Conclusions of the 18th session of the NetObserver® Europe study:

In our analysis of the results of the 18th session of the NetObserver study, which was conducted between September and November 2008, we have focused on the two following subjects:

1. European internet users and the food and grocery market: focusing on the breakdown of purchases between brand names and store brands, and establishing in where the majority lies, in the following 5 categories of CPGs: food, pet food, drinks, cosmetics/beauty products and cleaning products.
2. The consumption of media content online: the place occupied by video in the information and entertainment activities carried out by European internet users.

1. Breakdown of purchases between brand names and store brands in the five main categories of consumer packaged goods.

Faced with the economic crisis, the food price inflation and the stagnation of incomes, the consumption of store brands in Europe intensifies. Both large supermarkets and smaller discount stores such as Aldi and Lidl,, are having an increasing impact on the food and grocery market.
The strong breakthrough of discount retailers in Europe is not only due to the aggressive pricing policy of these retail chains but also to the changes in consumption habits. Consumers are trying to avoid being tempted by non-food purchases proposed by superstores. As a comparison, when a discount chain like Aldi offers a range of less than 1,000 products in its small stores, big supermarkets or superstores like Tesco often offer ranges of more than 10,000 products! An illustration of the change in consumer behaviour is shown in their changing perception of brand names, the major brands having gradually lost their legitimacy, while store brands no longer have the down-market image they previously held. This is now true to such an extent that store brands are no longer systematically perceived as the “second best” in comparison to brand names. In addition, discount retailers are now attracting a larger client base, not just those with a low household income. The fact that these discount stores are opening close to town centres also contributes greatly to their success.
This phenomenon seems to have reshaped the food and grocery retailing market and put large industrial groups such as Danone or Unilever under pressure in Europe.

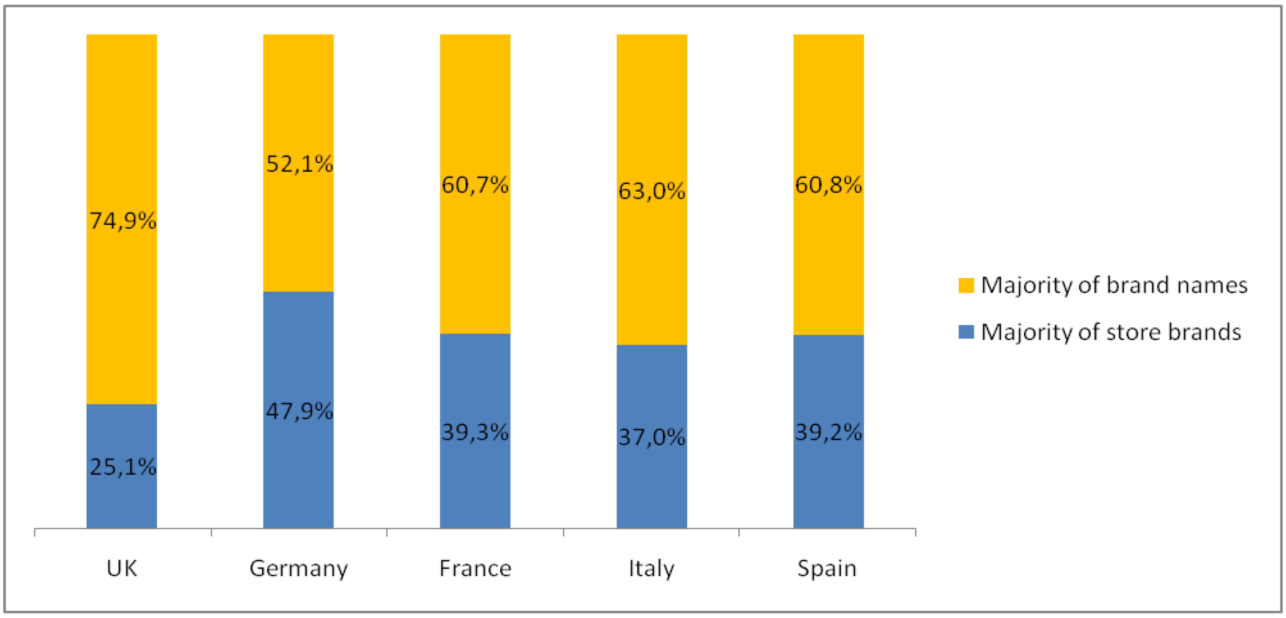
Without seeking to determine the market share of store brands within European consumption, we wanted to look at the attitude of internet users faced with this phenomenon, by studying the 5 main food and grocery product categories, the breakdown of purchases between brand names and store brands, either from supermarkets or discount stores.
In actual fact, many consumers still mix their purchases between store brands and brand names. Some Brand names have proved to be more resistant to their store brand counterparts as a result of their competitive advantage. For example, in the case of Nutella from the Ferrero brand, some consumers continue to favour it as its taste is unparalleled by other alternatives.
The weight of store brands purchased by internet users, in comparison to brand names, naturally varies according to the categories of food and grocery products and the European countries studied.

