

# Trends in Retail Competition: Private labels, brands and competition policy

A symposium on the interface  
between competition policy,  
brands and retailers

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# Introduction

**Professor Ariel Ezrachi**  
University of Oxford

# Discussion

## Perspectives on retail price competition

**Moderator:**

Michael Grenfell

Competition lawyer

Former Executive Director of  
Enforcement, CMA

Meltem Bağış Akkaya

Turkish Competition Authority

Dr Reto Batzel

MARCK

Carole Dembour

Fevia

Matthew Johnson

Oxera

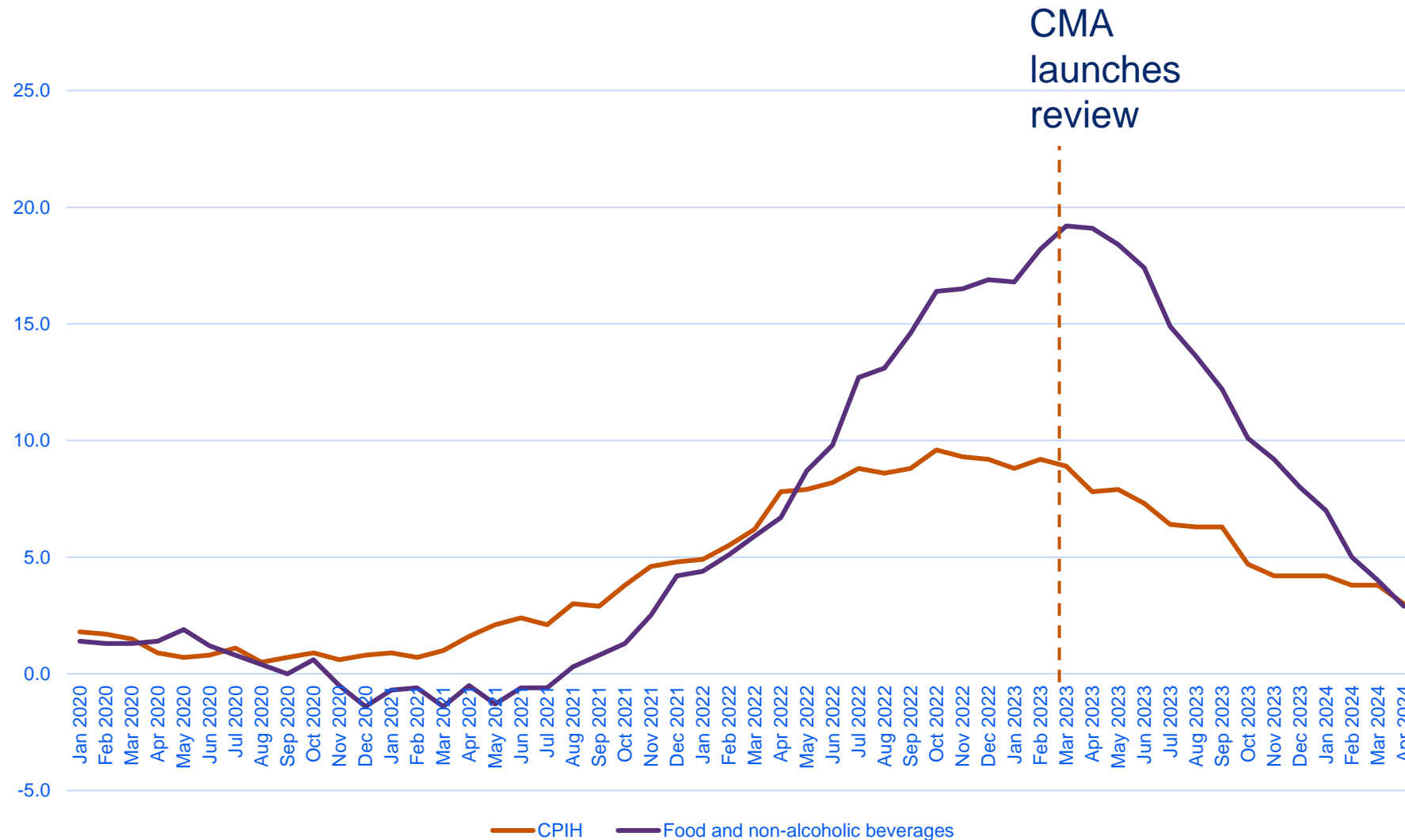
# A sector review

## Assessing competition in the UK grocery market

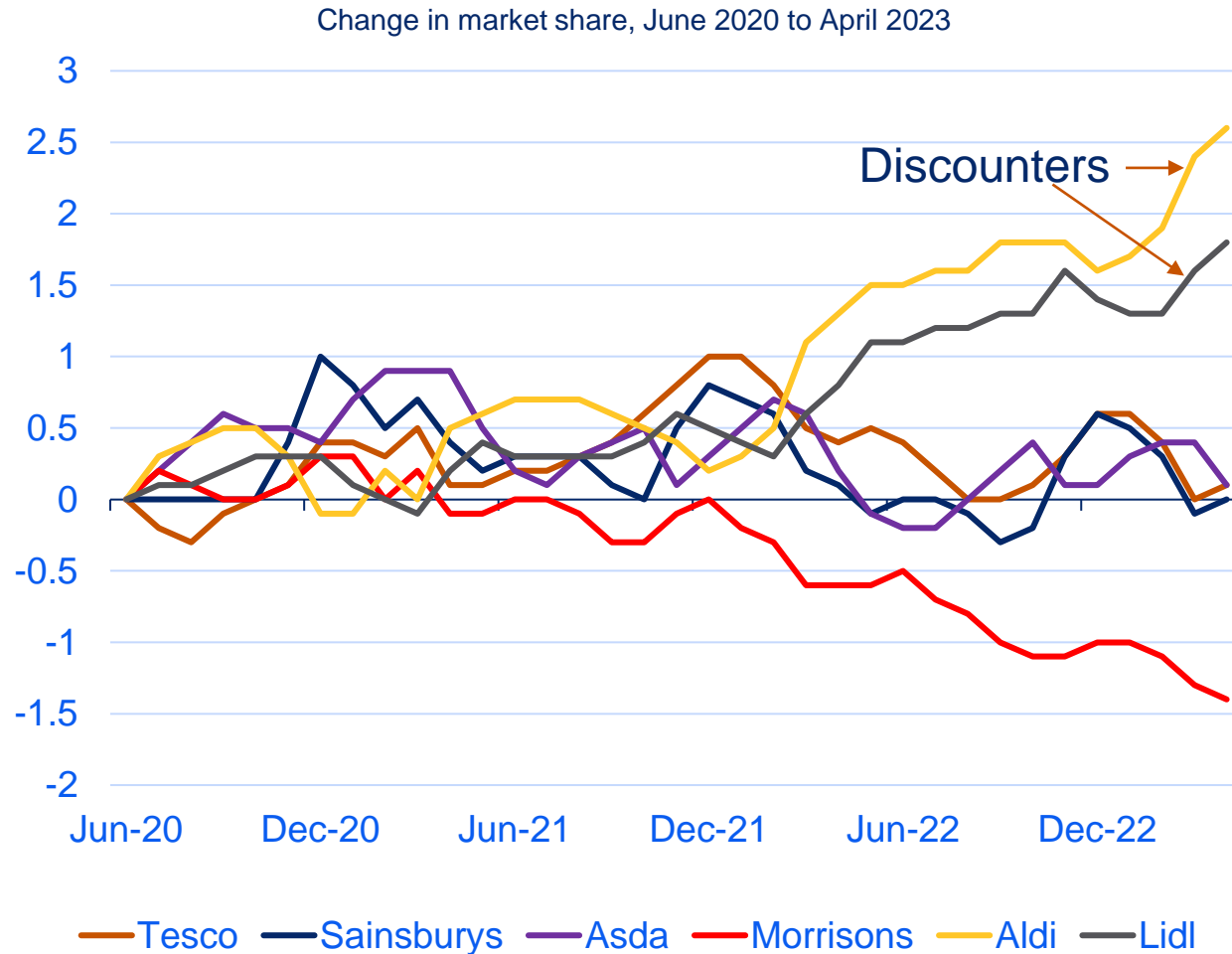
**Lucy Eyre**

Competition and Markets Authority

# Food price inflation and CPI



# Competition between grocery retailers



We looked at relative market shares (based on public Kantar data)

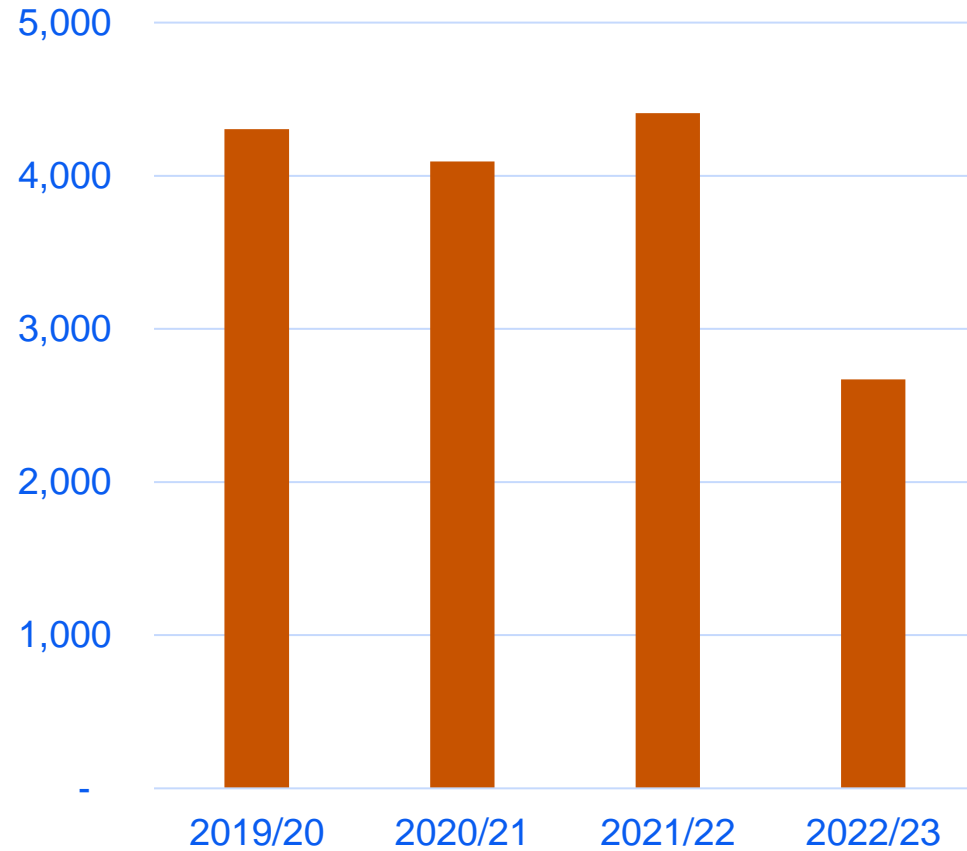
The growth of the discounters has put pressure on competitors to reduce prices

