

# Assessing the environment for innovation in retail where private labels are present

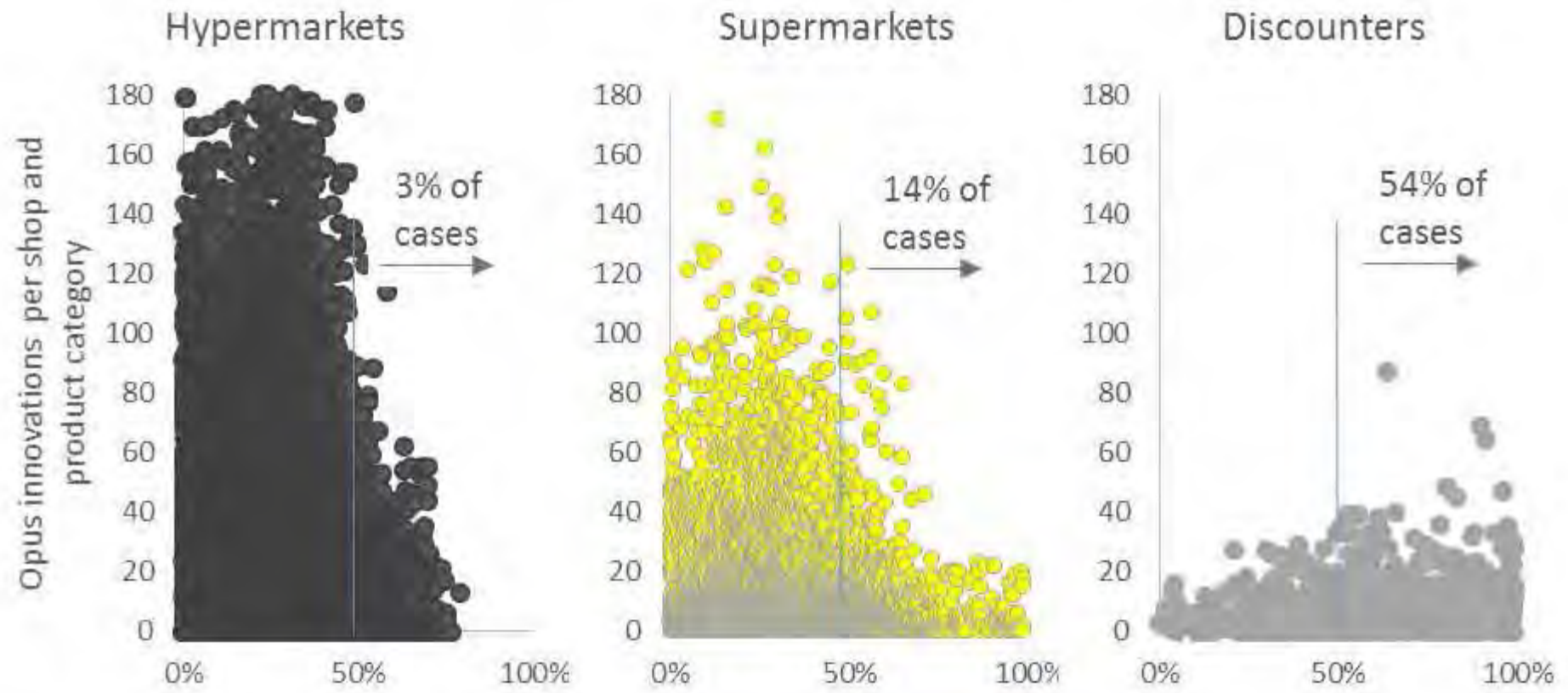
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# 1. A “tipping point”?



