

# **ANNEX 3 : THE GROWTH OF PRIVATE LABELS PRIVATE AND ITS IMPACT ON SUPPLIERS, SMALL RETAILERS AND CONSUMERS IN EU MEMBER STATES**

## **AUSTRIA**

The sector enquiry published by the competition authorities in June 2007 concluded a.o. that:

There is a strong evidence for the existence of buyer power. In sectors with private labels and especially when neither important brand products ("must-stock-products) nor other forms of countervailing power on the supply side exist, the buyer power of the retailers is almost unlimited.

Sources:

Republik Österreich Bundeswettbewerbsbehörde, Allgemeine Untersuchung des österreichischen Lebensmittelhandels unter besonderer Berücksichtigung des Aspekts der Nachfragemacht – Zusammenfassung, Vienna, June 2007.  
Republik Österreich Bundeswettbewerbsbehörde, "FCA accomplished Sector Inquiry on Buyer Power of Supermarkets", 30 August 2007, <[http://www.bwb.gv.at/BWB/English/groceries\\_sector\\_inquiry.htm](http://www.bwb.gv.at/BWB/English/groceries_sector_inquiry.htm)>

## **BELGIUM**

A questionnaire among consumers early 2009 indicated a very great interest in private label products (around 91%). This interest and willingness to buy private label products was based not only the price but also quality and taste, especially for some products like dry food, milk, cheese and drugstore products.

Source:

"Driekwart consumenten wil huismerken aanbevelen", Express.be, 19 January 2009,  
<<http://www.express.be/sectors/nl/retail/driekwart-consumenten-wil-huismerken-aanbevelen/101977.htm>>

In the first 6 months of 2008, the share of private label products increased from about 5 % up to 25.2%. This spectacular increase was due a changed price strategy by Delhaize itself and a changed attitude by consumers. The strategy of lower prices was among others the result of "improved buying contracts" with suppliers.

Sources:

De Standaard, "Delhaize mikt op herstel met lagere prijzen", 5 August 2008,  
<<http://www.standaard.be/Artikel/Detail.aspx?artikelId=FJ1UUHP5&kanaalid=13>>

Prices of most private labels increased faster than the brand labels between October 2007 and March 2008. One reason was that the share of raw material in the contents is bigger. According to a professor of the "Vlerick Management School" there was also a second reason. Due to the difference in price with brand products being big enough, it was possible to increase the margins without much notice by consumers.

Source:

De Standaard, "Huismerken stijgen snelst in prijs", 20 March 2008,  
<<http://www.standaard.be/Artikel/Detail.aspx?artikelId=B22783238080320&kanaalid=13>>

## DENMARK

Private labels of supermarkets have been on the increase, partly due to hard core discount chains' entry (Aldi, Lidl) but the Nordic market shares was lower then in other EU countries like France, Germany or the UK by 2005.

The share of private labels in grocery sales by Coop Denmark (no other figures available from ACNielsen) grew from around 12.5% to around 17% between 2003 to 2005.

"Products with private labels do frequently replace manufacturers' brands."

The price of private labels in Denmark is estimated to be around 27% less than branded grocery products (2005). "Private labels are typically cheaper than the manufacturers' brands."

"At the same time it is more difficult for consumers to compare the prices of private labels than the prices of manufacturers' own brands bearing in mind that private labels are only found in one chain."

Source:

"Nordic food markets – a taste for competition", report from the Nordic competition authorities, November 2005, p. 13, figure 5.2., figure 5.3

In 2007, the market share of private labels had slightly grown to 26.5 % of total grocery sales compared to 25.9 % in 2006. A survey among a large number of Danish grocery chains made by a leading Danish newspaper in 2007, shows that consumers can save up to almost 44 % on groceries by purchasing private labels, compared to comparable branded products.

Source:

"Great future for private labels", SuperGros website  
<[http://www.supergros.com/2007/pages/artikler/2008/great\\_future.php](http://www.supergros.com/2007/pages/artikler/2008/great_future.php)> (viewed 17 January 2009)

"The Danish retailer, Dansk Supermarket, operates a series of different private labels for dairy products as higher quality alternatives to major manufacturer brands. The Dansk brands are advertised as being of a superior quality due to the use of local dairy output produced under traditional practices with due consideration given to food safety concerns."

Source:

M. Gehlhar, A. Regmi, "Processed Food Trade Pressured by Evolving Global Supply Chains", Amber Waves, [February 2005], <<http://www.ers.usda.gov/AmberWaves/February05/Features/ProcessedFood.htm>> based on A. Regmi, M. Gehlhar (Eds), New Directions in Global Food Markets, AIB-794, USDA/ERS, February 2005.

