The impact of private labels on SME competitiveness

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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

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Analysis

Outline

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

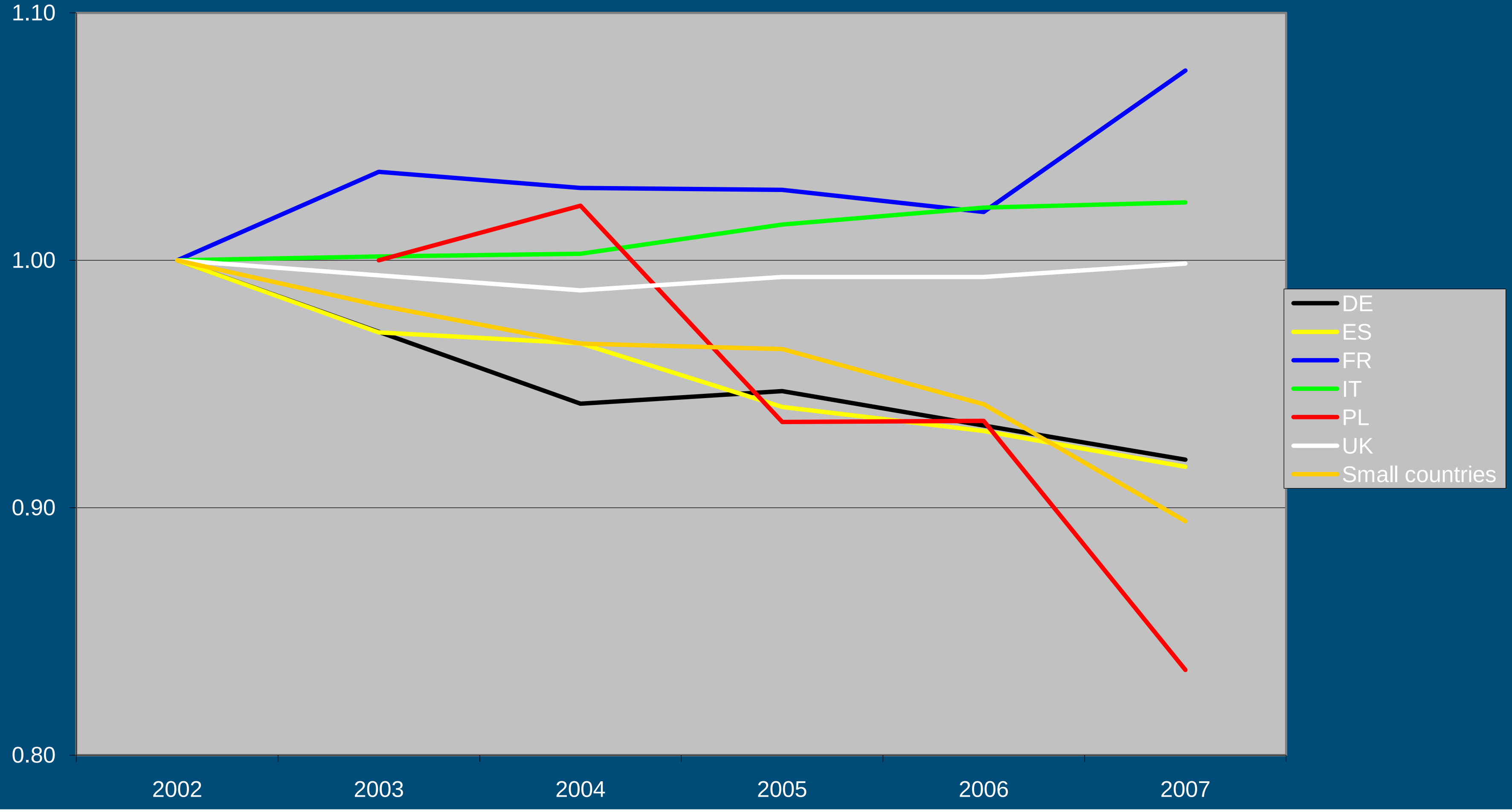
Analysis

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

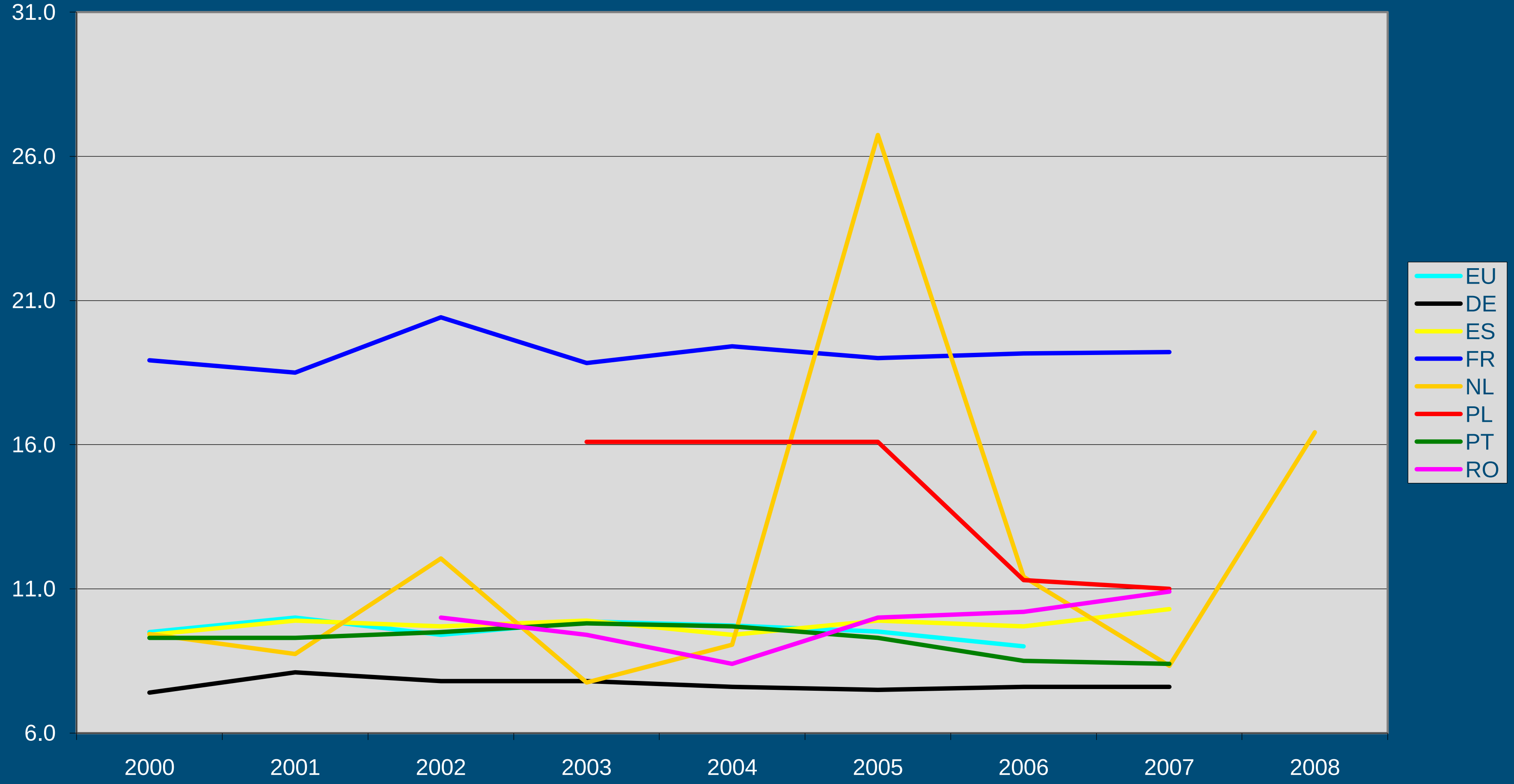
Analysis