## 2. Is the market failing?

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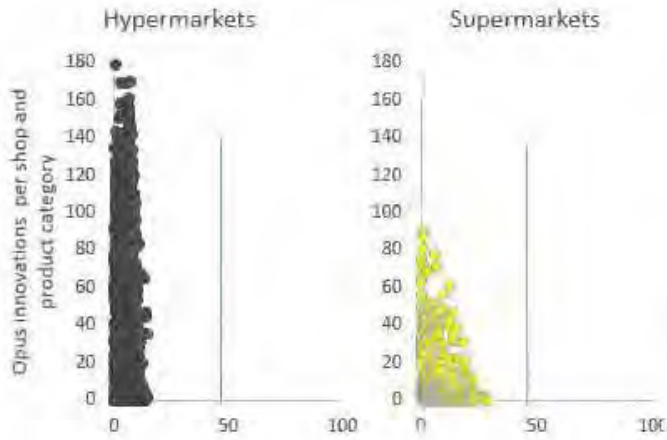
- The apparently low level of innovation when the share of private label is high could be cause for concern if this was the result of a market failure
- A market failure is possible as a matter of theory
  - Copycatting reduces the rewards from innovation, potentially undermining innovation incentives
  - “Free-riding” – commonly recognised as a source of market failure
  - Retailers may refuse to list innovations if they can quickly develop a competing private label product
- But other explanations can also be imagined
  - Certain categories may have less scope for innovation than others – consumers are not always willing to pay for innovations
  - These categories may have a high share of private label precisely for that reason

### 3. Assessing the evidence

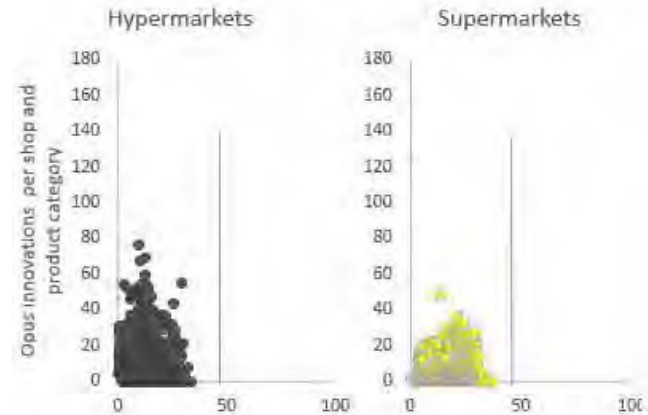
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- The report contains 22 charts showing the relationship between private label penetration and innovation within individual product categories
- A review of these suggests that these can broadly be grouped into the following five cases:
  - Categories with relatively limited private label shares
  - Categories with relatively limited room for innovation
  - Categories with an “inverted U” relationship
  - Categories where a higher private label share is associated with less innovation
  - Categories where a higher private label share is associated with more innovation

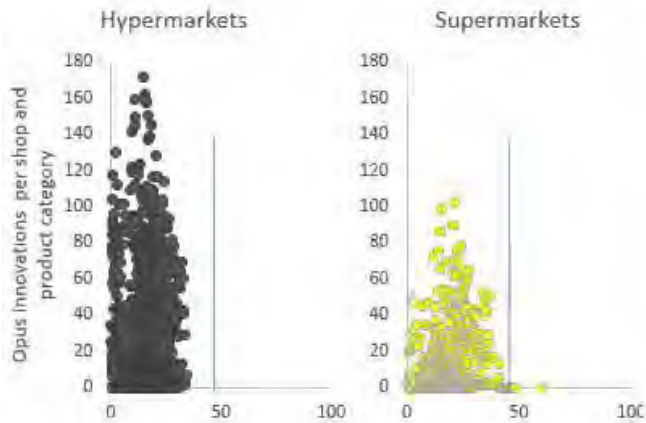
# 3.1 Categories with relatively low private label shares