The sales of private label dog and cat food in Denmark increased significantly in 2007.

Source:

"Dynamic growth in private label share, cat food sales in Denmark", Petfood Industry News, 21 February 2008, <<http://www.petfoodindustry.com/ViewNews.aspx?id=21334>>

## FINLAND

Private labels of supermarkets have been on the increase, partly due to hard core discount chains' entry (Aldi, Lidl) but the Nordic market shares was lower then in other EU countries like France,

Germany or the UK by 2005. "Products with private labels do frequently replace manufacturers' brands."

The share of private labels in grocery sales in Finland grew from around 6.5% to around 10% between 2003 to 2005.

The price of private labels in Finland is estimated to be around 36% less than branded grocery products (2005). "Private labels are typically cheaper than the manufacturers' brands."

"At the same time it is more difficult for consumers to compare the prices of private labels than the prices of manufacturers' own brands bearing in mind that private labels are only found in one chain."

Source:

"Nordic food markets – a taste for competition", report from the Nordic competition authorities, November 2005, p. 13, figure 5.2, figure 5.3.

## **FRANCE**

The share of private labels in grocery sales in France has grown from around 21% to around 24% between 2003 and 2005.

The price of private labels in France is estimated to be around 40% less than branded grocery products (2005).

Source:

"Nordic food markets – a taste for competition", report from the Nordic competition authorities, November 2005, figure 5.2., figure 5.3.

Recently, private labels of supermarkets have also been sold in convenience stores belonging to large supermarket chains, as well as in small independent convenience stores, most probably because of agreements with supermarkets distributing private labels. Also, Casino private label products have been observed to be on sale in Spar shops.

Source:

C. Jacquiau, interviewed 18 February, 2009.

M. Vander Stichele, [own observations], February 2008 and February 2009.

## **GERMANY**

The share of private labels in grocery sales in Germany grew from around 27% to around 31% between 2003 to 2005.

The price of private labels in Germany is estimated to be around 47% less than branded grocery products (2005).

Source:

"Nordic food markets – a taste for competition", report from the Nordic competition authorities, November 2005, figure 5.2., figure 5.3.

The German competition authorities recognize that private label producers can be easily de-listed as the consumers are not aware of who produces the private label products.

When they asked suppliers whether it would be a viable option to produce private labels in stead of branded products, when faced with unacceptable retailer demands or threats of de-listing, 72 suppliers responded "no" while 10 said "yes".

Sources:

Bundeskartellamt, Beschluss in der Verwaltungsverfahren B 2 – 333/07, 30 June 2008. p. 97.

Oxfam Deutschland, Entscheidung des Bundeskartellamtes im Fusionsverfahren Edeka-Plus(B 2 – 333/07), Press information, [July 2008].

## GREECE

Private-label products have been increasingly popular in Greek supermarkets and cash-and-carry chains. Turnover in the sector rose by about 6.5 % in 2006 compared to 2005, to total 8.37 billion Euros.

Private-label products remain a central pillar in the strategy of the main supermarket chains, in response to their cut-price rivals.

Aldi was expected (in 2007) to enter the Greek market in 2008 and announced it would not stock any brand names, relying instead on its private label.

Source:

"Supermarket chains brace for more intense competition", Business & Economy - Shopping, 17 June 2007, <<http://grhomeboy.wordpress.com/2007/06/17/supermarket-chains-brace-for-more-intense-competition/>>

## HUNGARY

A prognosis published on 5 August 2008 by the accountancy firm PricewaterhouseCoopers prepared in conjunction with Budapest Corvinus University predicted a proliferation of private label goods, increased competition and the expansion of discount supermarkets during the following period.

Source:

"PwC predicts increasing competition in retail sector", Realdeal.hu, 6 August 2008, <<http://www.realdeal.hu/20080806/pwc-predicts-increasing-competition-in-retail-sector>>

By 1st December 2008, the agricultural minister had proposed an agreement that private labels' prices be limited to be not more than 20 % percent cheaper than other brands.

Source:

"Agriculture ministry said to be preparing draconian bill targeting hypermarkets", Realdeal.hu, 1 December 2008, <<http://www.realdeal.hu/20081201/agriculture-ministry-said-to-be-preparing-draconian-bill-targeting-hypermarkets>>

## ITALY

The retail sector is interested in hindering the development of company brands, e.g. in charcuterie and pre-packaged meat products, and in making production companies anonymous through private label pre-packaged meat products, whereby the processing companies are interchangeable. This is seen as supporting the large retailers' strategy to increase their dominant position. Coop (which is the biggest retailer) and Conad (the second largest group) promote their private label with huge advertising campaign (both on TV and on newspaper) pointing out quality and convenience.