Cosmetics/Beauty Products

Brand named products remain the majority share of purchases made by internet users in the Cosmetics/Beauty products sector. It must be said that the Cosmetics/Beauty products sector is not only the latest product category in which retailers have become interested, but also the category for which consumers still remain very much attached to brand names. Thus, the weakest market share of store brands in this category is explained both by a narrower supply, but also by a lower demand than in other categories. It's also worth noting that the purchase of brand names by European consumers within this category is mostly driven by young women aged from 15 to 34 years of age.

However, one can see that in Germany, where retailing has been dominated since the end of the Second World War by such discounters as Aldi or Lidl, that the share of store brands in this category is very similar to that of brand names. No less than 48% of German internet users claim to mainly buy store brand products.
On the other hand, the reverse is true of the UK market, where only a quarter of internet users claim that the majority of their purchases in this category are store brands. Whereas, the market share in France, Italy and Spain is between 37 and 39%.
This is very representative of the food and grocery retailing market in the UK, where discount chains have found it most difficult to establish themselves. This is largely due to the strong resistance of supermarkets such as Tesco, Asda and Sainsbury's who have succeeded in positioning themselves as discounters of brand names.

Breakdown between brand names and store brands of purchases made by European Internet users in the Cosmetics/Beauty Products category
(Source : Harris Interactive - NetObserver® Europe, December 2008)

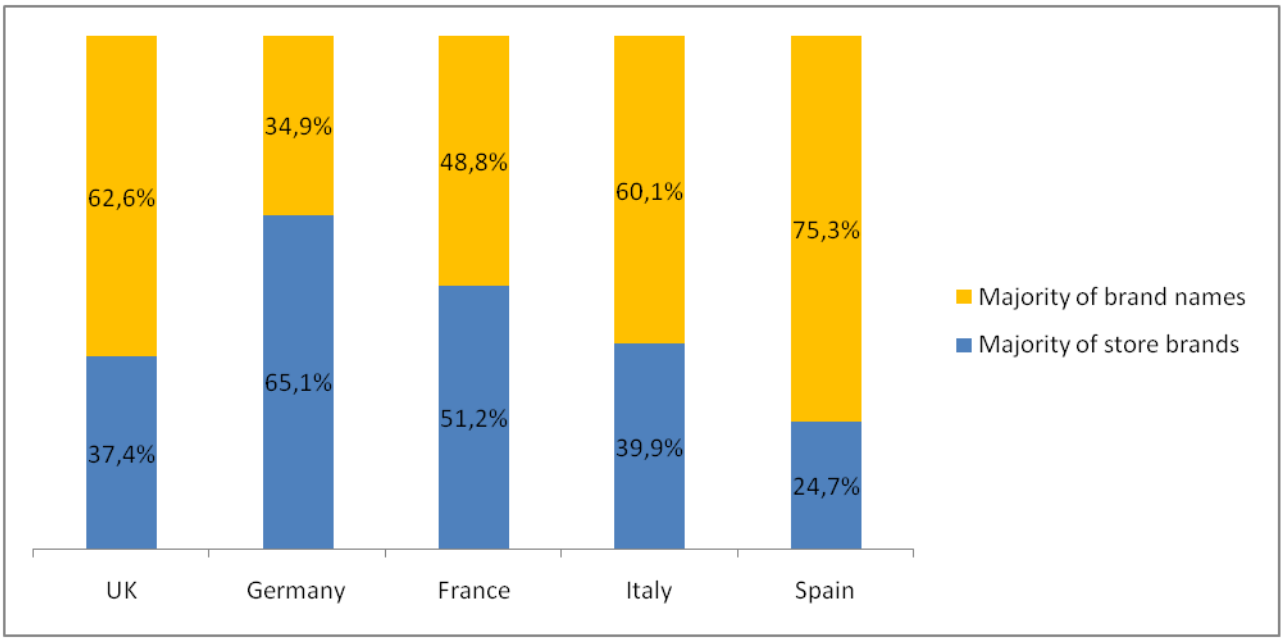


Drinks

In the drinks sector, we once again see that brand names are favoured over store names across Europe. The predominance of brand names is largely explained by the slow development of retailers' own store brand alternatives in this category, ranging from mineral waters to alcoholic drinks.
It is worth noting that it is mainly males who purchase brand named drinks. Brand named drinks in France and Italy are purchased mainly by the younger generations, however in the U.K and Germany they are mostly consumed by people aged 55 and over.