Product category 1 Baby food

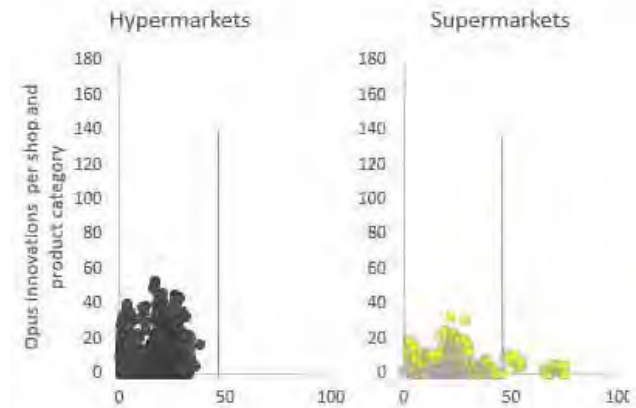


Product category 17 Mineral water

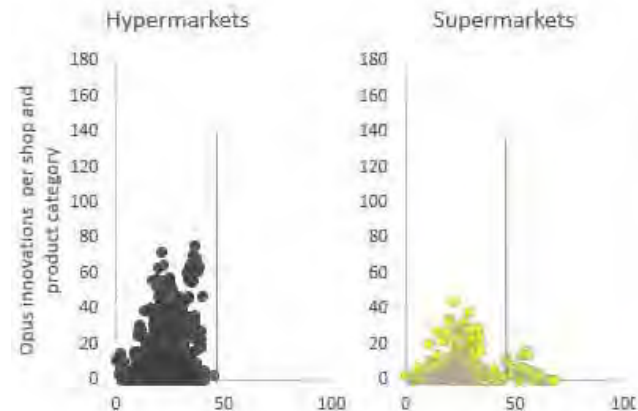


Product category 20 Soft drinks

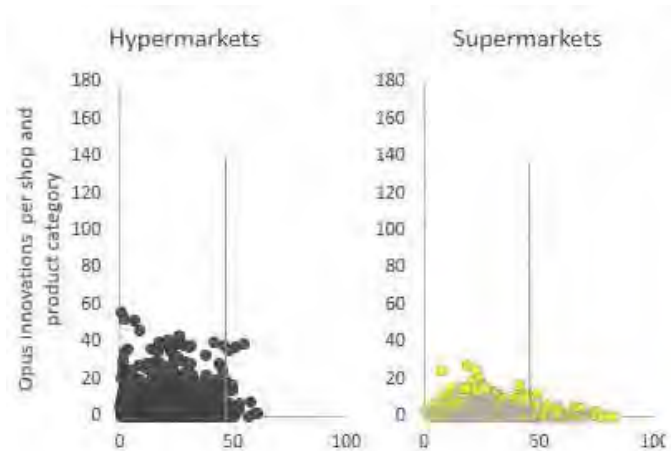
## 3.2 Categories with relatively little room for innovation (1)