Consumers have been switching to lower priced retailers

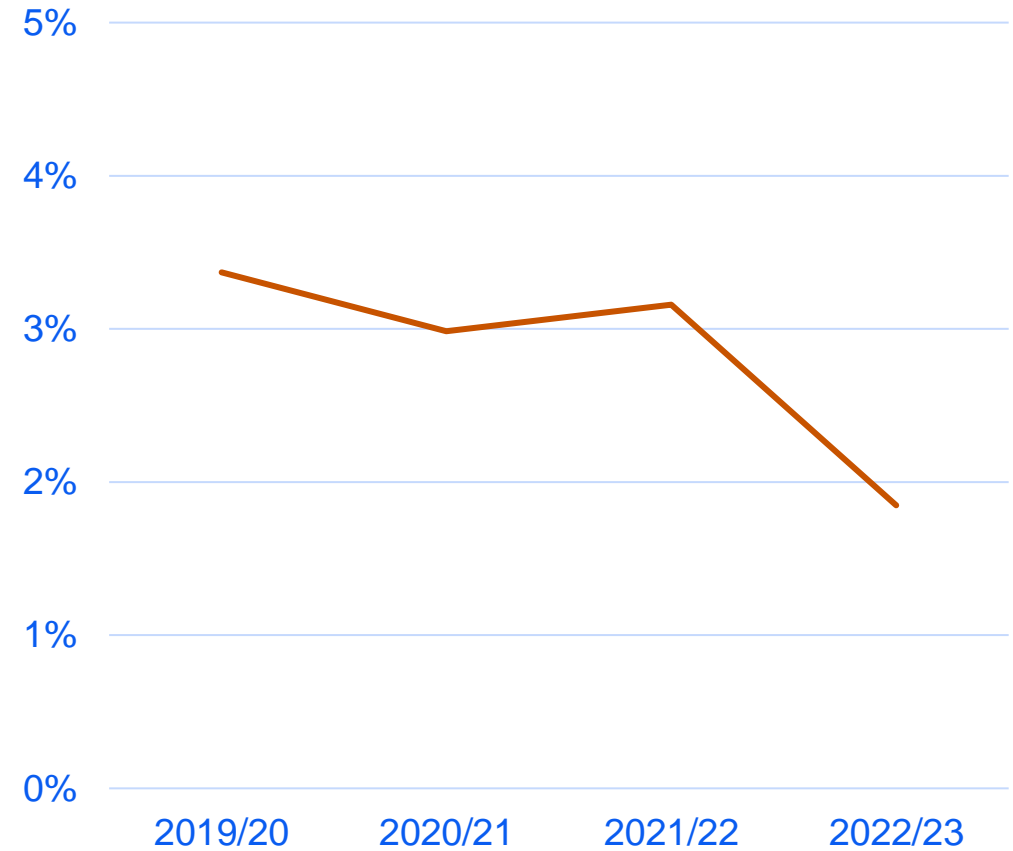
Retailers whose relative prices rose (eg Morrisons) have lost market share

# Retailer profitability

Aggregate operating profit for the retailers' grocery businesses between FY 2019/20 and FY 2022/23 (£m)



Weighted average operating margin for the retailers' grocery businesses between FY 2019/20 and FY 2022/23





## GROUP A

**Product categories:** Infant formula, baked beans, mayonnaise, pet food

**Characteristics and profitability levels:**

- Brands are very, or relatively, important
- Margins are highest
- Unit profitability has increased but overall margins have declined,
- absolute profit performance has been mixed

## GROUP B

**Product categories:** Bread, lemonade, chilled desserts, ready meals

**Characteristics and profitability levels:**

- Brands are relevant but own-label is a strong alternative
- Profit levels are moderate (low for own-label producers)
- Overall margins and absolute profit levels have declined



## GROUP C

**Product categories:** Milk, poultry

**Characteristics and profitability levels:**

- Essential, commodity-type goods, almost exclusively own-label
- Concentrated supply but low margin
- Mixed picture in terms of trends in margins and absolute profit





# Relationships between manufacturers and retailers – own-label



- Manufacturers compete strongly for large tenders
- High degree of cost transparency (cost-pass through or open book)
- In some cases, concentrated markets (eg milk, poultry)
- Evidence of retailers switching
- Over-capacity in some product categories (eg poultry, ready meals)
- Low margins

Conclusion: retailers appear to be able to obtain competitive prices for own-label supply

