

Press Release

Date
July 9, 2010

Sandra Lades
GfK Association Press Officer
Tel. +49 911 395 3606
sandra.lades@gfk-
association.org

Ronald Frank
GfK Association Studies
Tel. +49 911 395 3004
ronald.frank@gfk-
association.org

GfK-Nürnberg e.V.
Nordwestring 101
D-90419 Nuremberg

Tel +49 (0)911/395-3606
Fax +49 (0)911/395-2715
www.gfk-verein.org
info@gfk-verein.org

Managing Director:
Dr. Raimund Wildner

Executive Board:
Peter Zühlsdorff (President)
Ralf Klein-Bölting
Prof. Dr. Nicole Koschate
Prof. Hubert Weiler
Dr. Raimund Wildner
(Vice President)

Association register: VR200665
Nuremberg District Court

In between premium and low-cost – the middle is alive and well

60th GfK Conference in Nuremberg on consumption and communications in the middle bracket markets

Nuremberg, July 9, 2010 – Be it the middle class or the middle bracket brands – how important is “the middle” in society, the economy and the consumer world? Does it merely represent a boring average? Is the middle shrinking to the benefit of the fringes, or is it in fact enjoying a revival? These questions were central to the issues under discussion at the annual GfK Conference, which was held today for the sixtieth time and attended by around 500 market research experts from Germany and abroad. “Some had declared the middle bracket markets dead, but our conference shows that they have in fact made their comeback,” says Peter Zühlsdorff, President of the GfK Association, which hosted and organized the event.

Four renowned speakers approached this year’s conference topic from different perspectives. The role of the social middle class was discussed alongside the successes of middle bracket markets and brands using examples such as televisions and fast moving consumer goods (FMCG). “Taking a look at the middle is worthwhile for anyone who, like the GfK Association, wants to recognize and understand future trends,” asserts Dr. Raimund Wildner, Managing Director and Vice President of the GfK Association. “Although the middle bracket is generally inconspicuous, it represents the core of society and consumers and therefore considerably influences future developments.”

The middle class in Germany – yesterday, today and tomorrow

Prof. Dr. Gert G. Wagner from the German Institute for Economic Research, Berlin, explained in his lecture that anxiety about the middle class in Germany is unfounded. “The panic about the middle class which has been reported in the media over the last few weeks is based on an unconsidered

interpretation of statistical findings," said the social expert. His theory is that the middle class is as broad as ever – and will on the whole remain that way.

Nevertheless, Prof. Wagner stated that the middle income bracket has become a little thinner in recent years than it was prior to Agenda 2010, which was introduced by Schröder's government. The higher income bracket in particular has further distanced itself from the middle, and, above all, the lower income brackets. However, Prof. Wagner pointed out that the middle income bracket should not be confused with the (sociological) middle class.

According to the social expert, the middle class extends well into the upper income bracket. From a sociological perspective, only 1% to 2% of the population can be considered "rich without a care" and therefore part of the privileged upper class. Although the well-off have improved their income positions over the last few years, most are nevertheless concerned about their financial future. "Anyone with financial worries is not included in the upper classes," claims Prof. Wagner, who believes the fact that the broader middle classes are anxious about their children's futures above all else should be seen as a good sign in a democracy. The upward and downward mobility which is possible in an open society has inevitably resulted in many middle class parents fearing that their children could suffer and slide down to the lower middle class. Prof. Wagner underlines that: "This mobility creates stress, but this stress is useful to society".

Success in the middle bracket of fast moving consumer goods

Dr. Wolfgang Adlwarth, Division Manager of Strategic Marketing, GfK Panel Services, Nuremberg, focused more closely on fast moving consumer goods (FMCG) in Germany during his lecture. The polarization of the market is extremely advanced in this segment: this can be seen in the thinning out of middle price ranges to the benefit of bargain offers on the one hand and premium brands on the other. According to Dr. Adlwarth, the power brands, also called "market leaders", have been able to maintain their position at the top end of the middle bracket over the past few years. In contrast, the market share of other middle bracket brands decreased from 42.7% in 2003 to 33.5% in 2008.

"The thinning out of the middle is mainly due to pressure from the top through ongoing and extended promotional activities by the premium brands and market leaders," said Dr. Adlwarth. "Added to this is the pressure from below as a result of the improved quality of retail brands – both the lowest price ranges and new added-value retail brands."

However, in 2009 the polarization trend was broken. "For the first time, the middle bracket brands again increased their market share en masse, and

this development is set to continue in 2010," emphasized Dr. Adlwarth. An important reason for this shift in the trend is that values such as trust, security and responsibility have increased in importance as a result of the economic crisis. This creates new opportunities for middle bracket brands, particularly for those with a long tradition and regional roots.

Middle bracket brands have greater appeal to the consumer during a crisis because they frequently give rational explanations for their promises of quality and value for money. An additional factor central to the success of middle bracket brands is their focus on a particular market segment. These can be "value-based" segments, such as the ecological values of Frosch, or target groups and regions, for example, the East German brands Vita Cola and Bautz'ner Senf.

