

Changes in competition between brands and private labels

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- Private label growth, but brands still important
- Ways of responding to private label growth
- When might private label give rise to competition concerns?
- OFT's recent work in retail markets

- Sources of retailer buyer power: high concentration in grocery retailing, scarce shelf-space, control of retail prices, the ability to delist brands, and the option of stocking private label
- However, considerable variation in success of private label between product categories and over time
- More success where low entry barriers – strong brands not already in that category
- Also, significant economies of scale, or providing a premium line for a category with low price-sensitivity

- Strong brands are still important for retailers - need to supply what customer wants
- Also, establishes, develop and signposts a category
- Branded goods provide an indirect constraint on private-label manufacturers, through competition for shelf space, when retailers seek bids to provide private-label products

Some (not mutually exclusive) alternatives:

● Innovate

- Innovation intensity in a category negatively correlates to private label share – so effective strategy for restricting growth of private labels
- But also evidence of private-label innovation – Mintel found own label accounting for 54% of new product development in UK in 2011

● Advertise

- Another response is to advertise more intensely, particularly in tougher times. Perceptions of quality of product are important – advertise to influence trust, pride and identification with a brand.

Some (not mutually exclusive) alternatives:

● Discount

- Brands could also respond by discounting more heavily
- Long term solution?
- Also, difficulties in passing through discounts – retailer may engage in massive forward-buying and pass on little of reduced wholesale price.

- Retailer may wish to develop a greater sense of 'brand' for certain private label products
- support launch of new types of products (e.g. organic range or targeting product gap), or more positive perception of private label
- Additional benefit if can also sell this product through other retailers
- Acceptance of this 'branded private-label' product suggests genuine product innovation, or strong investment in the brand by the commissioning retailers, or particularly keen pricing

- Retailers with own/private-label products act both as competitors to brand manufacturers, as well as resellers.
- Manufacturers are required to supply retailers with detailed information on products, including details of new product launches, new variants, and promotional plans.
- A retailer, which has a private-label range in the same category, may use this information to develop its own competitor products, particularly when information must be provided long in advance.
- If this were to undermine innovation by manufacturers, then this could raise competition concerns. Of even greater concern if products sold outside the retailer's own estate?

- We can see this concern in theory. However, no hard evidence received of retailers using product information required from manufacturers to launch their own products.
- Also, no evidence of private label leading to reduction in innovation. Indeed, SMEs supplying private label may increase innovation.
- Report for DG Enterprise (2011) did not find reduced innovation due to private-label. CC Groceries Inquiry (2007) expressed no concerns.
- However, DG Comp launched study on whether increased concentration and use of private label has hampered choice and innovation – final report expected end of 2013.

- **Relevant economic research includes**
 - RPM in fragmented markets (2013)
 - Reverse-fixed payments – slotting allowances, etc (forthcoming)
 - The competitive effects of buyer groups (2007)

● Enforcement and markets work

- Concerns about misleading pricing – (in 2012 eight supermarkets agreed to a set of OFT principles to address concerns over special offers and promotions for food and drink)
- Groceries market reference to CC (2006)
- Current case work includes RPM cases and work in online retailing - mobility scooters, hotel online booking and another online retail sector case
- Merger assessments involving brands (e.g. Unilever / Alberto Culver) or involving private label manufacturers (e.g. Kerry / Headland)