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
There has been strong growth in private labels, strengthening buyer power

- 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.
Private-label products (i.e. sold without the retailer’s name)

- 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.


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.
What has the OFT done in the area of retail?

- 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)