# Relationships between manufacturers and retailers

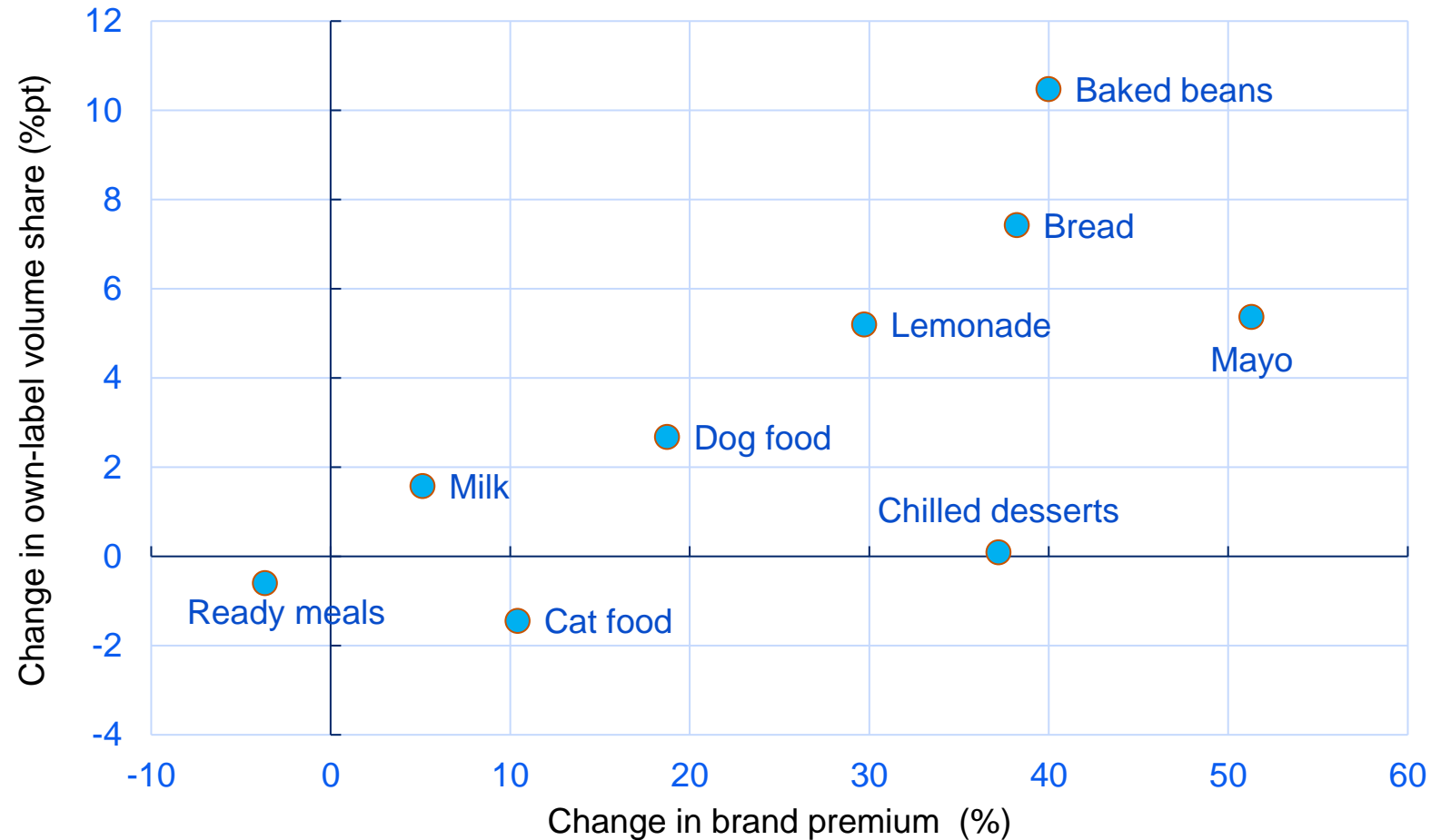
## – branded products



- Necessarily only one manufacturer for any particular brand
- Some are 'must stock' brands
- Negotiations centre around list prices and adjacent promotional funding
- Retailers can offer shelf positioning as an incentive
- Higher profits
- Both sides say negotiations are tough
- Bargaining position depends on importance of overall brand portfolio and market share of the retailer

