Rivista di Economia Agraria, Anno LXXI, n. 1 (Supplemento), 2016

The positioning of the national and private label brands in the different segments of the Italian pasta market

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Abstract

In the Italian agro-food industry pasta represents a strategic product since Italy has the peculiarity of being, at the same time, the main producer and consumer of pasta. In the last years, Italian food retailing, as in all developed countries, has experienced some developments. This work, which represents a preliminary study on the Italian pasta market, focuses on how national and private label brands are positioned in the different segments of the Italian pasta markets. A way to reach such goal is to investigate on retail price and price promotions in Italy and 4 Italian macro-regional areas. The average prices show that at the national level different market segments exist with three national brands positioned at the highest level, following by an intermediate segment in which we find brand leader (Barilla) which competes with private label brands. The private labels products, which present a regular price lower than national brands, are sold without promotions. the frequency of price promotions concerns mainly the brands positioned in the higher market segment and the market leader. Finally, there is a moderate there is a relevant degree of heterogeneity in the results across the selected regional areas.

Keywords
national brand, private label, price promotions, pasta

Introduction

Pasta represents a strategic product in the Italian agro-food industry: Italy is the world's leading pasta producer, with an output worth 3.2 million tons in volume terms. This represents a quarter of worldwide output while pasta production represents nearly 6% of total output by the Italian food industry; Italy is the largest consumer of pasta (26 kg per capita), followed by Venezuela (12.3 kg per capita) and Tunisia (11.7 kg per capita) (International Pasta Organization, 2012).
Italian pasta supply chain is characterized by high degree of concentration at processing and retailing stages. As showed in Table 1, the first five largest companies present in Italian pasta market hold about 65% of market shares with the leader (Barilla) which has 37% (Antitrust, 2009). A case of anticompetitive practices against pasta makers has been

DOI: 10.13128/REA-18625
ISSN (print): 0035-6190
ISSN (online): 2281-1559

identified and sanctioned by the Italian Antitrust Authority (Antitrust, 2009). Pasta is a good which Italian consumers buy frequently and where the role of brand is still very important even if product label brands have increased their market share. Furthermore, there are some evidences (Industry and trade Summary, 2003; Kantor et al., 1997) and stakeholders statements (Unionalimentari, 2010) that pasta, in some cases, is considered as a loss leader product, sold at price below its market cost to stimulate other sales of more profitable goods.

In the last decades food retailing in developed countries has experienced rising concentration levels. In Italy, despite food distribution chain presents a lower degree of concentration than in other European countries, it has experienced a remarkable consolidation process over the last years: the share of total value of food sale pertaining to the large retail distribution (GDO) has reached 72% in 2010 (OECD, 2013). The distribution of the different categories of point sale is decisively heterogeneous among the various Italian areas: the north area, especially in the west, is dominated by hypermarkets while in the central regions supermarkets prevail; the presence of small-scale stores, instead, is relevant in the southern regions whereas hard-discount is homogeneously distributed all over Italian territory (Banca d'Italia, 2012).

Table 1. Brands' market share (%) in the Italian pasta market

Brand	2008		2007		2006	
	Value	Quantity	Value	Quantity	Value	Quantity
Barilla	39.44	36.88	40.48	38.09	40.82	39.12
De Cecco	11.19	7.88	12.07	7.73	12.70	8.02
Divella	6.58	7.63	6.42	7.83	6.62	8.33
Garofalo	3.89	2.98	3.94	3.09	3.36	2.74
Colussi	3.25	2.91	3.45	2.86	3.88	3.04
Granoro	2.96	3.12	2.64	3.05	2.19	2.46
Amato	2.76	3.13	2.52	2.91	2.65	3.04
Del Verde	0.89	0.61	0.77	0.57	0.61	0.42
Rummo	0.88	0.92	0.80	0.77	0.58	0.45
Russo	0.73	0.81	1.06	1.24	1.45	1.74
La Molisana	0.64	0.53	0.77	0.62	0.65	0.46
Private Labels	15.24	20.88	13.08	19.09	11.77	16.98

Source: AGCM elaboration on Nielsen data.

Pricing and promotion are often studied almost in isolation of each other because pricing and promotion decisions are made by different managers in different departments in some retail chains (Ailawadi et al., 2009). In their strategies, retailers have to coordinate the regular prices and promotion of brands within a category, across categories and across shopping formats (Gauri et al., 2008; Bolton et al., 2007). National brands and private labels may differ in promotion effectiveness and the differences in their effectiveness have important implications for retailer promotion strategy.

In this preliminary study, our goal is to assess how the different national brands and private labels are positioned into the different segments of the Italian pasta in terms of prices and

promotions. A way to reach it is to investigate on weekly pasta prices at retail level for Italy and five Italian macro regional areas.
The paper is organized as follows: Section 2 focuses on the methodology employed, Section 3 presents in detail the results of the estimations while Section 4 concludes.