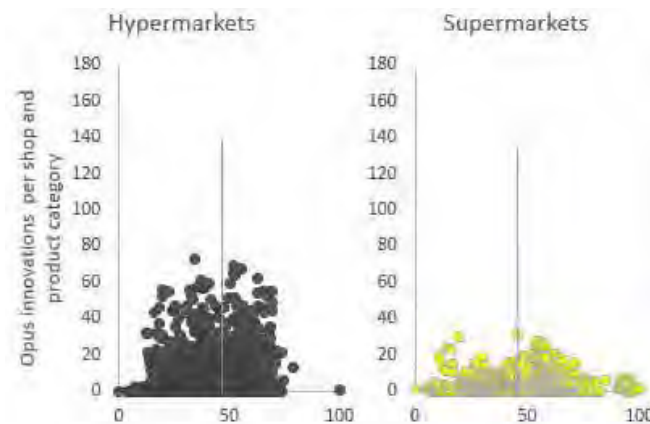
Product category 3 Butter/margarine



Product category 5 Cereals

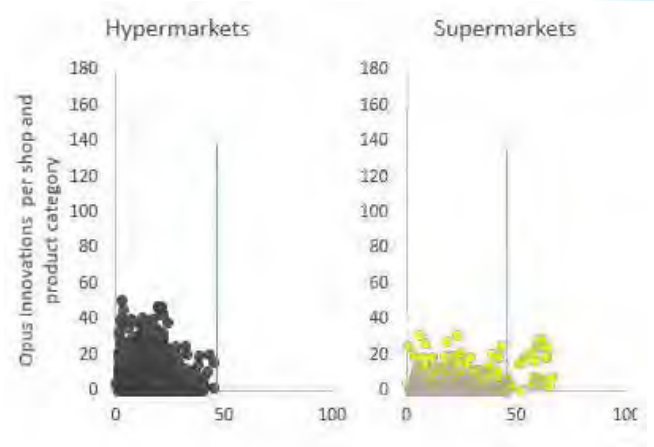


Product category 10 Edible oil

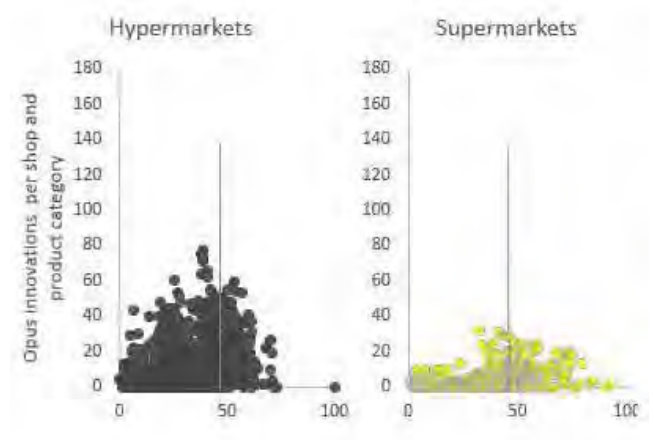


Product category 12 Frozen vegetables

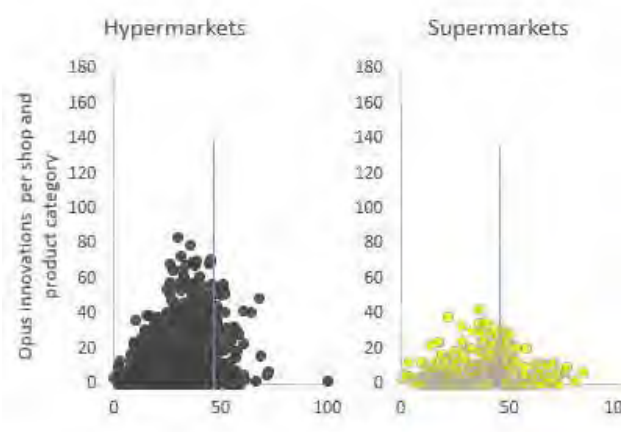
## 3.2 Categories with relatively little room for innovation (2)



