The impact of private labels on SME competitiveness

Frank Bunte
Contents

- Terms of reference
- Analysis
- Conclusion
Terms of reference

Objectives

- The impact of private labels on the value of industrial brands
- To identify a possible gap in legislation or enforcement
  - Producer indications on private labels
Terms of reference

- Description of the state of play
- Analysis
- Synthesis
Terms of reference

Translation of pros and cons in hypotheses

- H1A: Consumer choice decreases
- H1B: Consumer choice increases
- H2A: Due to private label growth, sales, profitability and number of suppliers decrease (both PL and brand suppliers)
- H2B: Due to private label growth, sales, profitability and number of private label suppliers increase
Analysis

Outline

- Supply chain structure
- The impact of private label on industry structure
- Innovation
- Legal analysis
- Synthesis
Analysis
Supply chain structure

- The number of SMEs goes down, but not in all subsectors and countries
- Food processing and food retail are concentrated with some exceptions (e.g. Southern Italy)
- Industry profits are more or less constant in food processing, most subsectors of food processing, and food retail
Analysis

Supply chain structure: Number of SMEs in food processing
Supply chain structure: profits in food retail

-2.0%  0.0%  2.0%  4.0%  6.0%  8.0%  10.0%  12.0%
2000  2001  2002  2003  2004  2005  2006  2007
Analysis

Private labels

- PL market share increases rapidly in Spain and Central Europe
- PL crowds out secondary brands
Private labels

- In France, the share of SMEs decreased in industry turnover, but increased in PL production.
- In Italy, the number of brands increased in the most innovative sectors; and
- In Italy, PL production grows due to line extension and a decrease in relative prices.
## Market share of SMEs in France

Firms with less than 100 employees

<table>
<thead>
<tr>
<th>Year</th>
<th>PL penetration rate</th>
<th>Market share of SMEs</th>
<th>Market share of SMEs in PL production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>22.3</td>
<td>24.8</td>
<td>19.6</td>
</tr>
<tr>
<td>2006</td>
<td>29.1</td>
<td>22.4</td>
<td>21.6</td>
</tr>
</tbody>
</table>
## Number of brands and suppliers in Italian dairy and cereals industry

<table>
<thead>
<tr>
<th></th>
<th>Brands</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigerated milk</td>
<td>368</td>
<td>413</td>
</tr>
<tr>
<td>UHT Milk</td>
<td>398</td>
<td>433</td>
</tr>
<tr>
<td>Butter</td>
<td>333</td>
<td>314</td>
</tr>
<tr>
<td>Whole yogurt</td>
<td>366</td>
<td>345</td>
</tr>
<tr>
<td>Functional yogurt</td>
<td>44</td>
<td>102</td>
</tr>
<tr>
<td>Breakfast cereals</td>
<td>215</td>
<td>244</td>
</tr>
</tbody>
</table>
New product introductions

- The number of new product introductions grows in most countries
- One exception: Spain
- The share of PL grows in most countries
- One exception: UK
Analysis

Number of innovations in dairy

France
Germany
Hungary
Italy
NL
Spain
UK
Analysis

Private label share product introductions dairy

France
Germany
Hungary
Italy
NL
Spain
UK
PL production benefits industry innovation through two mechanisms
- Resources
- Impact on manufacturers’ efforts

But, in some cases retailer practices hurt manufacturers’ efforts
Analysis

Interviews

- **Producer indications**
  - Provide information to consumers
  - May lead to segmentation of the market
  - Is not going to change bargaining relations between suppliers and retailers

- **Some retailers in Northern Europe oppose producer indications**
If market imperfections are perceived the following roadmap may be followed:

- Voluntary code of conduct
- Creating countervailing power
- Legal requirements and access to court
- Public law inspections and sanctions
Conclusion

- Innovativeness is not at stake
- SME competitiveness is not at stake
- The results illustrate the fact that retailers perform more activities in the supply chain at the cost of food processing
- There may be a reason to address some business practices
Questions