Methodology

In order to assess how the different national and private labels brands are positioned into the different segments of the Italian pasta in terms of prices and promotions, we employ a simple methodology. Concerning the average prices for different national and private label brands, we use a simple medium of the of the regular price in the selected period for each brand i in any outlet j. Furthermore, the regular prices and price promotions enable us to compute the frequencies of the promotions as:

$$F_{i,j} = \frac{\sum_{t=2}^{\tau} p_{i,j,t}}{\sum_{t=2}^{\tau} x_{i,j,t}} \tag{5}$$

where the frequency of price promotions in the selected period for each brand i in any outlet j is expressed as the total number of promotion pi,j over the total price quotes present for brand i in any outlet j.
Ismea made available weekly pasta prices at retail level for Italy and five Italian macro regional areas from 2011-2013. The data concerns both regular prices and sales prices for 7 national brands (Garofalo, De Cecco, Voiello, Agnesi, Amato, Barilla and Divella) and 3 private label brands (present on the whole Italian territory).

Results

Table 2 reports, respectively, average regular price and the frequency of price promotions for the selected pasta national and private label brands sold by GDO in Italy and the 4 macro-areas north-east, north-west, centre and south) from 2011 to 2013.
Average regular prices allow us to comprehend how Italian pasta market is structured: i) at the highest segment we find three national brands (Garofalo, De Cecco e Voiello) with an average price ranging from 1.99 and 2.34 euros; ii) the rest of national brands[1] included in our dataset are sold at prices which range from 1.82 to 1.23 euros; iii) prices of the three selected private labels are between 1 and 1.20 euros.

[1] In the Italian pasta market are present other national brands such as whose products are sold around. Other brands are not penetrated into national market but they are sold only in specific areas.

Table 2. Average regular prices and frequency of price promotions in Italy and in 4 macro-regional areas (2011-2013)

Brand	**Italy**		**North-east**		**North-west**		**Centre**		**South**	
	Average regular price	Frequency of Price promotions	Average regular price	Frequency of Price promotions	Average regular price	Frequency of Price promotions	Average regular price	Frequency of Price promotions	Average regular price	Frequency of Price promotions
Garofalo	2.34	89.6	2.35	25.0	2.37	47.7	2.37	66.9	2.29	63.4
De Cecco	2.31	99.5	2.25	39.1	2.29	42.9	2.31	73.9	2.33	96.8
Voiello	1.99	57.8	1.97	28.1	2.02	27.6	1.91	33.1	2.04	11.1
Agnesi	1.82	21.1	1.96	-	1.86	-	1.96	-	-	-
Amato	1.50	14.0	1.57	42.6	1.63	-	1.50	-	1.33	16.1
Barilla	1.55	95.5	1.47	-	1.6	31.6	1.51	70.8	1.54	79.9
Divella	1.23	87.1	1.42	16.3	1.48	21.6	1.35	35.3	1.11	83.8
Private label 1	1.02	-	1.02	-	-	-	1.06	-	0.97	-
Private label 2	1.06	-	1.06	-	1.06	-	-	-	-	-
Private label 3	1.19	-	-	-	-	-	1.17	-	-	-
Average	1.60	66.4	1.67	30.2	1.79	34.3	1.68	56.0	1.66	58.5
Average national brands	1.82	66.4	1.86	30.2	1.89	34.3	1.84	56.0	1.77	58.5
Average private label	1.09	-	1.04		1.06	-	1.12	-	0.97	-

Source: our elaboration from Ismea data

(1) Prices are expressed per kilogram on package from 500 grams

When analyzing the price promotions at national level, the highest frequency are shown by national brands placed in the highest segment, except Voiello, Barilla (the leader in the Italian pasta market) and Divella. In percentage terms, the average size of price promotions ranges from 16.9% of Voiello to almost 30% of Garofalo. Interesting evidence concerns retailers' strategy about price promotions: the private labels products, which present a regular price lower than national brands, are sold without promotions. Considering price promotions in the different Italian macro-regions, it is worth to note that in the southern and in the central regions the frequency is decisively higher than in the rest of Italy. In the interpretation of this result, it might be useful to recall that above all in South Italy the consumption of pasta is more relevant (Cersosimo, 2011).

Conclusion

In the Italian agro-food industry pasta represents a strategic product since Italy has the peculiarity of being, at the same time, the main producer and consumer of pasta. In the last years, Italian food retailing, as in all developed countries, has experienced some developments, such as rising concentration levels, a heterogeneous distribution of the different categories of point sale among different Italian regions and an increase of products sold as private labels, which might have its buyer power.

This work, which represents a preliminary study on the Italian pasta market, focuses on how national and private label brands are positioned in the different segments of the Italian pasta markets. A way to reach such goal is to investigate on retail price and price promotions in Italy and 4 Italian macro-regional areas.

The average prices show that at the national level different market segments exist with three national brands positioned at the highest level, following by an intermediate segment in which we find brand leader (Barilla) which competes with private label brands. A similar market segmentation reflects the various Italian macro-regional areas with some differences due likely to the different consumer attitude towards pasta consumption. Concerning the frequency of the price promotions, some interesting evidences are showed by the our elaborations. Firstly, retailers' strategy about price promotions: the private labels products, which present a regular price lower than national brands, are sold without promotions. Secondly, the frequency of price promotions concerns mainly the brands positioned in the higher market segment and the market leader. Finally, there is a moderate there is a relevant degree of heterogeneity in the results across the selected regional areas.

The future research will focus on retailers' strategies in the Italian pasta market in terms of price rigidity and price promotions according to brands (national and private labels) and regional areas. Furthermore, we will investigate on which factors (e.g. seasonality, the use of attractive prices and the characteristics of the distributive sector such as concentration, type of outlets) have a relevant impact on price-setting behavior and on the differences in price levels within each country.

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