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Abstract

There is a growing interest in private label products in the food industry and it has become an important strategy for food retailers to own and manage their own private label brands. Private labels have become a more popular topic to investigate, although so far, not much attention has been given towards the potential impacts private labels have on innovation. The focus of this thesis was therefore to analyze private label competition and the effects private labels have on innovation in the food industry. To approach this topic, an extensive literature review focusing on private labels, competition and innovation effect was performed. Empirical data was collected by interviews performed via the survey tool SurveyMonkey. In order to achieve a more in-depth data on the subject, two different surveys were distributed, one with relevant personnel from the food industry and one with experts from the academia.

The key results in this thesis suggest that increases in private label shares could impede innovation within the food industry. The main reason for this is that private labels reduce the incentive for national brand manufacturers to invest resources in product development activities. The results from this thesis also imply that small manufacturers are especially vulnerable to increases in private label shares and that the development of "copycat" private labels could have a large negative effect on innovation in the food industry.

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1. Introduction

1.1 Private label definition

Private labels refer to all products sold under a retailer´s brand. The retailer owns the brand and has exclusive right over the products. Private labels are retailer specific and therefore different retailers cannot sell identical private label products (Bergés-Sennou *et al.,* 2004). The retailer controls everything relating to their private labels, including packaging, price setting, promotion etc. (Scott-Morton & Zettelmeyer, 2004). These aspects differentiate private labels from national brands on the market (Bergés-Sennou *et al.,* 2004). Housing a private label brand is therefore one of the most effective way for a retailer to secure consumer loyalty (Codron *et al*., 2005). Other commonly used terms for private labels are distributor owned brands, private brands or own brands.

National brands refer to all products developed by a manufacturer that through extensive product development, promotional activities and distribution strategies targets a specific consumer group (De Chernatony & McWilliam, 1988). With national brands, each brand´s manufacturer controls their own products and makes strategic decisions such as price setting, promotion, positioning etc. (Scott-Morton & Zettelmeyer, 2004). Other commonly used terms for national brands are manufacturer brands or branded goods (De Chernatony & McWilliam, 1988).

1.2 The history of private labels

When private labels were introduced in the food industry in the 1950s, they were marketed as low cost alternatives to national brands and their market shares were on negligible levels (Parker & Kim, 1997). However, ever since the 1970s, private label shares have increased constantly (Kumar & Steenkamp, 2007). During the 1970s, consumers considered private labels as low price products with an inferior quality to national brand products and the main reason for consumption was the low price (Jonas & Roosen, 2005).

During the 1980s, a new type of private label brands entered the market, namely pseudo brands. Pseudo brands are low price private labels with a slightly lower quality than that of their national brand competitors. A manufacturer usually produces pseudo brands as a second product line in attempting to maximize its production capacity (Jonas & Roosen, 2005).

In 1982, private labels existed in 60 per cent of all product categories within the food industry (Raju *et al.,* 1995). During the 1990s, food retailers started increasing the quality of their private label brands in an attempt to be more competitive. These exclusive brands now had at least similar quality to the market leader within the different categories (Jonas & Roosen, 2005).

1.3 Private labels today

Today, the average market share for private labels in Europe is 23 per cent. This market share however, varies significantly between European countries. In Greece, private labels have a market share of 4 per cent (Gabrielsen & Sørgard, 2007) and in the United Kingdom, where private labels are the most developed; they have a market share of 45 per cent (Bell *et al.*, 1997).

The market share of private labels does not only vary between countries but also amongst product categories (Hoch and Banerji, 1993). Private label shares are the highest in milk (64 per cent) and frozen plain vegetables (47 per cent) and the lowest in frozen chicken (3.6 per cent) and carbonated beverages (6.7 cent) (Batra & Sinha, 2000). Private labels tend to have a higher market share in large product categories with low advertising and fewer national brands to compete with (Hoch & Banerji, 1993). A large price difference between private labels and national brands as well as a positioning as high quality products also promotes private labels to a higher market share (Dhar & Hoch, 1997; Hoch & Banerji, 1993). More than 44 per cent of consumers regularly purchase private label products in the grocery sector (Hoch, 1996). In many food categories, such as milk and frozen beans, private labels are now the dominating brand, having a higher market share than their national brand competitors (Batra & Sinha, 2000).