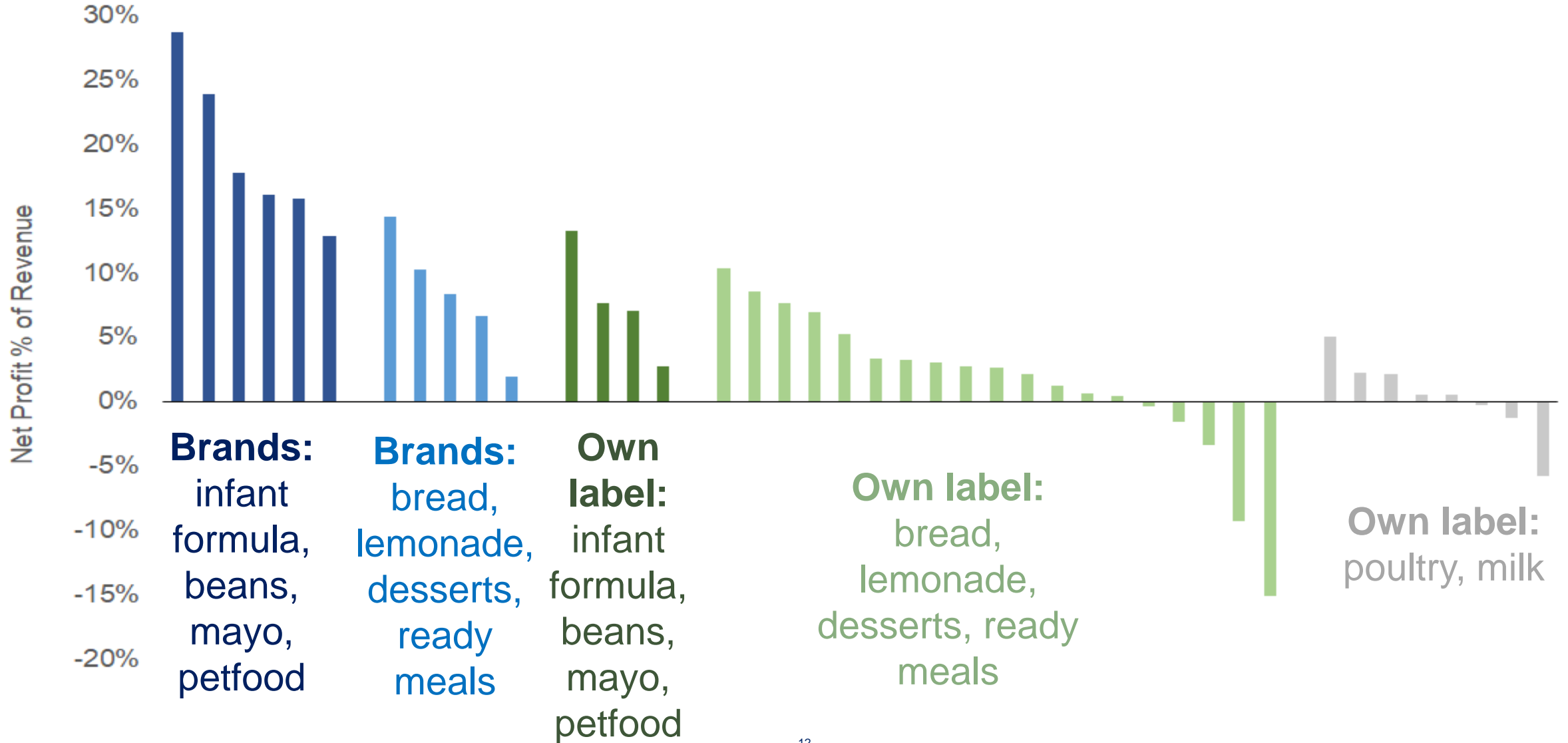
# Consumers have switched to cheaper own-label products

Change in brand premium compared to change in own-label share between September 2021 and September 23

