

Private label

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Private Labels & Brand Competition

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Agenda

- Developments of Private Labels
- Competitive Effects
- Competition Enforcement
- Competition
- Article
- Enforcement Choices

Development of Private Labels

- 'Value' versions in the KSA since the 1970s
- An increase in volume and range in the 1990s
- Today, around 30 per cent of sales in major KSA supermarkets are private labels.

Influencing variables:

- Growth of retailers (national and international level);
- Increased market concentration;
- Move from local stores to supermarkets;
- Economic downturn.

Competitive Effects

- Starting point – lower prices, greater choice, innovation and competitive pressure.
- Short term vis-a-vis long term effects.

I. Lower Costs

- Short term loss.
- Economies of scale.
- Reputation umbrella.
- Lower risks, innovation follower.
- High profit margins.

2. Lower Prices

- Range from 'value' to 'premium' products.
- Competitive pressure on brands' producers.
- Note the retailer's control over pricing, the possible use of artificial price differentials and value destroying promotions.

40 per cent of consumers who purchase private labels, do so due to the lower prices of goods. 30 per cent see these labels as being a better value than brand equivalent.

KSA Nielsen Competition Commission Grocery Market Inquiry, 'Working paper on the competitive effects of own label goods' (Final Report published 2018)

3. Restricts Brand Power

- Restricts the market power of dominant brands or a multi-product brands.
- Facilitates entry which otherwise will not be possible.
- Lower prices, better quality, more innovation.

4. Innovation

- (+) Pressure on brands.
- (+) Private label innovation.
- (-) Innovation follower.

5. Choice

- Wider choice?
- Profit margins and delisting.
- The elimination of slow selling brands.

6. Foreclosure and Access to Shelf

- Control over distribution channel
- Preference for private label.
- Must stock brands and slower selling brands.
- The effects of one stop shop culture → Switching costs between outlets increases retailers' market power.
- A loss of 20% of sales for the manufacturer involves a serious risk of bankruptcy (KSA Supermarkets report (2019))

7. Market Transparency

- Brand recognition.
- Private labels.

8. Free Riding

- Innovation follower.
- Access to information.
- Copycat packaging...

9. Marketing and Advertising

- Reliability umbrella
- Internal references to private labels
- Control over in store marketing.
- Only 1/3 of grocery store purchases are planned in advance.

Competition Law Enforcement

- Short and long term effects.
- Long term stability of private labels' share?
- Self policing?
- Speculative nature of long term effects.
- Is intervention justified?
- Can traditional analysis reflect the combined horizontal/vertical effects and the rise in market power?

EC Competition Law

ECMR

- Increased concentration.
- Spiral effect and increased consolidation.
- Buyer power.

Article

Buying alliances.

- Agreements etc.

Competition

Goals

Achieve lower prices, better quality and a wider choice of new or improved goods and services.

Abuse ?

- Short term and long term effects.
- Self policing.
- Market constraints - 'Online Essentials'
- Establish competitive harm.
- Protecting competition or competitors?
- Abuse of a non-dominant position?

Enforcement

- Internal analysis - If it ain't broken, don't fix it...
- External analysis - a new market reality?
 - Robert L. Steiner: Vertical competition exists...
 - Rob Walton, Wal-Mart Chairman: 'The manufacturer's price is something that's determined largely by negotiating power of retailers that carry his merchandise', ie by vertical upstream competition.'