Private label market shares are still increasing on the market and all tendencies show that this will continue even in the future (Hultman *et al*., 2008). An explanation for this increase in private label shares is the improvements in quality and packaging (Choi & Coughlan, 2006). Industry specialists expect that by the year 2020, private labels will account for 30 per cent of the world's grocery sales (Lamey *et al.*, 2007).

The development of private labels has been the most successful distributer strategy the past decades (Berges & Bouamra-Mechemache, 2012) and is therefore an important strategy for food retailers in Europe (Gabrielsen & Sørgard, 2007).

1.4 Aim and Objectives

The purpose of this thesis is to analyze the competitiveness of private labels and to determine how private label competition affects the innovativeness of new products in the food industry.

Many articles have been published regarding private labels focusing on the competition between national brands and private labels in the food industry. However, not many articles discuss the subject of whether private labels could affect innovation in the food industry. The lack of scientific research makes this topic interesting to examine in more detail.

In order to approach the subject, the following research questions will be addressed:

- How do private labels affect innovation in the food industry?
    - What is the retailer's contra expert's view on this?
    - How do their opinions match the results from the literature review?

1.5 Delimitation

This thesis includes the results from a thorough literature review, interviews with relevant personnel in the retail industry, as well as expert opinions from the academia. The focus is on the development of private labels and what effects this can have on innovation in the food industry. The literature review highlights private labels, innovativeness, price effect, consumer view and competition. The thesis will be limited to private labels within the food industry. The retailer interviews focuses on competition within the Swedish food industry and the interviews with experts focuses on competition within the European food industry.

2. Method

2.1 Methodological Approach

Information regarding private labels, innovation effect, retailer perception and expert opinions from the academia with insight in private label competition was collected for the purpose of this thesis. The methods chosen to obtain this data were an extensive literature review, interviews with relevant personnel from the food industry and interviews with experts from the academia. Due to geographical limitations, all interviews were performed by a survey distributed via email.

2.1.1 Literature review

The purpose of writing the literature review was to provide a framework to relate findings from previous articles to the new findings within the discussion part of this study. A literature review assists in delimitating the research problem and gaining methodological insight. A literature review helps demonstrate the author's knowledge of the specified subject at hand as well as gathering previously performed research on the topic (Randolph, 2009).

An extensive literature review focusing on private labels, competition and innovation effect was performed in order to analyze this topic. The literature review was primarily conducted via SLU´s online library Primo and scientific databases such as Web of Science and Scopus where adequate data from recent articles was gathered.

2.1.2 Survey

Performing a survey involves some advantages compared to using individual interviews. Surveys are cost effective and more participants can partake within a wider geographical area. There is also a higher probability to get participants to partake. The participants can answer the survey at their own pace, making the answers more carefully planned (Ejlertsson, 1999).

When choosing to perform a survey it is also important to consider potential disadvantages (Ejlertsson, 1999). One risk is shortfall amongst participants, meaning that participants choose not to answer the survey. A large shortfall affects the study´s credibility (Statistiska Centralbyrån, 1997). Other disadvantages include not being able to ask follow-up questions or to discuss any uncertainties that might occur when filling out the survey (Ejlertsson, 1999).

The main objective of using a survey to research the subject in this thesis was the ability to contact participants in a dispersed geographical area in order to achieve wide knowledge basis. The selection of participants for this survey was made strategically to involve as many participants as possible based on their knowledge of the research problem at hand.

The obtained data was qualitative rather than quantitative and focuses on the participant's opinions concerning private label competition. Qualitative data provides a deeper and more flexible reasoning regarding the issue at hand, which suits the purpose of this thesis (Ahrne & Svensson, 2011).

2.2 Participants

In order to obtain the data, two different surveys were sent out. The first survey focused on retailer´s views of their private label brands and the competition with national brands on the market. This survey was distributed to four of Sweden's largest retailers in the grocery sector. Throughout this thesis, the participants from the retail companies will be anonymous and named Retailer A-D.

The second survey focused on participants from the academia that have a profound knowledge of the subject of private labels as well as its effect on competition and innovation. This survey was distributed to three professors in economy and business administration in Sweden and Great Britain as well as to a high official within the consumer organization *Sveriges konsumenter*. Throughout this thesis, these participants will also be anonymous and named Expert A-D.