Nevertheless, the development of store brands within the drinks sector is becoming stronger and faster, as shown by the case of France where a small majority of internet users (51%) already favour store brands over brand names. In Germany, 65% of internet users mostly buy store brands in this product category; however this can be explained by the long-established dominance of discount retailers.
The English and Italians continue to favour large brand names over store brands, with over 60% of their internet users buying mostly brand named drinks. The situation in Spain is even more atypical with 75% of Spanish internet users favouring brand names! The reason behind this might not only be related to a narrower supply of store brand drinks but also to a population of internet users that are younger and more attached to brand names.

Breakdown between brand names and store brands of purchases made by European Internet users in the Drinks category
(Source : Harris Interactive - NetObserver® Europe, December 2008)

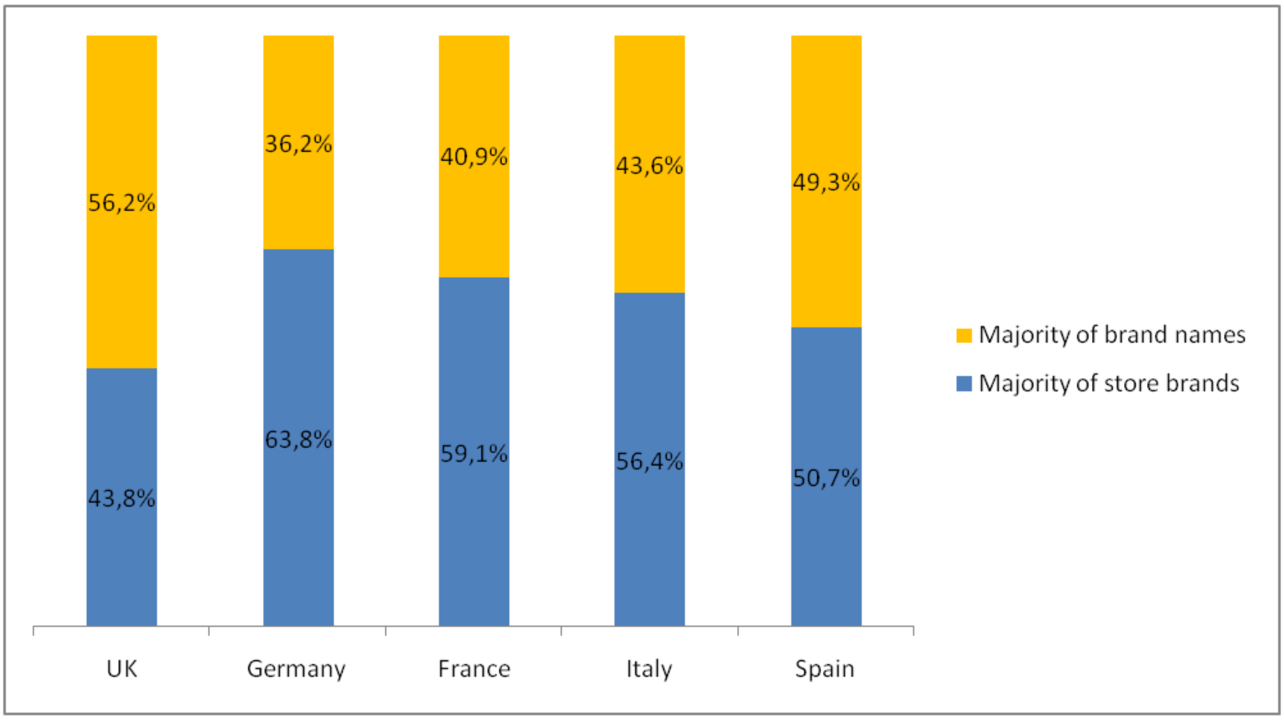


Pet food

The pet food category is largely dominated by store brands; however the profiles of buyers favouring store brands varies from country to country. For example, in France and Italy the majority of buyers favouring store brands are men, whereas in the U.K and Germany it tends to be women. Interestingly in Spain, men and women appear to behave similarly.

It is only in the UK that internet users continue to mainly purchase brand names in this category. As previously mentioned, this difference is partly related to a much more recent entry of discount retailers into this market, which had previously been dominated by domestic retailers. Yet, as British retailers had not only discounted brand named product prices but had also developed their own store brands, Britons were already large consumers of store brands before the entry of German discounters. The major difference in comparison with a country like Germany, where discount stores exclude brand names from their shelves, is that British internet users have not yet abandoned the leading brand names that coexist with store brands.
In Spain, where discount chains and store brands are well established, it is only a small majority (51%) of internet users that favour them over brand names in this category.