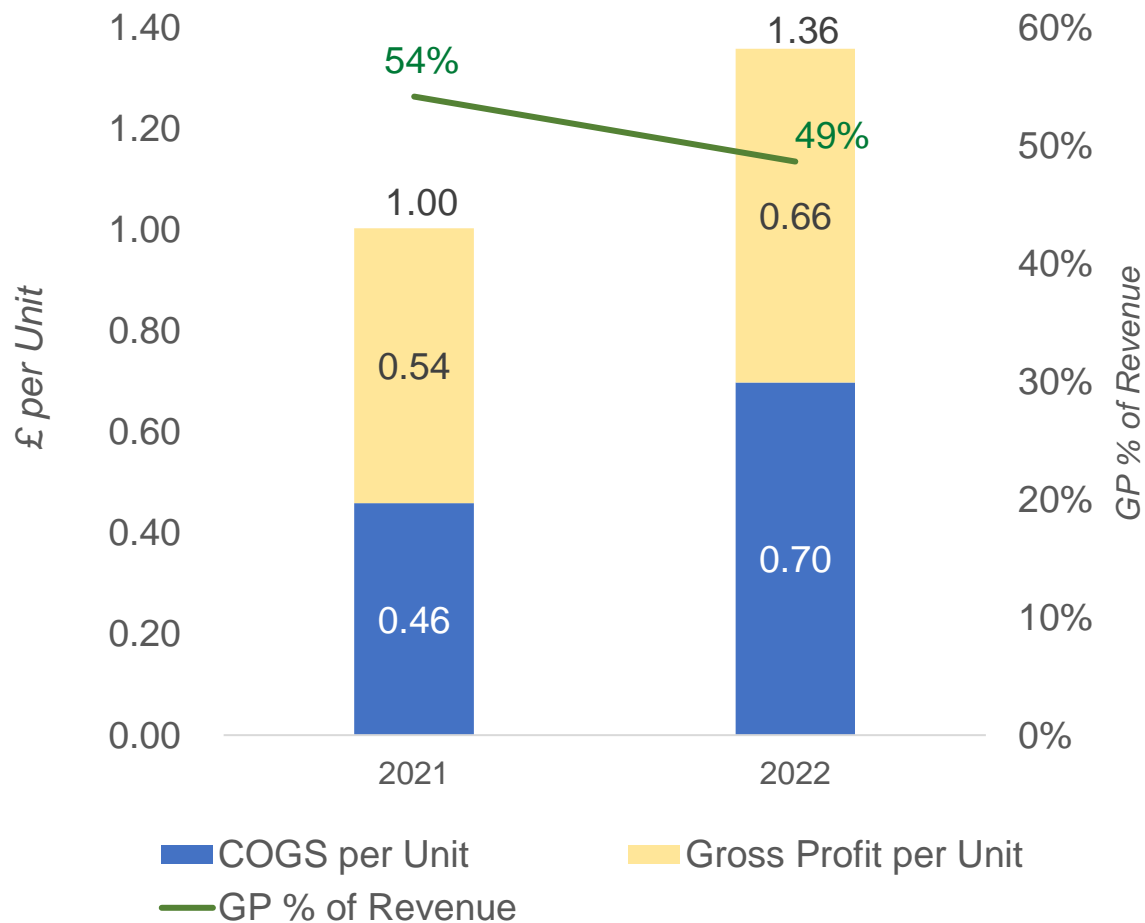


# Profitability

Average net profit, 2020-2022, % of revenue



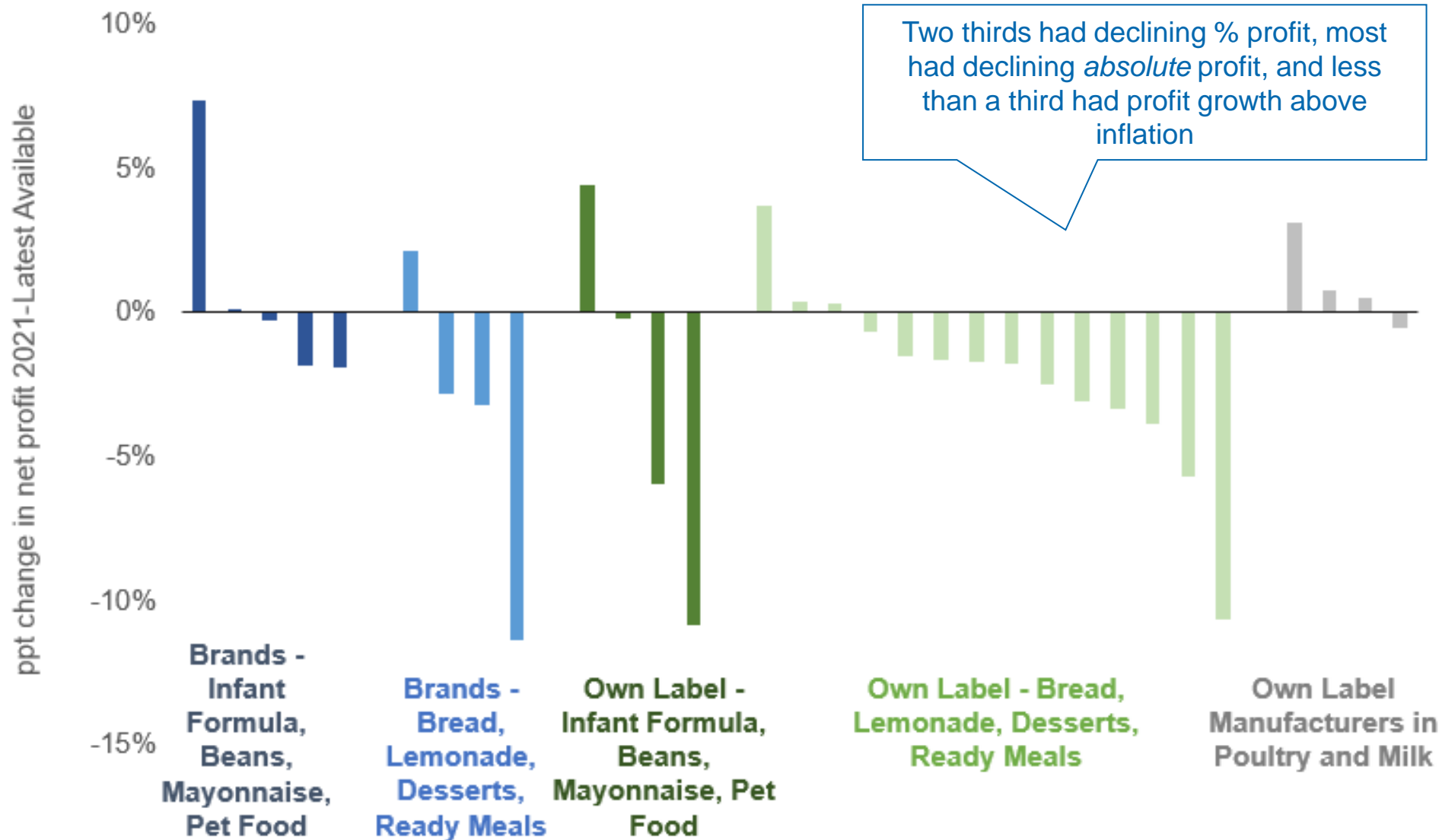
# Unit prices rose by more than costs (in some cases)



**Cost per unit has risen by 24p, but price has risen by a greater amount: 36p**

**However, profit as a percentage of revenue has fallen, from 54% to 49%**

# Most suppliers (branded and own label) had declining profitability





## Retail competition

Retailers appear to get competitive prices from own-label manufacturers, and seem to be passing these on to consumers



## Brand margins

For many brands (and some own-label), prices rose by more than the increase in costs



## Consumer switching

Those who stay loyal to brands will be paying more, but many consumers have switched to own-label



## Weak competition is not the cause

We have not seen evidence that weak competition - between retailers, or between food manufacturers - has materially contributed to overall food price inflation



## However ...

Some consumers do not have (easy) access to own-label products

There is little own-label provision in infant formula.