2.2.1 Survey with retailers

Empirical data was collected via interviews performed via a survey tool called SurveyMonkey, which was distributed via email after initial contact had been made (see appendix 1). The survey was distributed to relevant personnel from four of Sweden´s largest retailers in the grocery sector. The participants included a purchaser of private labels, a purchase manager of private labels, a business unit director and a manager of private labels.

This survey included ten open answer question with an approximate response time of 20 minutes, conducted to extract as much information as possible regarding the retailer´s view of private label brands (see appendix 2). Initial contact via email was performed with four retailers and the response rate of this survey was 100 per cent

The retailers participating in this survey offer a variety of private label brands and have many years of experience of developing, marketing and selling private labels.

2.2.2 Survey with experts

The second survey was also performed via the survey tool SurveyMonkey with participants from the academia. The experts were interviewed in order to achieve a more impartial, theoretical view on the subject of private labels, competition and innovation effect. The participants in this survey included a Professor of Economics and Finance at Jönköping International Business School, a Professor of Business Administration at Lund University, a Professor of Business Strategy and Public Policy at Norwich Business School and a high official within of the consumer organization *Sveriges konsumenter*.

This survey included eight open answer questions with an approximate response time of 20 minutes (see appendix 4). The survey was distributed via email after initial contact had been made. The initial email was distributed to five participants, and four out of these responded. Out of these four, all participated in the survey. The response rate for this survey was therefore 80 per cent.

2.3 Validity and reliability

Response rate is a factor highly related to a study’s validity, a large shortfall amongst the participants affects the study´s credibility (Statistiska Centralbyrån, 1997). The shortfall includes participants not answering the survey or not answering a specific question within the survey (Körner & Wahlgren, 2002).

The response rate for the first survey, including retailers in Sweden was 100 per cent. The response rate for the second survey, including participants from the academia was 80 per cent, meaning that there was one person that chose not to participate. Since the number of participants in the surveys was rather low, a one-person shortfall highly affects the response rate.

Another factor related to a study´s validity and reliability is whether any misunderstandings occurred in the survey (Körner & Wahlgren, 2002). During the data analysis, it became clear that one of the participants in the second survey had misunderstood two of the questions within the survey, and these were thus not included in the analysis.

2.4 Method criticism

During the data analysis, it became clear that additional questions regarding private labels competition and strategies would have been useful for the analysis. In retrospect, some questions seemed obsolete, being too alike. Those questions were not necessary for the analysis. Misunderstandings occurred by one participant in two different questions, meaning that the questions should have been more direct and clearer in order to avoid these type of misunderstandings.

Despite its mentioned advantages, performing an email survey has its disadvantages and personal interviews would have provided this thesis with more in-depth responses.

3. Literature review

3.1 Manufacturer view

The introduction of private labels on the market leads to increased competition for manufacturers so it is important for national brand manufacturers to create a strategy for dealing with this (Hoch & Banerji, 1993). In situations where private labels are pure imitations of national brands, retailers can take advantage of the product development efforts national brand manufacturers already have performed and thus spend less resources on research and development (R&D) activities (Hoch & Banerji, 1993).

The largest advantage national brand manufacturers have towards private label brands is their ability to produce innovative products that can provide added value for the consumers and at the same time convince consumers about their brand´s superiority. National brand manufacturers therefore view their skilled R&D department, good reputation and brand value as their most important advantage in the competition with private labels (Hultman *et al*., 2008).

3.1.1 Manufacturer response

In dealing with the increased competition from private labels, a national brand manufacturer can adopt a few different strategies. One of these strategies is to produce private labels for retailers as a second product line, a strategy adopted by large manufacturing companies such as Kraft foods and Unilever (Berges & Bouamra-Mechemache, 2012). Producing private labels in addition to own brands is the most common strategy. The main advantage for doing this is the increased production volumes without having to increase costs for marketing and product development activities (Bell *et al.*, 1997).

A second strategy is to only produce private label products for retailers, having no own brand. These manufacturing companies are usually more flexible, innovative and can adapt to the changing retailer demands faster than manufacturer´s that produce both private labels and national brands (Burch & Lawrence, 2005).