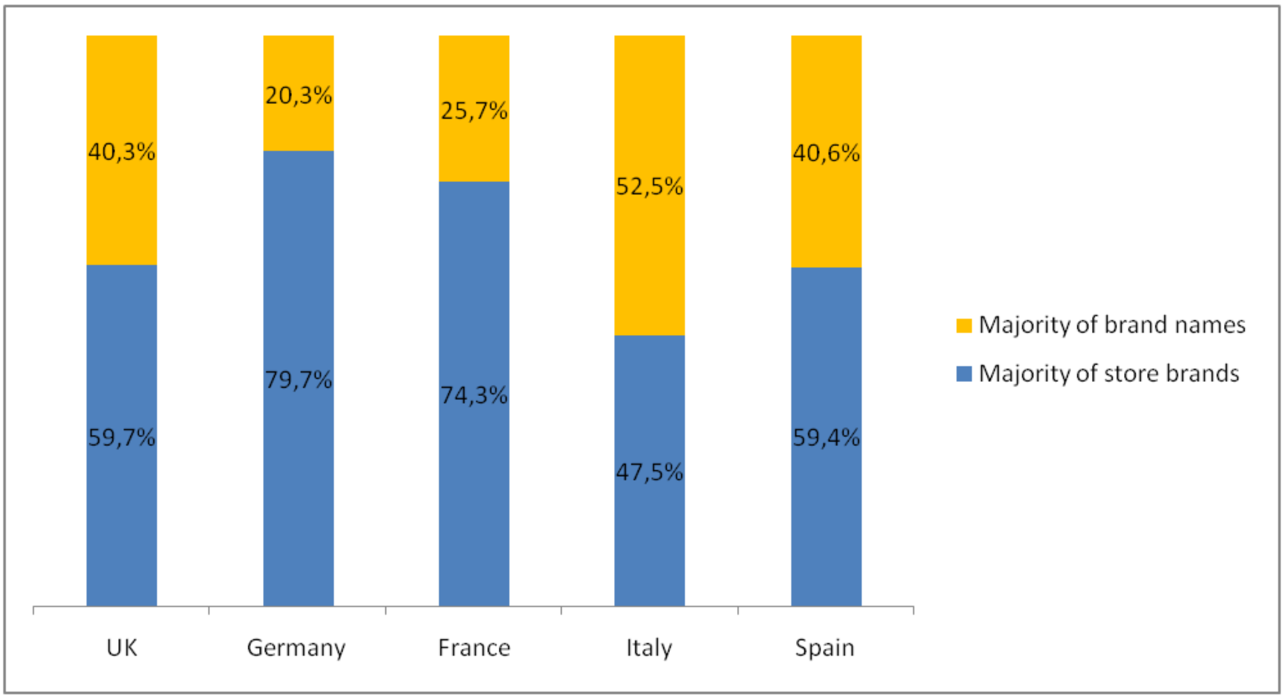
Breakdown between brand names and store brands of purchases made by European Internet users in the Pet Food category
(Source : Harris Interactive - NetObserver® Europe, December 2008)



Food

The food category, which is the largest of the 5 categories studied, is globally dominated by store brands in Europe; with Germany leading the way with 80% of internet users purchasing a majority of store brands.
The purchasing of a majority of store brands amongst consumers of food products is driven by young women in the countries surveyed, except however in Italy; where store brands are favoured by men aged over 55.
In France, 74% of internet users already favour store brands over brand names, compared to 60% in Spain and the UK.
It is only the Italians by a small majority (52.5%) that continue to favour brand names when purchasing food products. Therefore unsurprisingly, the market share of store brands In Italy is the weakest of the five countries surveyed. This result might be due to a stronger attachment from Italian consumers to Italian food brand names such as Barilla, De Cecco or Galbani.

Breakdown between brand names and store brands of purchases made by European Internet users in the Food category
(Source : Harris Interactive - NetObserver® Europe, December 2008)