## Discussion

What do price comparisons between countries tell us?

**Moderator:**

Rona Bar-Isaac

Addleshaw Goddard

Felix Engelsing

Bundeskartellamt

David Foster

Frontier Economics

Sue Hinchliffe

Clifford Chance

Christoph Leibenath

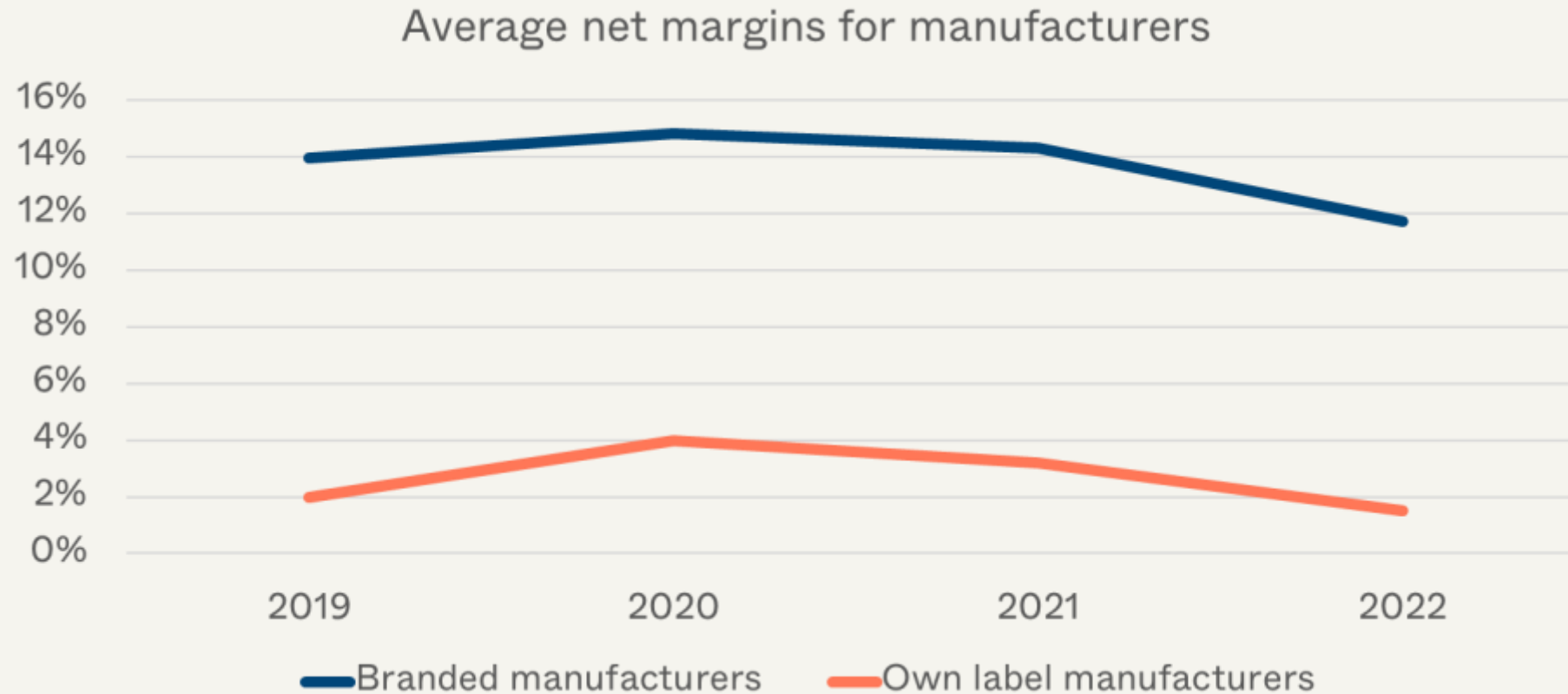
AIM



# Comparing and contrasting retail and branded supplier business models

**George Tucker**  
RBB Economics

- Compare and contrast business models of brands vs private labels.
- What does that mean for competition?



*Price inflation and competition in food and grocery manufacturing and supply, CMA, November 2023*

# Business models

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Centred around product development

- Identify consumer need
- Develop/test products
- Bring to market – often selling wholesale

Requires up-front investment

Can be relatively risky. Lots of failed ideas.