Other common strategies include increasing the product differentiation (Gabrielsen & Sørgard, 2007; Soberman & Parker, 2004) or to increase marketing activities, which leads to higher product prices (Dobson & Chakraborty, 2008). When private labels exist on the market, national brands concentrate on keeping brand loyal consumers whereas private label brands focus on consumers´ willingness to switch brands (Gabrielsen & Sørgard, 2007).

3.1.2 Implications for manufacturers to produce private labels

Three main explanations for why national brand manufacturers choose to produce private labels can be found in the literature (Berges & Bouamra-Mechemache, 2012). The first explanation is that if a manufacturing company chooses not to produce a private label, another company would produce it, providing them with the extra profits. The second explanation is that private labels can improve the relationship between manufacturers and the retailers that sell their products (Berges & Bouamra-Mechemache, 2012). The third explanation is the ability to use excess production capacity that otherwise would go to waste (Gomez-Arias & Bello-Acebron, 2008).

Given these reasons, national brand manufacturers might see it more profitable to produce private labels rather than seeing another company produce them. The manufacturer themselves will then produce the competing brand (Berges & Bouamra-Mechemache, 2012).

3.2 Retailer view

The past 25 years private labels have evolved from a low quality product, competing solely on a low price into being a competitive retailer strategy (Johansson & Burt, 2004). Since private labels are retailer specific, it has become a vital strategy for retailers to manage and develop a range of different private label brands (Johansson & Burt, 2004).

3.2.1 Implications for producing private labels

One of the original reasons for retailers to produce private labels was to prevent consumers from making price comparisons between retailers on identical products from national brand manufacturers. Since private labels are retailer specific, consumers have more difficulties in making a price comparison between similar products, providing the retailers with more flexibility in their price settings (Steiner, 2004).

Another reason for retailers to produce private labels is the higher margins. Private labels have a gross margin of 20 to 30 per cent higher than national brands, making them an important source of profit (Hoch & Banerji, 1993). A reason for this higher gross margin is that many marketing costs can be avoided given that retailers already have channels and strategies for marketing and distribution (European Commission, 2011).

Private labels also strengthen the retailer's position and provide a better negotiating power towards manufacturers (Grunert, 2006; Mills, 1999). Yet another reason is that private labels provide retailers with an opportunity to produce innovative products that will only belong to them. By selling retailer specific products, retailers can establish consumer loyalty and put pressure on their competitors (Jonas & Roosen, 2005), making private labels an important differentiation tool (Scott-Morton & Zettelmeyer, 2004).

Having the ability to control positioning of private labels is one of the key factors for why private labels are valuable for retailers (Scott-Morton & Zettelmeyer 2004).

3.2.2 Risks with producing private labels

The retailer controls everything concerning their private labels, including investments in promotion, positioning, price setting, packaging design and product quality (Scott-Morton & Zettelmeyer, 2004). This aspect differentiates private labels from national brands, where each brand´s manufacturer decides most of the strategic decisions (Scott-Morton & Zettelmeyer, 2004).

The market shares of private labels continue to increase; however, consumers consistently rate the quality of private label products as inferior to national brands (Olsen *et al*., 2011; Richardson *et al*., 1996). Retailers try to improve their private labels´ quality image by introducing premium brands, focusing more on packaging and to advertise the higher quality. Consumers still associate private labels with having an inferior quality to national brands even though studies using blind tastings show that consumers perceive private labels as having the same quality as national brands (Olsen *et al*., 2011).

3.2.3 Retailer strategies

Three main retailer strategies for developing private labels can be found in the literature. The first strategy is to fill a gap in a product category, for instance a low-price, lower quality alternative to an existing brand, or a high quality alternative aimed to have a higher quality than the existing national brand (Kumar & Steenkamp, 2007). The second strategy is to provide an alternative product to an existing brand, a "copycat" product with the same quality as the existing brand, but to a lower price. The third strategy is to develop a completely new product or product category (Kumar & Steenkamp, 2007).

Having a strategy for positioning a private label brand is therefore of the utmost importance for retailers and the optimal strategy is to imitate the market-leading brand within that product category (Sayman *et al*., 2002). Constructing private labels to imitate national brands by packaging, labeling, size and shape is a common strategy amongst retailers (Scott-Morton & Zettelmeyer, 2004; Sayman *et al*., 2002).