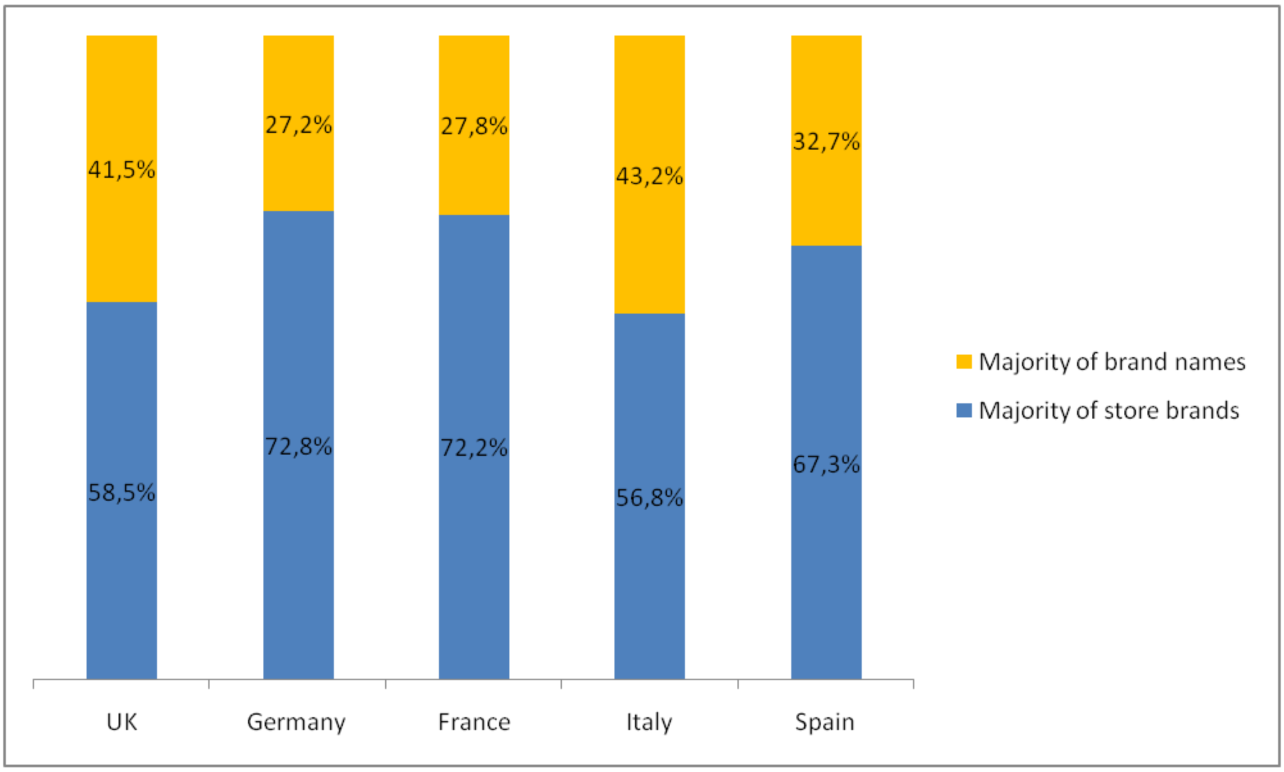


Cleaning products

The majority of purchases by European internet users in the cleaning products category are store brands. It must be said that retailers' supply in this category has not stopped expanding, so much so that one can now purchase any type of cleaning product with a store brand label. This includes the more classical products such as washing powder right up to more specialised products such as stain removers which until recently had been the monopoly of brand names. What's more, from the 5 categories of products studied, the cleaning products category is undoubtedly the one in which consumers are least sensitive to brand names, unless these brands hold a decisive competitive advantage other than price (such as quality or innovation) over store brands.

More than 72% of German and French internet users mainly buy store brands in this category, compared to 67% for Spain, 58.5% for the UK and 57% for Italy.
Young women are behind the consumption of store brands in Spain, but there appears to be no difference between the profile of those who buy named brands and those who buy store brands in the UK. In the other countries surveyed, it is males who favour store brands amongst purchasers of cleaning products.

Breakdown between brand names and store brands of purchases made by European Internet users in the Cleaning Products category
(Source : Harris Interactive - NetObserver® Europe, December 2008)



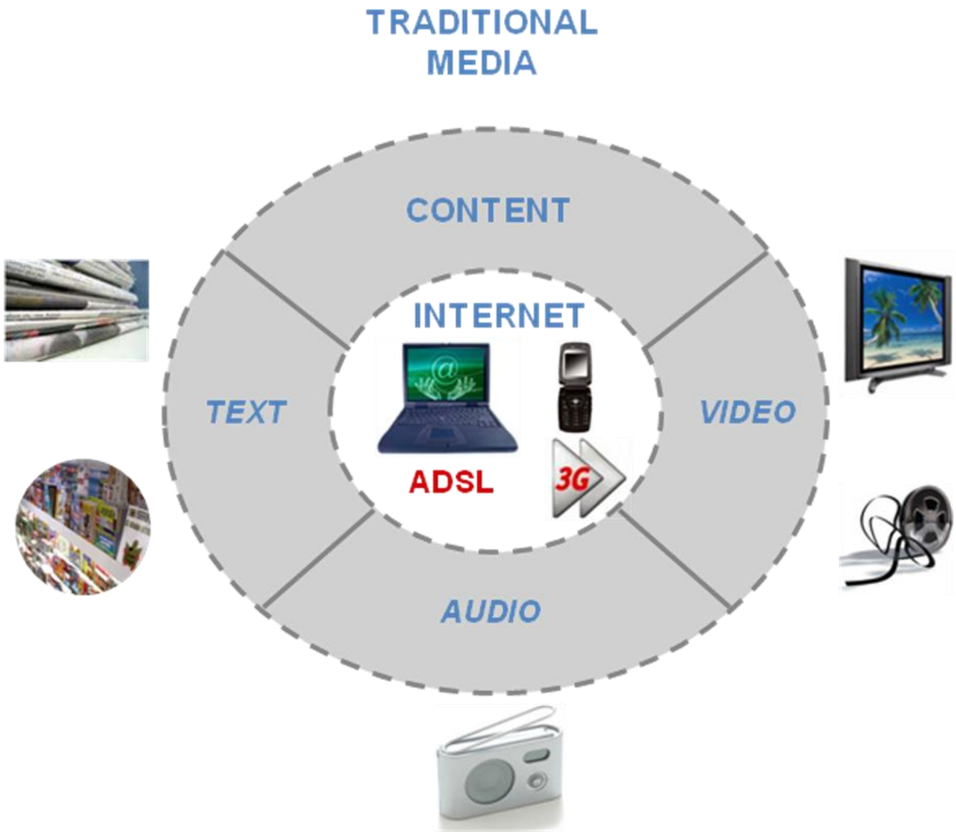
The strategies of brand names against the increasing competition of store brands

