Do Retailers Manipulate Prices to Favour Private Label over Brands?

Author: Ratula Chakraborty

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BACKGROUND
- Grocery retailers act as both customers and competitors for brand manufacturers when selling private label in direct competition with brands.
- Retailers could exploit this “double-agent” position to practice “switch marketing”, manipulating elements of the retail marketing mix to encourage shoppers to switch from buying brands to private label.
- Blatant examples of switch marketing include comparative advertising, brand delisting trials, copycat packaging, and biased shelf allocation.
- The key interest in this paper concerns whether retailers use a more subtle means through strategic pricing to favour private label over brands.

METHODOLOGY
- Analysis of the pricing of matched pairs of branded goods and their private label equivalents.
- Weekly prices analysed from the leading four UK supermarket retailers over a 5-year period on 60 matched pairs of consumer packaged goods (covering a total of 126,720 data points).
- Analysis of brand and private label price correlation, price gap, retailer price matching, and price volatility.

KEY FINDINGS
- Brands and matching private label goods receive very different pricing treatment.
- Modest intra-retailer price correlation between brands and private label equivalents but stronger inter-retailer price correlations indicating item-by-item price competition.
- Widening brand and private label price gap as retailer rivalry becomes more intense.
- Highly volatile brand prices driven by promotional pricing compared to much more stable private label prices.
- Identified pricing patterns are more indicative of retailers manipulating brand and private label prices for the sake of segmenting consumers rather than displacing brands.

POLICY ISSUES
- Allowing brand producers to use maximum resale price maintenance (RPM) in the terms and conditions of supply might help constrain retailers from setting unduly high brand prices.
- Going a step further to allow brand producers the possibility to fix resale prices might help prevent retailers from using excessive and artificial high-low pricing on brands.

W: www.competitionpolicy.ac.uk
T: +44 (0)1603 593715
A: UEA, Norwich, NR4 7TJ
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ABOUT THE AUTHOR
- Ratula Chakraborty is Senior Lecturer in Business Management at Norwich Business School and member of the Centre for Competition Policy at the University of East Anglia