By far the largest number of private label products in Italy bear exclusively the name of the retailer or the fantasy brand name, while reference to the producer/packager is often almost invisible, or is replaced by the so-called EC label (a label which identifies the company under the EU food hygiene and health regulations), or only the headquarters (but not the name) of the producer or packager is indicated, or where the company name is inadequately reproduced in a typeface or colour which is not legible by the consumer.

In the "Second Annual Report on the Expansion of Own Brands"<sup>1</sup>, the large retail sector has a low objective of "increasing choice of offers in some categories" in which it has private label products. This could lead to a reduction in the number of other brands on the shelves, subsequently limiting consumer choice.

One of the main objectives stated by the Large Retail Sector regarding the development of private labels is in fact to "transfer an image of value-for-money of the brand to the consumer"<sup>2</sup>. Above all, as already noted, these own brand products are often placed in the most visible position on supermarket shelves. These are strategies to influence the consumers.

Source (except otherwise mentioned):

Associazione Industriali delle Carni, The large retail sector and the food industry, 2008.

A. Radice, [comments], Associazione Industriali delle Carni, March 2009.

R. Bolwijn, "Il giusto prezzo Della pl – Uno studio dell'università di Toronto analizza le opportunità dei retailer nelle scelte di pricing della categoria in cui sviluppa la marca privata", Food, March 2007, p. 160-163.

[The right price of private Labels - A study of the University of Toronto examines the opportunities for retailers in the choices of pricing of the category in which private label develop]

M. Bommezzadri, « Private label : le ultime tendenze emerse al PLMA di Amsterdam sulla marca – Europa, l'ascesa continua », Food, July 2007, p. 44-45.

[Private label: the latest trends at the PLMA in Amsterdam on the brand - Europe, the rise continues]

## NETHERLANDS

In March 2009, Almost half of the turn-over of Albert Heijn is based on sales of a wide range of private label products. In contrast, private label sales of Ahold USA constitute around 15% of its turnover.

Source:

S. Voormolen, ' Met diëtiste Lisa langs de schappen- Hoe Ahold van zijn kwijnende supermarkten in de VS weer winstgevende winkels maakt', NRC Handelsblad, 12 March 2009.

According to Alexander Belderok of Roland Berger Strategy Consultants supermarkets put in more and more private brand names. Quality brand names "lose space on the shelves", which means some decrease in value. Manufacturers have invested in value creation and consumers want to have a choice, so not only manufacturers and retailers are the victims of this "brand war" but also the consumers.

Source:

"Ruzie in retail kost waarde," R. Winkel, Financieele Dagblad, 19 July 2007.

In a discussion paper in 2005 concerning the price war, the Foundation for Economic Research (Stichting voor Economisch Onderzoek, SEO) of the University of Amsterdam concluded that smaller independent supermarkets have been harmed more heavily by the price battle because the larger supermarkets (part of chains) are were able to lowering the prices for A-brand names more. They could and can do so because they also sell a lot of private brand products. In contrast to the large supermarkets the independent ones sell relatively more A-names but in stead have no opportunity for cross-subsidisation by other products to compensate their loss of income.

Source:

B. Baarsma, M. de Nooij, Bodemprijs of Bodem onder de prijs, SEO, March 2005

<<http://www.seo.nl/assets/binaries/publicaties/disscusion/2005/37.pdf>>

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<sup>1</sup> Second Annual Report on the expansion of own-brands – Osservatorio Nazionale Private Label – Bologna, January 2006.

<sup>2</sup> Second Annual Report on the expansion of own-brands – Osservatorio Nazionale Private Label – Bologna, January 2006.

During the price war the dairy products are deposed to the so-called hernia shelves (the ones where the customer has to bend down to get the product). According to the daily Financieel Dagblad of November 2005, retailers put their own private label products on eye level on the shelves. Accordingly, the manufacturers of premium brand names have to try to win back their clients through substantial price reductions.

Source:

R. Smit, "Merkfabrikant begint met prijzenslag", Financieele Dagblad, 17 November 2005.

According to a verdict in a court case in 2005, supermarket Albert Heijn should remove 2 products out of a group of 13 private label products. Only in those two cases the judge agreed with manufacturer Unilever that the casing and wrapping could be defined as imitations of Unilever brand products. The other private brand products still can be sold by Albert Heijn and may be more attractive to customers because of their lower prices (although they almost are look a likes of the Unilever products).

