



# The University of Oxford Centre for Competition Law and Policy

Trends in Retail Competition: Private Labels, Brands and Competition Policy

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## **Customers as Powerful Competitors - the Implications for Litigation**

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- Cause of disputes.
- Unique aspects of the supplier customer relationship in these disputes.
- UK intellectual property law compounds the problem.
- Dispute resolution mechanisms.
- Reform.
- The potential role of self regulation.

### **Cause of disputes**

The principal area is retailer production of lookalike private label. Contractual disputes tend to relate to specific transactions and hence the economics discourage formal disputes. "On pack" claims are of increasing concern to brand manufacturers because the advertising of their products is subject to a strict regulatory regime whereby all claims must be capable of documentary substantiation. By contrast private label products are rarely advertised (advertising

tends to relate to the retail service provided rather than specific products). Consequently much of the “advertising” of private label is by means of on pack claims and extravagant claims can be made with relative impunity.

Lookalikes have evolved over the years. Originally brand manufacturers’ concerns related to “switch sales” where consumers could be misled into purchasing private label lookalikes believing they were purchasing the branded product. Related to this was the common misconception of consumers believing that most private label was produced for retailers by the brand leader pursuant to some sort of private label agreement. Studies have shown that the closer the resemblance between the private label and branded product, the more consumers are apt to be misled. Suppliers suffered double damage - lost sales and the perception among some consumers that they were making excess profits. The problem was compounded by use of emotive phrases such as “the brand tax”.

Increasingly private label lookalike has evolved to include the imitation of the brand to suggest that the private label product has all the characteristics/quality that consumers have come to expect from the brand by dint of their use of the brand and the manufacturers’ advertising and promotion of the same. Arguably this is a form of parasitic trading.

Much of the debate focuses on so-called category indicators. Whilst gold generally serves to indicate premium quality and, for example, in context, yellow can denote lemon flavour or fragrance, many colour schemes only get to category indicator status by dint of copying of the brand leader. This damages the brand’s ability uniquely to identify and sell itself. The problem ranges from dilution to “genericide”, cf red for Coca Cola and pink for newspaper financial pages.

A further issue which sometimes features in these disputes is confidentiality. Retailers require sight of supplier product plans and can be privy to these plans for up to twelve months prior to launch. Retailers can and have been ready with private label prior to launch of the branded product. There is a need for

information screens between stock planners and private label procurement personnel within retailers.

### **Supplier/customer relationships**

Not only are the retailers a branded goods supplier's most important customer, they "own" the consumer.

The retailer:

- Sets the price of the branded good.
- Has the power to de-list.
- Determines its availability.
- Determines its positioning.
- Controls in-store communication with the consumer.
- Sets the price differential between private label and brand.

(The above applies to all products in the brand owner's portfolio and not just those that may be the subject of a lookalike dispute.)

Unless the brand is so strong that it enjoys "must stock" status it is very vulnerable to all these considerations. To succeed the brand owner must enjoy a harmonious relationship with the retailer or any of these factors can adversely affect the brand. The result is a "climate of apprehension" among brand owners.

Experience suggests that brand owners are reluctant to complain, let alone litigate unless they have "very strong" 75%+ prospects of success and are suffering serious damage. By contrast they will litigate against brand competitors if the merits are reasonable and the costs are justified. In similar vein, it is exceedingly rare that brand owners would seek injunctive relief against a retailer. When a dispute becomes litigious it is common for the litigation to be against the manufacturer of the private label product, not the retailer and the fiction is maintained that the retailer has been "caught in the crossfire".

## The influence of UK intellectual property law on the problem

The UK has no law of unfair competition as such. Passing off has been described as a form of unfair competition law but it is limited in scope.

The relevant areas of law are:

- Passing off;
- Registered trade marks;
- Copyright.

The three key elements of passing off for a Claimant to prove are:

- Goodwill in the produce name or appearance;
- Misrepresentation by the retailer;
- Damage.

Establishing goodwill is problematic in the context of a new product launch. Notwithstanding significant design work on the product and its trade dress it is unlikely to enjoy the requisite goodwill until it has been on market for some time.

The greatest problem lies in establishing that the similarity of the private label lookalike is such as to amount to a misrepresentation which has deceived the public. The typical private label lookalike bears the retailer house brand which normally operates to negate classic “switch sale” confusion in all but the most blatant cases. One is generally left with trying to prove confusion as to trade origin, i.e. an impression that the private label is made by the brand manufacturer for the retailer.

The best evidence is from actual consumers who may have been confused. Brand owners cannot get access to potential witnesses. In-store interviews are prohibited by retailers. The same applies to all supermarket property, e.g. car parks. Pavement interviews are possible but how many consumers laden down with shopping will be prepared to participate?

Survey evidence has been used as an alternative. Such evidence has not fared well in the Courts as they tend to ask respondent consumers to speculate on matters they would not otherwise consider. Judges often regard them as having low probative value.

The position is essentially the same for registered trade marks. As the lookalike is never identical, you have to show that the trade dress (or elements of it) are confusingly similar to the sign you have registered. In many cases the actual trade dress of the brand will not be registrable as a trade mark in any event, or not registrable without proving that through years of use the relevant sign denotes specific trade origin.

In the case of both passing off and registered trade marks the confusion criterion is frequently an insuperable hurdle.