## Jus-Rol ready to bake pastry innovations (selection)



# Private label business model

## Parallel to brands business model

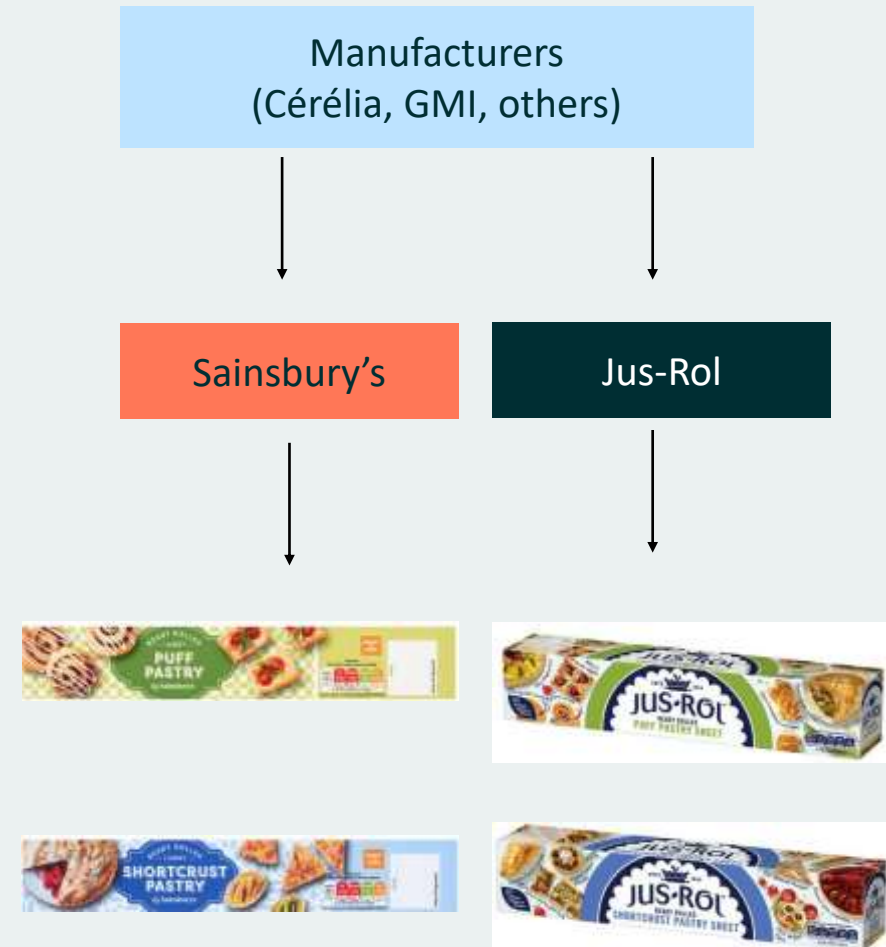
- Retailers own and control specifications.
- Outsource manufacture, packaging etc. to third parties – may be the same as those supplying brands.

## Driven by the needs of retailers

- Higher margin (for retailers)
- Bargaining power vis-à-vis brands
- Differentiation from other retailers.
  - Can (also) intensify competition between retailers, e.g. Lidl/Aldi

Typically (but not always) less innovative, less risky

### Ready to roll pastry market structure (simplified)



# Profitability

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## Do high margins suggest an absence of competitive pressure?

- Profit needs to be large enough to cover costs, including capital costs of up-front investment.
- Riskier and more capital-intensive industries will have higher margins (not taking into account capital costs), for a given level of competition.
- Therefore higher net margins do not necessarily indicate weak competition.



*“High prices or profits alone are not sufficient proof that an undertaking has market power: high profits may represent a return on previous innovation, or result from changing demand conditions.”*



## What can profitability tell us about competition?

Risk-weighted return on capital would be a more reliable measure.

## But, this is imperfect

- Measurement issues, particularly with intangible assets like brands (e.g. Apple)
- Natural fluctuations in profitability, cost efficiency
- Allocation of costs and assets to product lines – all allocations are arbitrary in economic terms!

## Need to look at other evidence on market power/competition

*“Simple price or margin comparisons may, however, be problematic. If the necessary data is available, profitability analysis based on an assessment of the rate of return on capital invested is considered a more accurate and reliable method to measure excessiveness.”*

OECD 2011: Roundtable on Competition Policy: Excessive Prices

# Competition

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To what extent is there competition from other **brands**?

- Cérélia/Jus-Rol: no
- Arçelik/Whirlpool: yes

Is **private label** competition effective?

- CMA 2023 groceries review: generally, evidence that private label competition constrains brands. But, competition was weaker where private labels absent (baby formula).
- Private labels can constrain brands even where there are no other brands. (E.g. Cérélia/Jus-Rol)
- But not necessarily for all customers (E.g. Arçelik/Whirlpool)

## Is private label competition so intense as to stifle innovation?

- Intellectual property could guard against this (e.g. pharmaceuticals/Colin the Caterpillar), if strong enough.
- Possibility raised in Tesco/Booker, although rejected by CMA.

## Could that be exacerbated by retailers self-preferencing private labels over brands?

- Again, issue raised in Tesco/Booker, although rejected by CMA.
- Would the same standards apply in a technology industry? E.g. EC's theory of harm in Amazon/iRobot.

# RBB

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# Discussion

## Ecosystems vis-à-vis the High Street

Striking the right balance for shoppers and competition

### Moderator:

Professor Ariel Ezrachi

Oxford University

Nitika Bagaria

Keystone

Tim Cowan

Preiskel & Co

Professor Oles Andriychuk

Newcastle University

Max von Thun

Open Markets Institute

## Discussion

Dynamic markets and social goals

Can markets and competition policy deliver?

**Moderator:**

Alec Burnside

Dechert

Alec Burnside

Dechert

Phil Evans

Competition Law Forum

Isabelle Coste-Le Personnic

JDE Peet's

Professor Julian Nowag

Lund University

# Closing remarks

**Professor Ariel Ezrachi**  
University of Oxford