Supply chain structure: Number of SMEs in food processing



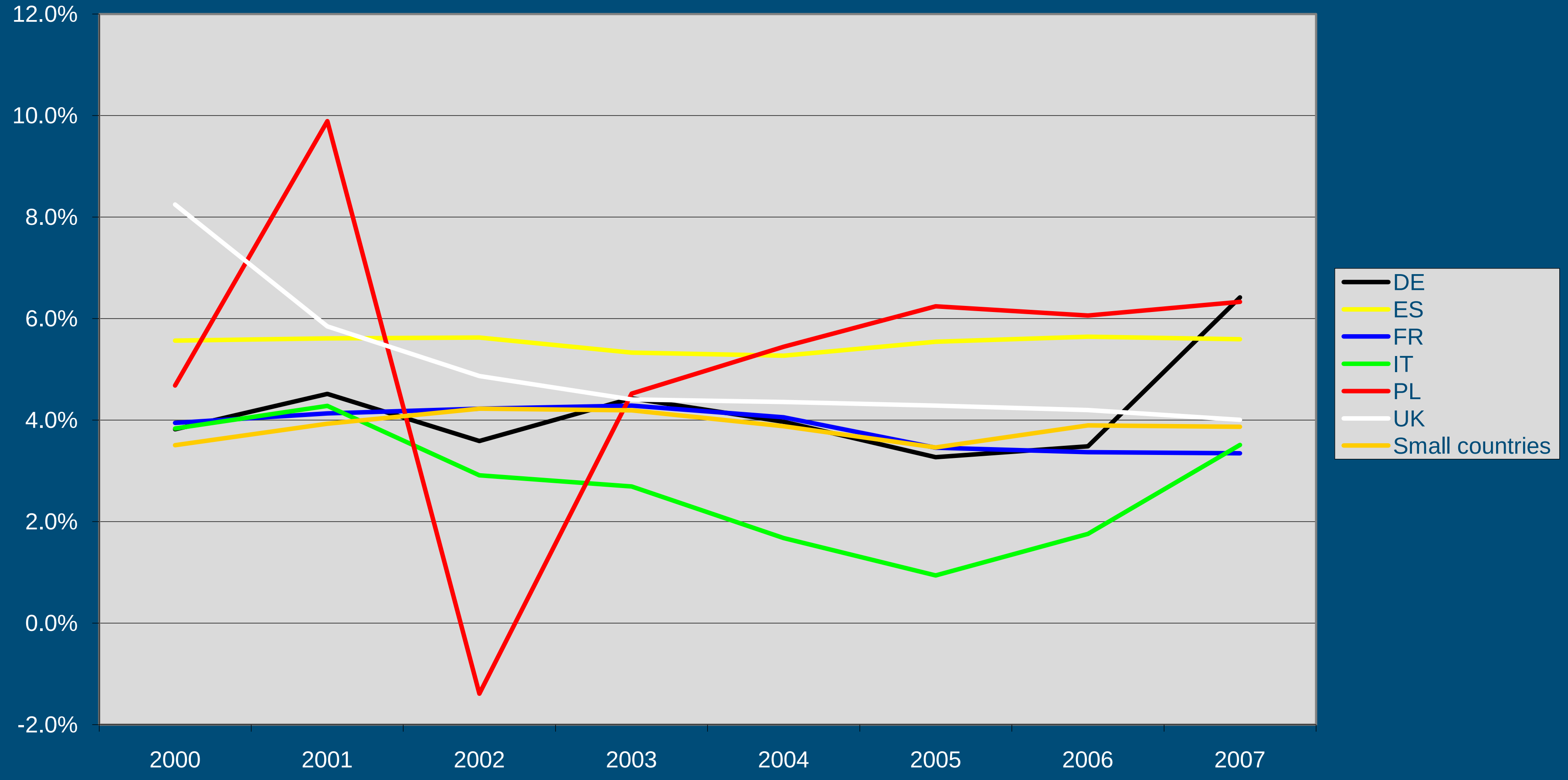
Analysis

Supply chain structure: profitability in food processing



Analysis

Supply chain structure: profits in food retail



Analysis

Private labels

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

Analysis

Private labels

- In France, the share of SMEs decreased in industry turnover decreased, 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

Year	PL penetration rate	Market share of SMEs	Market share of SMEs in PL production
1999	22.3	24.8	19.6
2006	29.1	22.4	21.6

Number of brands and suppliers in

Italian dairy and cereals industry

	Brands			Companies		
	2004	2008		2004	2008	
Refrigerated milk	368	413	+	148	182	+
UHT Milk	398	433	+	181	211	+
Butter	333	314	-	50	46	-
Whole yogurt	366	345	-	187	197	+
Functional yogurt	44	102	+	30	66	+
Breakfast cereals	215	244	+	130	178	+