Product category 16 Milk

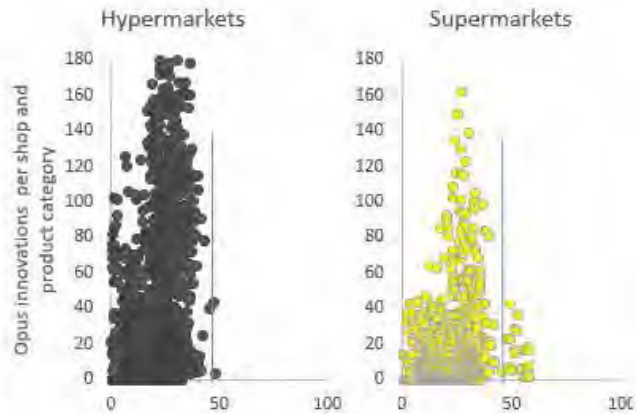


Product category 18 Ready-cooked meals

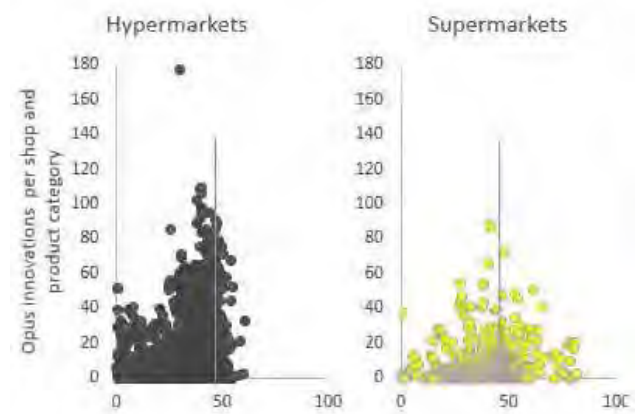


Product category 21 Starters/pizzas

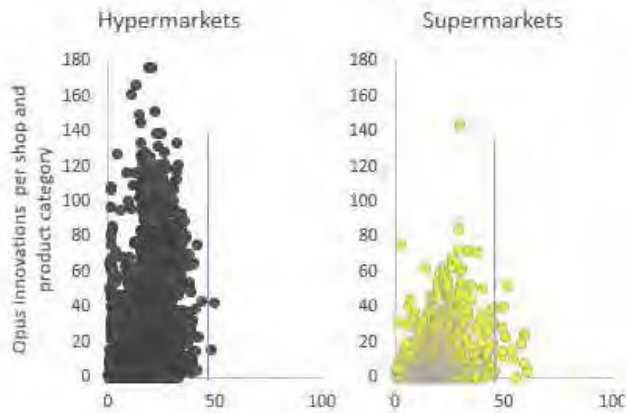
### 3.3 Categories with an “inverted U” relationship (1)