Furthermore, successful middle bracket brands bring greater innovation to the market and even increase their advertising revenues in times of crisis. Distribution in the discount segment also plays an important role. Successful middle bracket brands are significantly expanding their presence through this channel, which constitutes more than 40% of food retail sales. In this segment, the mid-range brands represent the best-value alternative to retail brands for consumers.

0 or 1 – is there a middle bracket in the digital world?

In his lecture, Jürgen Boyny, Global Director of Consumer Electronics at GfK Retail and Technology, Nuremberg, addressed the question of whether there is a middle bracket in the digital world. He concluded that although the middle clearly exists, it is subject to constant changes.

Mr Boyny pointed out that the market for digital consumer electronics as a whole, including mobile phones, computers and televisions, will continue to grow in 2010. His presentation focused on the development of the middle segment of the TV set market price structure. The market for TV sets is booming, both in Germany and on a global scale. In 2009 alone, almost one in five households in Germany bought a new television. "The TV market has completely changed over the last five years," Mr Boyny said. The TV set market is characterized by a significant innovative drive towards flat screen televisions, but, like many other markets for electronic consumer goods, it is also shaped by continual price erosion.

The following figures are an impressive reflection of the triumph of the flat screen TV: while this technology only held a market share of 8% in 2004, this had increased to 98% by 2009. Another finding is that the middle bracket has increased in size following this change in technology. In 2009, the middle price segment, which is between EUR 200 and EUR 800, held a market share of 67%, whereas it only held 52% in 2004.

According to Jürgen Boyny, the development of the middle segment follows a particular logic: the middle bracket becomes smaller with the introduction of technical innovations. Once new technologies have established themselves, price declines take hold and the middle segment grows beyond its former market share. As the market for televisions is global, this phenomenon is not only present in Germany, but can also be observed in many other countries around the world.

Successful communications for mid-range brands

Florian Haller, CEO of the Serviceplan Agency Group, Munich, observed in his lecture that: “We have been witnessing a renaissance of the brand for quite a few years now.” Although the bargain hunter mentality has not disappeared yet, it has become less important again. This seems to be benefiting the mid-range brands – those that are between premium and discount – which were deemed “stuck in the middle” and declared dead by corporate consultants only a few years ago.

The renaissance of the middle can be explained from a psychological standpoint, says Mr Haller. The rising insecurity among people as a consequence of the economic crisis has resulted in a return to the familiar. A good price-performance ratio is also considered important – and this can often be found with middle bracket brands. As Florian Haller says, it is not without good reason that seven of the ten “best brands” are middle bracket brands.

The target group of mid-range brand consumers is commonly incorrectly assessed. It is not an average of all consumers, but a modern behavior-oriented segmentation, meaning those consumers who choose mid-range brands more often than average. This group is extremely interesting for brand name companies, because they are open to new products and advertising but, above all, have strong purchasing power.

Florian Haller’s conclusion is that the middle is alive and well. The communications expert points to different success factors which typify the mid-range brands as regards their advertising activities. For example, thriving middle bracket brands invest more than average in their communications. An empirical study shows that, in practice, a budget difference of around 25% lies between success and failure. In addition, middle bracket brands spend their budget more wisely than the competition. Mr Haller reasons that those with a lower budget than competitors should at least invest it in a more creative way. The greatest potential lies in improving the integration of communications measures.

The GfK Conference

The GfK Association's annual conference focuses on current issues pertinent to marketing and market research. Not only are lectures held by distinguished experts, but the conference also offers a platform for the exchange of ideas. Since 1950, the GfK conferences have been held subsequent to the GfK Association's general membership meetings. Approximately 500 people regularly attend this event.

The GfK Association

The GfK Association was established in 1934 as a non-profit organization for the promotion of market research. Its membership consists of approximately 600 companies and individuals. The purpose of the Association is to develop innovative research methods in close cooperation with academic institutions, to promote the training and further education of market researchers, to observe the structures and developments in society, the economy and politics that play a key role in private consumption, and to research their effects on consumers.

Survey results are made available to the membership. The GfK Association is a shareholder in GfK SE. Further information: www.gfk-association.org

The GfK Group

The GfK Group offers the fundamental knowledge that industry, retailers, services companies and the media need to make market decisions. It delivers a comprehensive range of information and consultancy services in the three business sectors Custom Research, Retail and Technology and Media. The No. 4 market research organization worldwide operates in more than 100 countries and employs over 10,000 staff. In 2009, the GfK Group's sales amounted to EUR 1.16 billion. For further information, visit our website: www.gfk.com

Responsible under press legislation:
GfK Association, Press Office
Sandra Lades
Nordwestring 101
90419 Nuremberg
Tel. +49 911 395-3606
sandra.lades@gfk-association.org