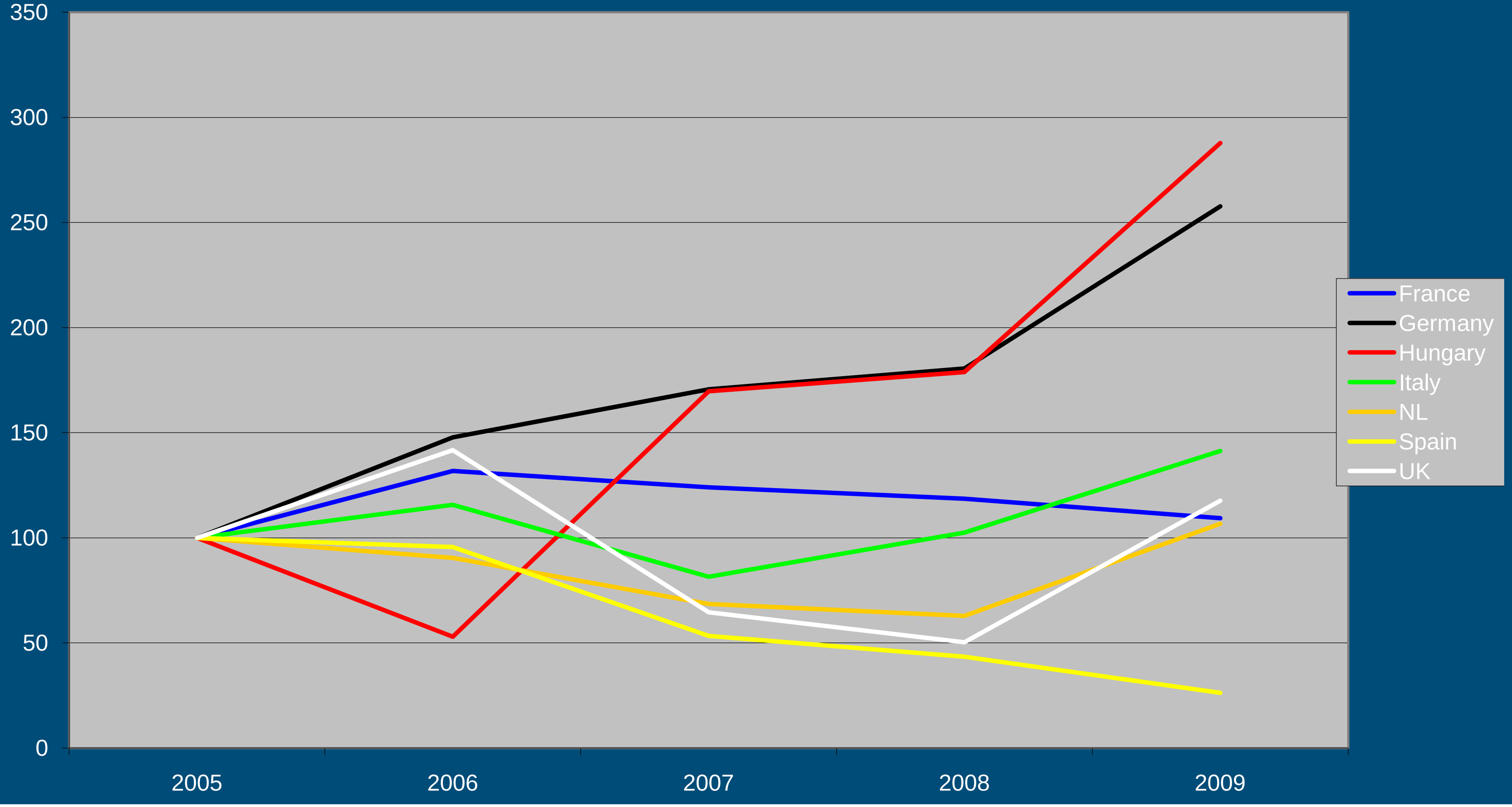
Analysis

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

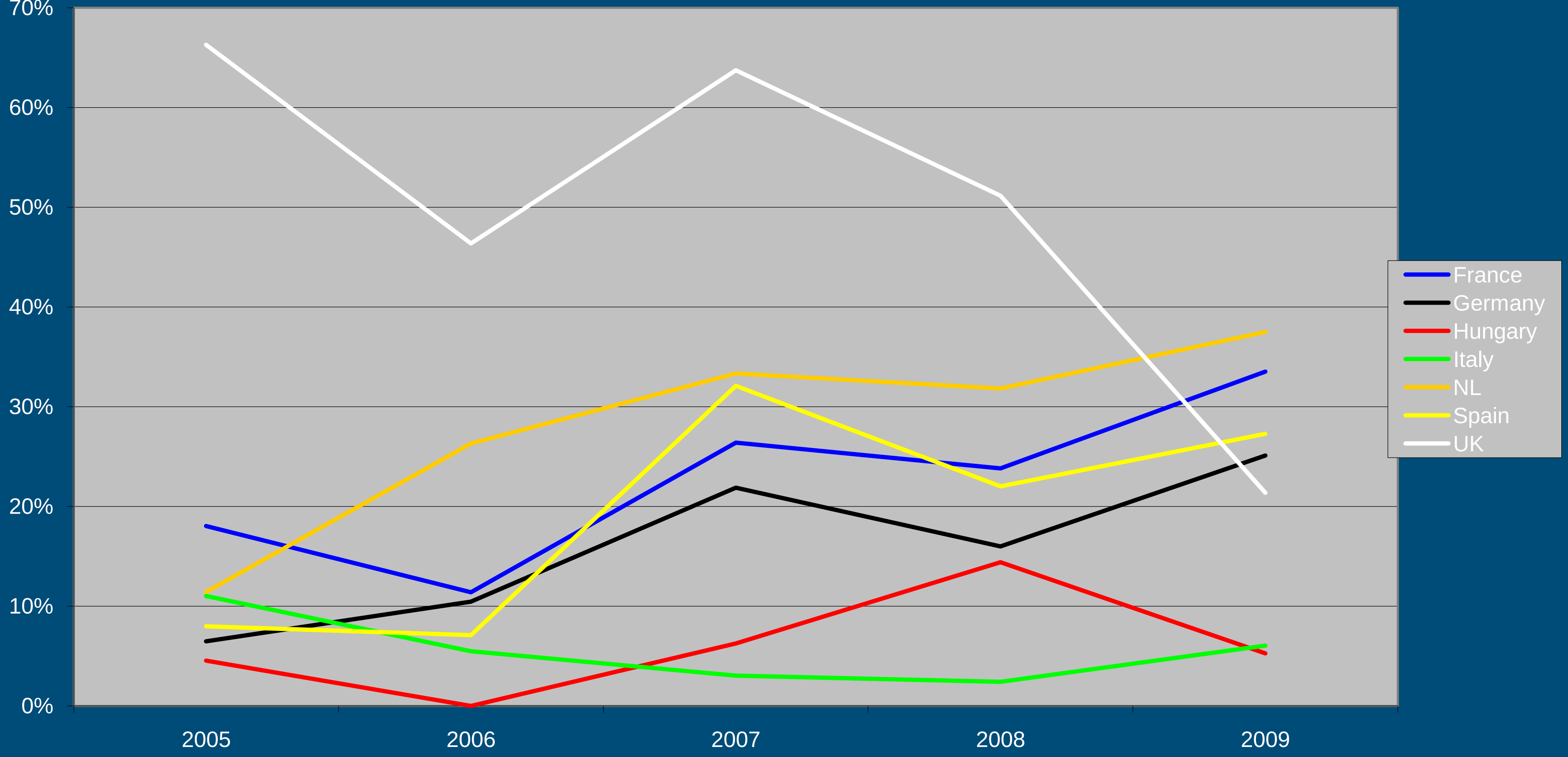
Analysis

Number of innovations in dairy



Analysis

Private label share product introductions dairy



Analysis

Interviews

- 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

Legal analysis

Roadmap

- 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 stake
- The results illustrate the fact that retailers perform more activities in the supply chain at the cost of food processing
- There may a reason to address some business practices

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Questions