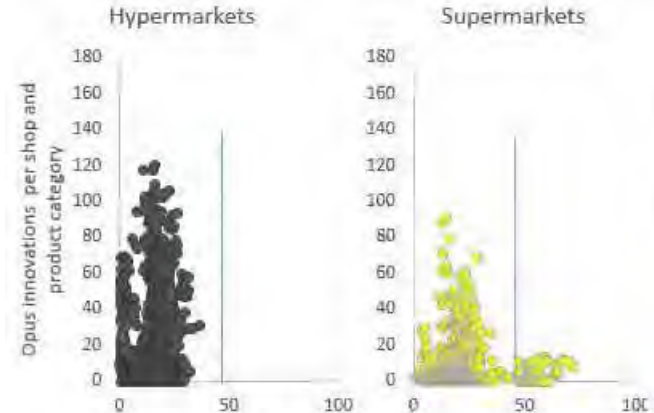
Product category 2 Biscuits



Product category 4 Canned vegetables



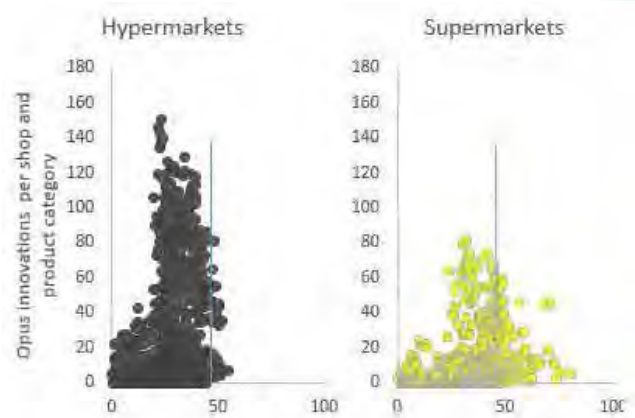
Product category 6 Cheese



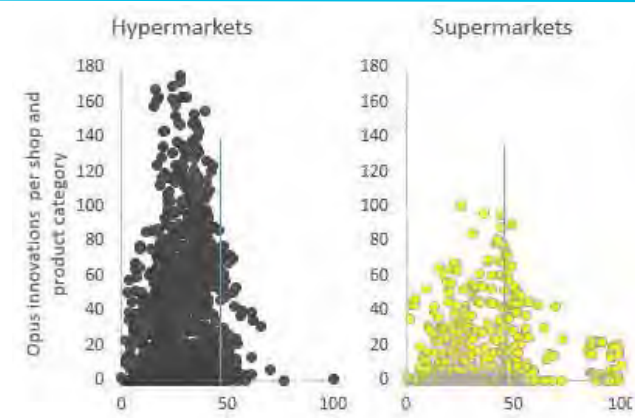
Product category 8 Coffee



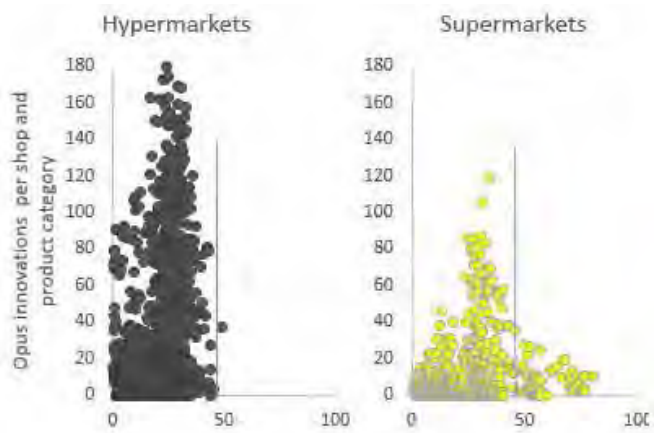
### 3.3 Categories with an “inverted U” relationship (2)



