

# Do Retailers Manipulate Prices to Favour Private Label over Brands?

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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

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