Whatever the category of products, the strategies of large industrial groups such as Danone, Nestlé, Procter and Gamble or Unilever are designed to protect themselves against competition from retailers. This is carried out first of all by ensuring a very high quality of product and by bringing added-value to consumers. Investments in Research & Development are also determining in order for large industrial groups to continue innovating and developing new products, new recipes etc. Those investments allow them to differentiate their products from store brands that often just try to replicate them. Isn't it in the lowest innovating product categories that the success of store brands is the strongest?

Maximizing their span of promotions enables brand names to compete with the low pricing of store brands. Brand names also have to find new ways of appealing to consumers by working on the emotional values they carry in order to reinvigorate themselves, and to successfully overcome their identity crisis and succeed in making consumers purchase them.

2. The convergence of media usage on the internet

At the heart of digital technology, the internet has contributed greatly in breaking down the barriers between the media and their content, working as a catalyst for the changing consumption patterns of media content.



Naturally, Internet has become a new media in which one can consume informative and entertainment of all types.

The main media formats that co-exist online are: Text – the traditional format of the press, either newspapers or magazines, Audio – traditionally associated with radio format and of course, Video – the format of TV and cinema, which is now available in very high quality thanks to broadband (ADSL or 3G),

It is interesting to note that the strategy of press websites (The Times, The Daily Telegraph, The Independent...) and also radio websites are now oriented towards video, introducing new jobs and technical skills within the editorial teams of these traditional media.

TV channels from now on must also keep a very close watch on this new type of competitors aside with 'pure players' such as video sharing websites like Youtube and Dailymotion, or even Orange, whose development strategy is strongly video-oriented.

The place of video in comparison with other formats used to access media content online

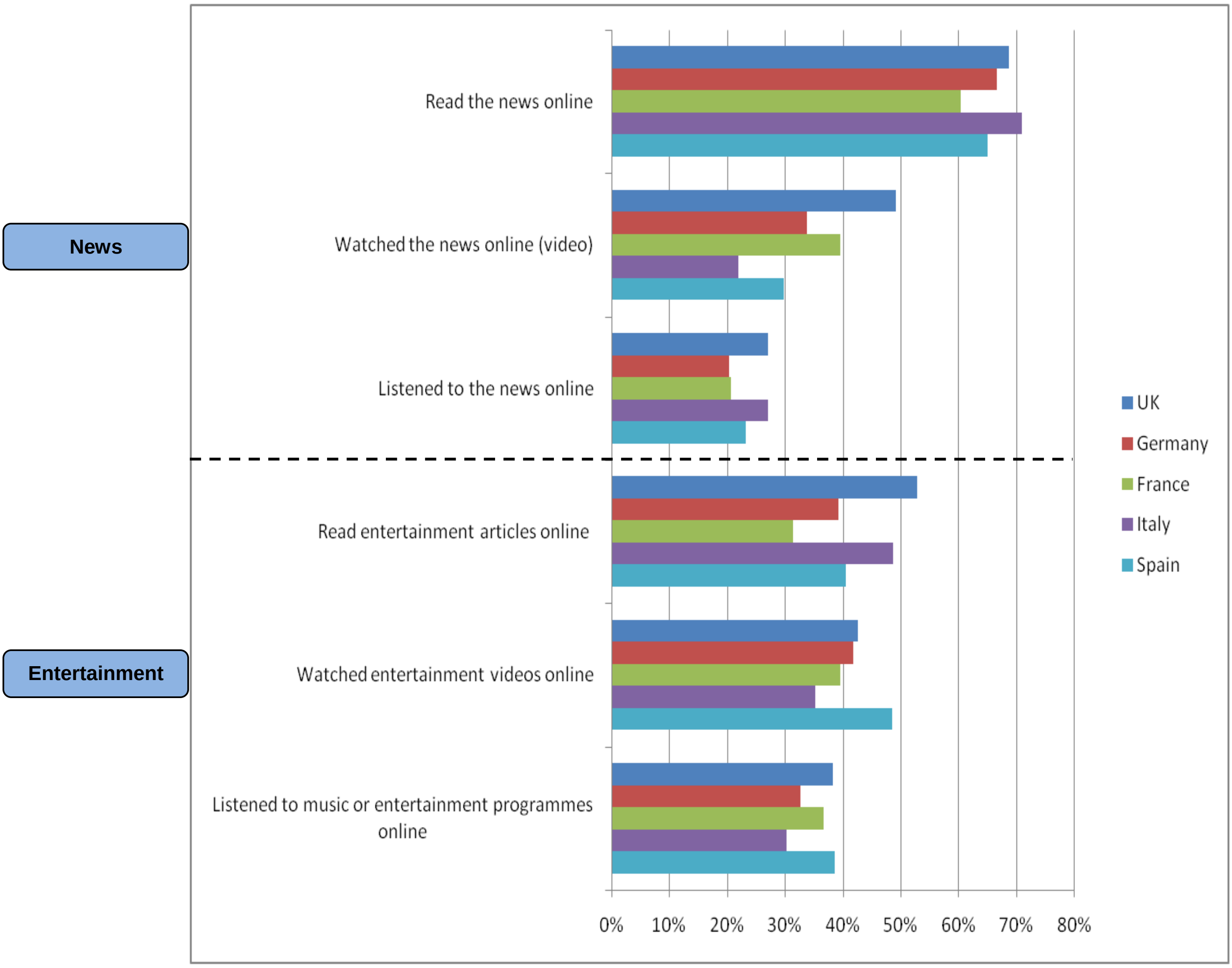
If we compare the usage by European internet users of different forms of accessing media content online, we find unsurprisingly that text still plays a major role, as much as for keeping up to date online with the latest news as for entertainment.

