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

Oxford Symposium on Trends in Retail Competition, 2015

Jan Peter van der Veer
janpeter.vanderveer@rbbecon.com
1. A “tipping point”?
2. Is the market failing?

- 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

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

- **Product category 15**: Milk
- **Product category 18**: Ready-cooked meals
- **Product category 21**: Starters/pizzas
3.3 Categories with an “inverted U” relationship (1)
3.3 Categories with an “inverted U” relationship (2)
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

- 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

London
199 Bishopsgate
London EC2M 3TY
United Kingdom
T +44 20 7421 2410
E london@rbbecon.com

Brussels
Bastion Tower
Place du Champ de Mars 5
1050 Brussels
Belgium
T +32 2 792 0000
E brussels@rbbecon.com

The Hague
Lange Houtstraat 37-39
2511 CV The Hague
The Netherlands
T +31 70 302 3060
E thehague@rbbecon.com

Madrid
Pinar 5
28006 Madrid
Spain
T +34 91 745 59 34
E madrid@rbbecon.com

Stockholm
Östermalmstorg 1
114 42 Stockholm
Sweden
T +46 8 5025 6680
E stockholm@rbbecon.com

Johannesburg
Augusta House, Inanda Greens
54 Wierda Road West
Sandton, Johannesburg, 2196
South Africa
T +27 11 738 1949
E johannesburg@rbbecon.com

Melbourne
Level 51
101 Collins Street
Melbourne VIC 3000
Australia
T +61 3 8686 0010
E melbourne@rbbecon.com