

How Do National Brands and Store Brands Compete?

BACKGROUND

- Competition between national brands and store brands (otherwise known as private label or own label goods) for the attention of shoppers has become prevalent across most consumer packaged goods (CPG) markets
- Their competition involves a mix of vertical and horizontal aspects because the retailer, in commissioning and controlling the store brand, acts as both a customer and competitor to the national brand producer
- This *double agency* role of the retailer acts as potential source of friction in the supply chain when national brands and store brands compete for the same consumers
- The implications for how this relationship affects price and non-price competition have a bearing on competition and antitrust matters, including market definition
- This paper provides a broad analytical framework for modelling the interaction of price and non-price (quality) competition to see how these different forms of rivalry interact when a retailer-controlled store brand competes with a national brand
- The results and insights from the framework are used to consider the implications for industry participants and the consumers they serve as well as for the regulators and policymakers who oversee and promote competition

METHODOLOGY

- Competition is modelled at its most core level by considering the dual cooperative-yet-competitive relationship between a single leading national brand producer and a single leading retailer, dominant in their respective markets
- A vertical differentiation framework is developed that allows for different consumer segments and different individual preferences supporting the presence of both a national brand and a store brand
- The framework is used to examine how price and non-price competition interact, and particularly how store brand quality is determined relative to that of national brand quality and the consequences for resulting prices in the market. Will the store brand seek to position itself differently or the same as the national brand in terms of quality? Which is better for consumers?
- To check on robustness of any findings, we allow for different degrees of channel control and influence over price setting, ranging from this being national brand producer-led to retailer-led as well as more balanced control

KEY FINDINGS

- The results show that generally the retailer will seek to position its store brand as closely as possible to the national brand, by seeking to minimise the quality gap, but price the two goods very differently, with a wide price gap, as a means to segment consumers
- Store brand introduction can lead to overall higher prices, so be against consumers' interest, unless there is intense head-to-head rivalry for value-conscious consumers
- Intense rivalry is more likely to happen if the national brand producer can exercise some control over its own product's retail price (e.g. by being allowed to use maximum resale price maintenance) and has protection against copycat (lookalike) store brands ensuring a degree of differentiation between the competing products

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POLICY ISSUES

- The findings show horizontal competition benefits on top of the usual vertical (alleviating double marginalisation) and intellectual property (to encourage brand investments) reasons to support respectively a more lenient policy stance towards RPM and a tougher stance against parasitic copycatting
- The mix of horizontal and vertical aspects has implications for undertaking market definition analysis in CPG markets, and specifically testing whether store brands and national brands are in the same product market
- We highlight the considerable care needed in applying and interpreting the usual price and demand elasticity analysis used in market definition tests because of how segmentation and item-by-item retail pricing can distort demand and sales patterns

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper 14-7 and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

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