Product category 9 Dessert

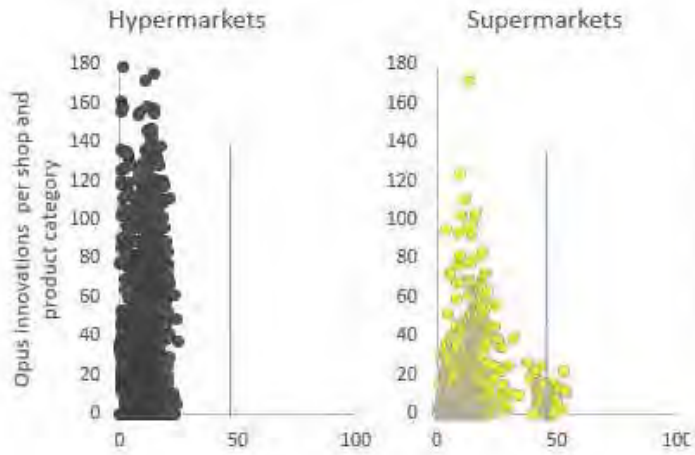


Product category 15 Ice cream

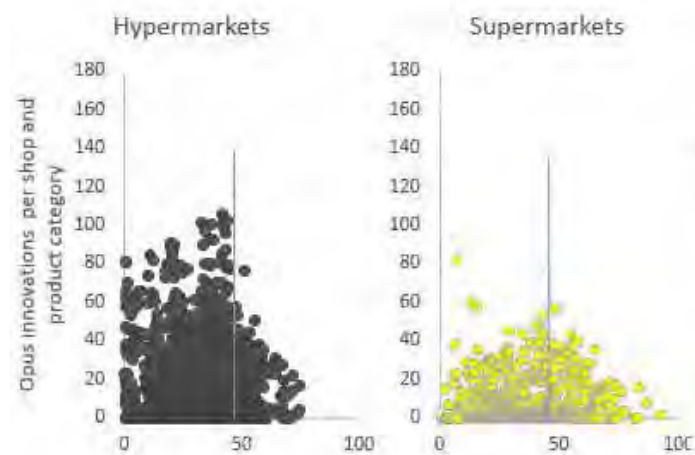


Product category 19 Savoury snacks

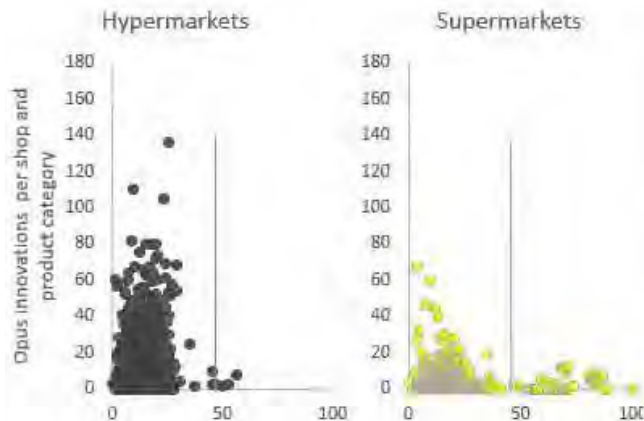
# 3.4 Categories where a higher private label share is associated with less innovation



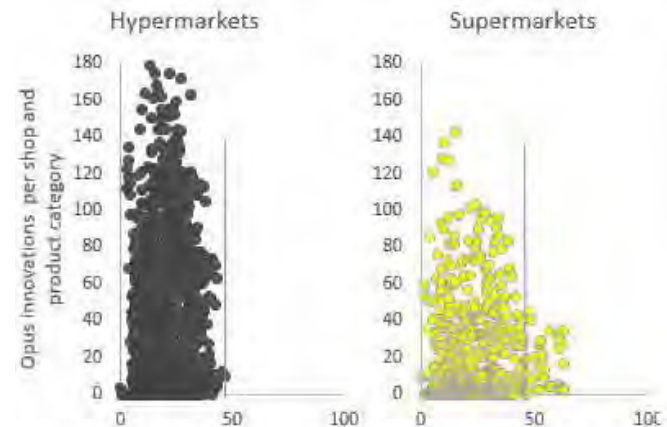
Product category 7 Chocolate (Bar + Candies)



Product category 13 Fruit juices (ambient)

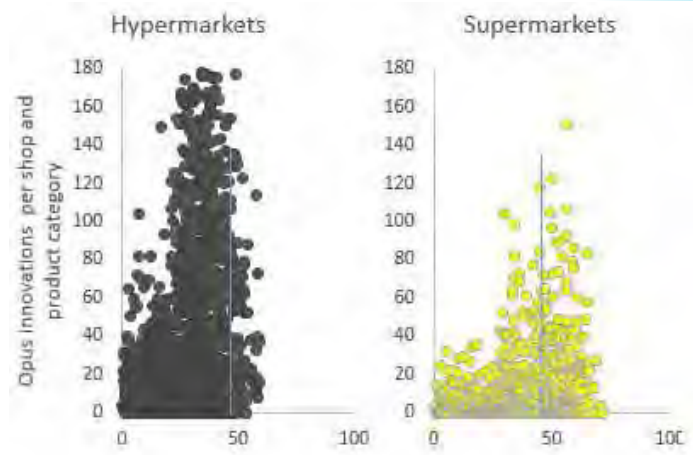


Product category 22 Tea



Product category 23 Yogurt

# 3.5 Categories where a higher private label share is associated with more innovation



Product category 14 Ham/delicatessen

## 4. Concluding remarks

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- The “tipping point” result appears fairly robust
  - Not only found across the dataset as a whole but also in many individual product categories
  - While some categories have relatively limited room for innovation to begin with, overall result would not change if these were excluded
  - Still possible that in some cases, low level of innovation is explained by lack of consumer demand (rather than a market failure)
- The frequently observed “inverted U” relationship suggests that private label can also be an important driver of innovation
- Additional “tipping points” could exist
  - Impact of retail concentration on innovation not fully considered in study

# Locations and contact

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