



Comparing and contrasting the competitive effects of brands and private label

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Outline

n Effects on retail competition

- | PL constraint of branded products
- | Branded constraint of PL products
- | PL constraint of PL products
- | PL: champion or enemy of innovation?

n Effects on wholesale competition

- | Creating dependency: foreclosing branded entry / facilitating production entry
- | Impact on wholesale pricing and the pass through of benefits

Retail competition

n PL constraint of branded products?

- I EU and UK merger control: case by case examination
- I Relevant evidence (*Cockburns/Symingtons (2010)*; *Princes / Premier Foods (2011)*):
 - Comparable price and quality
 - Degree of switching (price change , delisting or promotional activity)
 - Importance / loyalty to brands by customers
 - Continuous chain of prices with no significant gaps
 - Relative strength of retailer's position and the PL gaining “brand “ presence
 - Internal documents
- I Closeness of competition affected by PL move into premium products.

Retail competition (2)

- n Competition between branded products may provide some constraint on PL but:
 - l Retailer can adjust branded prices to drive up PL sales (information asymmetry – *P&G / Gillette, 2005*);
 - l Umbrella pricing (pegging to brand)
- n Do PL products constrain each other?
 - l The state of PL price transparency
 - l Dampens price competition between retailers?
 - l Enhances non-price competition?

Retail competition (3)

n PL: champion or enemy of innovation?

- l PL injects innovation in the gaps left by brands (eg deploying information advantage)?
- l PL drives branded manufacturers to seek out differentiating innovation / niche positioning?
- l PL is a disincentive to investment in innovation – concern about copycatting / inability to recoup?

n Remains unclear:

- l Dr Bunte Report for DG Enterprise (2011) : not possible to give the net impact of PL growth on innovation in the European food supply chain .
- l Competition Commission (2007) found no evidence of an adverse effect on innovation (Intel).

Wholesale competition

n Creating dependency:

- I Foreclosing branded entry: higher margins incentivise to delist / refuse access to non-leading brands (subject to GSCOP)
- I Facilitates production entry:
 - No brand promotion costs
 - Easy for retailer to switch
 - Efficiencies: economies of scale and capacity utilisation.
- I Constrains wholesale pricing of leading brands
- I Pass on of benefits?

n Distortions in merger analysis

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