What's more surprising is the extent to which video has imposed itself as a major format, mainly in online entertainment, where the usage of this format has surpassed that of audio, even though audio has been established for a lot longer.

As for the formats used to keep up to date with news online, we can see that text is still clearly dominant in Latin countries, while video has already been well integrated into the usage of English and French internet users.

Even though it is still important, the role of text is clearly less dominant, especially when it comes to entertainment online. The usage of video even surpasses that of text in relation to French and Spanish internet users, and in smaller measure to that of German internet users. Naturally, as mentioned in previous editions of the study, the usage of video for entertainment purposes is clearly driven by young people.

Information or Entertainment Activities carried out by European Internet users in the last 12 months
(Source : Harris Interactive - NetObserver® Europe, December 2008)



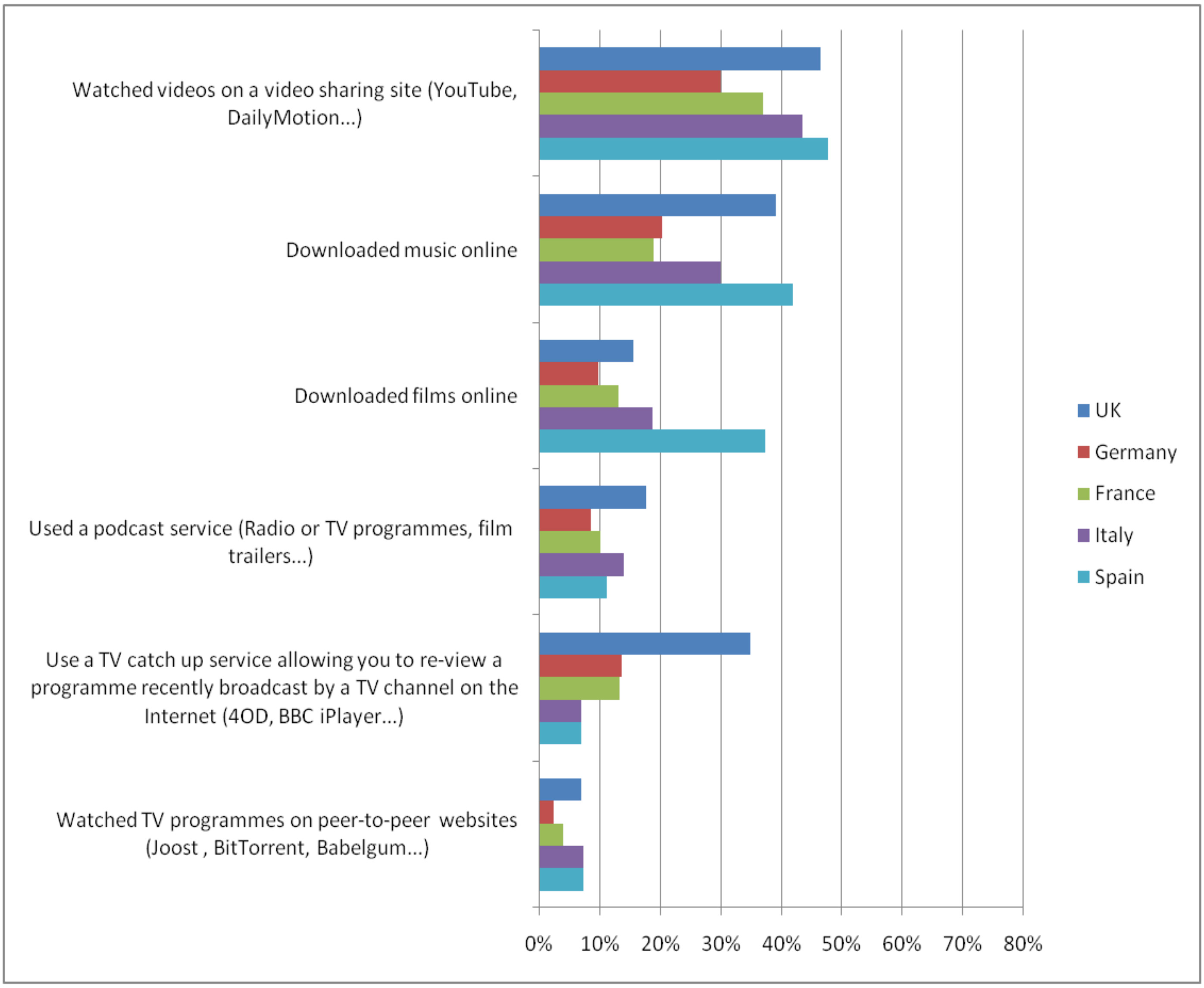
Media content consumption online

Video has imposed itself quickly as a major format of online media content. Given that TV channels have a natural advantage over other traditional forms of media in being able to offer video on their websites (due to their depth of video knowledge), they really should have better exploited this advantage in order to protect themselves against an extremely high competition online.

In fact, the production of online content is not only something that applies to traditional media but is also true of new entrants, such as Orange, and of course the internet users themselves (User Generated Content).

It doesn't come as a great surprise that the leading content consumed online are short videos on video-sharing websites, closely followed by downloads of films or music.

Information or Entertainment Activities carried out
by European Internet users in the last 12 months
(Source : Harris Interactive - NetObserver® Europe, December 2008)



By way of comparison, 30 to 50% of internet users in the countries surveyed claim to have watched videos on video sharing sites last year, but scarcely between 10 and 20% of them claimed to have used podcasting services (mainly audio). One can also note that German internet users, who placed video as their number one format for entertainment, are however less fond of video sharing websites than others.

Faced with these competitors, TV channels have been developing competitive services such as free catch-up TV launched by the BBC in the UK through its now famous BBC iplayer. Other European TV channels have since developed similar kinds of services, for example: Channel 4 through 4oD, Canal Plus, with its “on demand” service, and M6 with “M6 Replay”.