Source:

"Unilever tegen Albert Heijn: twee tegen elf," Elsevier, 28 April 2005, <<http://www.elsevier.nl/web/Artikel/Unilever-tegen-Albert-Heijn-twee-tegen-elf.htm>>

According to the Council for the Rural Area (Raad Landelijk Gebied - RLG) the food processing industry and retail sector fight over more control in the selling of products to the consumer. The strong position of multinational companies with well known quality brand names (like Nestle, Sara Lee and Unilever) is being threatened by large world wide operating retail trade companies (like Wal-Mart, Carrefour, Ahold, Tesco, Sainsbury and Delhaize). The retailers are upgrading their private brands to quality brand level which forces the processing industrials to more market concentration by increasing the level of cooperation and merging.

Source:

"De boer in de keten: boeienkoning of teamspeler?," Raad Landelijk Gebied website, [no date], <[http://www.rlg.nl/adviezen/036/036\\_2\\_2.html](http://www.rlg.nl/adviezen/036/036_2_2.html)>

## SWEDEN

"Sweden has experienced a surge in retail labels within the food industry the last decade" (2007). This has resulted in changing power structures such as in the meat industry whereby small-and medium sized among the meat producer brands are more affected than others.

Meat packers face more competition among themselves due to "drastically" reduced shelve space that is taken up by private labels.

In 2007, it was foreseen that new private retail labels would be developed which would be closer to producer brands in terms of quality and price, and which could constitute a greater threat than the existing labels.

Source:

R. Palmqvist, B. Lindell, J. Karlsson, "The Fight for Shelf Space : Regional Meat Producers Facing Retail Labels", University essay from Högskolan i Jönköping/IHH, EMM (Entrepreneurskap, Marknadsföring, Management), 2007, <<http://www.essays.se/essay/3fa71a370f/>>

Private labels of supermarkets have been on the increase, partly due to hard core discount chains' entry (Aldi, Lidl) but the Nordic market shares was lower then in other EU countries like France,

Germany or the UK by 2005. "Products with private labels do frequently replace manufacturers' brands."

The share of private labels in grocery sales in Sweden grew from around 11% to around 13.5% between 2003 to 2005.

The price of private labels in Sweden is estimated to be around 38% less than branded grocery products (2005).

Source:

"Nordic food markets – a taste for competition", report from the Nordic competition authorities, November 2005, p. 13, figure 5.2., figure 5.3.

## **UNITED KINGDOM**

The Competition Commission (CC) considered among others the effects of supermarket buyer power on competition between private label and branded goods.

Private labels are now estimated to account for some 40% of grocery sales through supermarkets. In June 2007 the British Brands Group (BBG) provided evidence to the CC of damage caused by copycat packaging and of the effective theft of brand owners' development plans so that supermarkets could launch own label products simultaneously with the equivalent branded products.

The main UK supermarket owner of convenience stores is Tesco. There is a visible shift towards private label goods on the shelves when Tesco acquires such stores.

BBG identifies that there is scope for abuse of dominance when supermarkets are competitors, customers and gatekeepers in relation to branded products. BBG provided evidence to the CC that supermarkets sometimes require brand owners to share product development plans so that they can pass them on to suppliers of the supermarkets' "own label" products.

BBG argues that innovation among branded goods producers has been discouraged by private labels. There is some evidence that some innovation by some brand owners has been curtailed. The Competition Commission disagreed but its evidence is not conclusive. Prof. Dobson provided a good overview of the different roles private labels and branded products can play, how supermarkets use these roles and what the effects are on consumers.

The CC nevertheless took the view, as with below-cost selling and deep-discounting, that the aggressive promotion of own label products by supermarkets was in the consumer interest.

Sources:

P. Dobson, R. Chakarabarty, "Private labels and branded goods: an economic and competitive comparison", 17 march 2008, based on paper presented at the Symposium of the role of private labels in competition between retailer and between suppliers, held at the Institute of European and Comparative Law, Oxford, 9 June 2009.

British Brands Group, [http://www.competition-commission.org.uk/inquiries/ref2006/grocery/pdf/third\\_party\\_submissions\\_trade\\_british\\_bands\\_group.pdf](http://www.competition-commission.org.uk/inquiries/ref2006/grocery/pdf/third_party_submissions_trade_british_bands_group.pdf).