leave the big brand bears with the example of Heineken. In 2018, despite being in its 155th year and despite the worldwide craft beer movement, the Dutch premium lager grew at its fastest rate for more than a decade. If this is what the end of an era looks like, then I’m happy to raise a glass to that.

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