These catch-up TV services are experiencing a rapid increase in usage, as nearly 35% of British internet users admit to using these types of services, as well as nearly 10% of French and German internet users, despite the fact that these kinds of services have only been available in these two countries since 2007.

The objective behind this latest initiative by TV channels has clearly been to maintain a young audience, who are used to an unstructured and free usage of media content. However, allowing internet users to become accustomed to accessing video content for free could have negative effects on such paying models/services as VOD, who are still struggling to take off!

About:
NetObserver®

With more than a 1000 participating sites and more than 400 000 respondents per year, the observatory of Internet usages, NetObserver is the biggest online study carried out in Europe today.

Carried out online every 6 months since 1998 in France and since 2000 in Europe, NetObserver tracks the evolution of behaviour and of the perception of Internet users over the age of 15, wherever their place of connection (home, work, schools, universities, public places…) in 5 markets : France, Italy, Spain, Germany and the UK.

The last study session was carried out between the months of September and November 2008 with a global sample of more than 260 000 Internet users.

The results of the study, being weighted by enumeration data in every market, are representative of the Internet user's population of each of the 5 markets studied.

The 18th session of the NetObserver study will take place from 16th March until 31st May 2009.

About:
Harris Interactive

With its European headquarters in London, United Kingdom, and global headquarters in Rochester, NY, USA, Harris Interactive is a global research and consulting company known for two decades of expertise in strategic business and consumer research.

Harris Interactive plays a major role in solving its clients' complex business problems through the thoughtful application of innovative methodologies and sophisticated technologies, focusing on those that are Internet-based. In fact, we have become the world's leading experts in Internet-based market research.

The company has built one of the most important panel in the world: the Harris Poll Online. This panel consists of more than 6 million members in the world, and more than 2.5 million in Europe.

Our corporate family includes an independent global network of affiliate research and consulting companies. Our international scope and experience extends throughout Europe, Africa, North and South America, Southeast Asia and Australasia offering a truly global advantage.

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