For there to be copyright infringement the trade dress of the product has to be an original artistic/literary work and the lookalike has to be a substantial reproduction thereof. In practical terms lookalikes resemble the brand leader but the similarity (whilst serving the purpose in terms of communication to the consumer) is rarely close enough to amount to a substantial reproduction within the meaning of copyright law.

### **Dispute resolution**

The imbalance in the supplier/customer relationship and the climate of apprehension are such that disputes are very rarely litigated, for the reasons discussed above.

Mediation is a possibility. The Courts are increasingly “mandating” mediation by imposing legal costs penalties on parties who unreasonably refuse to mediate. A mediation initiative was made some years ago by the Institute of Grocery Distribution. It provided for formal notification of unacceptable acts of imitation followed by confidential discussions within two months by board level

representatives of the parties. The process was confidential. There seems to have been minimal take up. Mediation is also provided for in the Supermarket Code of conduct (which does not cover the lookalikes issue) and there too the take up has been either zero or minimal.

### **Reform/self-regulation**

Reform of the law is possible. Probably the best way forward is a specific law dealing with commercial plagiarism as an act of unfair competition. The difficulty with amending the laws of passing off, registered trade marks and copyright is that these laws work reasonably well across a wide range of industries and situations. The lookalike private label problem is probably unique in terms of the supplier/customer imbalance, the retailer's dual role as customer/competitor and the retailer's "ownership" of the principal marketplace and consumers. There is a danger that this commercial "tail" could wag the legal "dog".

The Unfair Commercial Practices Directive is probably a missed opportunity. It is likely only to cover misleading practices in a lookalike context which cause confusion as to trade origin. This seems to add little to passing off and registered trade mark law. Proof of confusion remains the obstacle to justice.

Could self regulation be a way forward in addressing unfair competition between branded goods and supermarket private label lookalikes? As many of you will be aware, the Code of Practice resulted from the Competition Commission investigation and report in 2000 regarding various practices which adversely affected the competitiveness of supermarket suppliers. In large part the Code addressed what might be called "procurement issues" such as payment timing, price reductions, supplier payments to retailer and the like. In the event of disputes the supermarkets were to negotiate "in good faith" and were to offer mediation in the event of failure of bi-lateral negotiations.

Suppliers and retailers are divided about the effectiveness of the Code in practice. In the OFT's first review of the Code it was not possible for them to draw conclusions as to compliance levels but it did find a widespread view among

suppliers that the Code was not working effectively and that supermarkets had done little to modify their behaviour. Whilst supermarkets commented that their practices had not significantly changed they maintained their relations with suppliers were good.

Noting the divergence of opinion and recognising the “climate of apprehension” which inhibited reports of breaches of the Code, the OFT commissioned an independent audit of compliance. On the basis of the sample the audit found “broad compliance” with the Code. The report however recounts a depressing statistic. The auditors found few cases - 8 out of 500 where a dispute had triggered the supermarkets’ mechanisms for resolving disputes. There were indications that disputes were normally handled “outside the Code” but no evidence was found that disputes had been mishandled by supermarkets.

This suggests to me not that 492 disputes were amicably resolved to everyone’s satisfaction but that the power imbalance was such that suppliers did not want to jeopardise relationships by pressing their grievances. The OFT noted concern among suppliers that the vagueness of the criterion of reasonableness used in many of the Code’s terms was such that suppliers had little confidence of disputes being resolved in their favour.

On the face of it, it would therefore seem that there is little prospect of a self regulation Code covering commercial plagiarism resolving supplier concerns about private label lookalikes, but I am more optimistic. The principal problem encountered by the OFT and its auditors was access to information and evidence. These all require the active participation of the suppliers. By contrast, the results of commercial plagiarism are plain to see on shelf. Compliance could be objectively verified. Product/trade dress similarity is more easily objectively assessable.

In closing and while on the subject of self-regulation I wish to say a few words on “on pack” claims and private label. As most of you will be aware, advertising in the UK is regulated by the Advertising Standards Authority through its CAP -

Committee on Advertising Practice Code. In general the CAP Code works well and the decisions of the ASA are respected and generally complied with.

Many of you will be familiar with the principle of substantiation in the CAP Code - claims (direct or indirect) made in marketing communications must be capable of objective substantiation. Unfortunately the Code does not generally apply to on pack product claims. This is anomalous given that the on pack claim is a powerful message to the consumer "one on one" at point of sale just when the purchasing decision is made. Private label often makes claims not capable of objective substantiation and at the expense of the brand it is copying. This puts the brand at an unfair advantage - not only does the private label avoid the general cost of advertising - it can make unsustainable comparisons with the brand at point of sale.

Given the general effectiveness of the CAP Code, policy makers should be encouraged to extend the regime to on pack claims. It promotes fair competition between brand and own label and levels the playing field by requiring retailers to observe the same standards as brand manufacturers in their marketing communications. It therefore seems that, for the present, this is a further compelling case for non statutory regulation.

For the present I see the extension of the Code to lookalikes as the most effective way forward. Such a solution would avoid the danger of distorting existing intellectual property laws of general application when the problem is largely industry specific. Extension of the Code could address in an objectively verifiable way the unique problems encountered by the application of traditional intellectual property law to a supplier/customer situation where there is a clear imbalance of power and effective "ownership" by retailers of both consumers and the means of legal proof.