3.3 Consumer view

The main reason for the growing popularity in private labels is the price setting. Globally, private labels are 21 per cent cheaper than national brands (Hoch and Banerji, 1993) and the average price difference in Sweden is 38 per cent (Anselmsson *et al*, 2008). However, for determining how successful private labels will be amongst consumers, high quality is the most important factor (Hoch and Banerji, 1993). When consumers consider purchasing private labels, they are concerned about the quality (Batra & Sinha, 2000). This low image is related to low price, low advertising and poor packaging (Olsen *et al*., 2011). Private label advertising usually put emphasis on economic benefits while national brand advertising focuses on product innovation (Ailawadi & Harlam, 2004).

3.3.1 Price consciousness

The main reason for consumers to purchase private labels is the price. Consumers that are price conscious switch from national brands to private labels because of the price difference. Price conscious consumers have a resistance towards the prices of national brand products (Sinha & Batra, 1999). Despite this, the consumers consider national brands to have a superior quality but if the price difference is too large, they are reluctant to buy these products. Instead, they trade off quality to the benefit of a lower price (Sinha & Batra, 1999).

Price conscious consumers need to be convinced that purchasing a higher priced product provides them with a high quality product and not only a well-known brand (Sinha & Batra, 1999). Also, consumers are less price conscious to changes in private label prices once they establish that private labels are cheaper than national brands (Cotterill & Samson, 2002).

3.4 Competition

Today, private labels have a strong market share in the European grocery market with a steady annual sales growth of several percent, making them a strong competitor on the market (European Commission, 2011).

Private labels affect competition, increase the range of products available on the market and increase the price competition (European Commission, 2011).

3.4.1 Retailer competition

Private labels have changed the competition in the food industry. Previously, retailers used to compete for consumer loyalty on an intra-brand basis, meaning that retailers competed with an identical product range consisting of national brands (Berges & Bouamra-Mechemache, 2012). However, since the introduction of private labels, the product range has changed and since private labels are retailer specific, consumers cannot compare one private label brand with another (Berges & Bouamra-Mechemache, 2012). Thus, private labels help retailers to differentiate their products from their competitors (Ailawadi & Keller, 2004).

3.4.2 Competition between retailers and manufacturers

Private labels change the relationship between retailers and manufacturers by increasing retailers bargaining leverage over national brand manufacturers (Narasimhan & Wilcox, 1998; Mills, 1995). By using private labels, retailers have the potential to replace national brand products, which leads to increased competition for manufacturers (European Commission, 2011). When a private label replaces a national brand, it reduces the consumer´s product choices and national brand manufacturers have to depend more on retailers (European Commission, 2011). Because of this, private labels can be a success for retailers at the expense of national brand manufacturers as well as it can reduce consumer power (Berges & Bouamra-Mechemache, 2012).

Private labels generally have a higher market share when they have a high quality image, low quality variability, fewer national brands to compete against and low advertising from national brands in the product category (Dhar & Hoch, 1997). Based on this, consumers are more likely to purchase private labels with a high and consistent quality. However, high competition between national brands, including investments in marketing activities, can force out private labels from this product category (Dhar & Hoch, 1997). Retailers might therefore see it unwise to launch private labels in a product category where many national brands already exists (Raju *et al.*, 1995).

3.4.3 Price competition

A conventional belief is that private labels increase competition on the market, an act that according to basic micro-economic theory leads to a decrease in market prices (Bontemps *et al.*, 2008; Ward *et al*., 2002). However, if the competition becomes distorted it could lead to higher prices (European Commission, 2011). Several studies show that increases in private label shares are correlated with increases in national brand prices (Bontemps *et al*., 2008; Gabrielsen & Sørgard, 2007; Ward *et al*., 2002; Parker & Kim, 1997). This price increase is an effect of national brand manufacturers increasing their product differentiation and their marketing activities (Gabrielsen & Sørgard, 2007; Soberman & Parker, 2004).

When there is a high price competition amongst national brands, it discourages the introduction of private labels since it will decrease the market shares of private labels within this product category. When there is a high price competition between national brands and private labels, it instead promotes the introduction of private labels since this will increase private label shares in that specific product category (Raju *et al.*, 1995).

3.5 Innovation

Product innovation is the development of a product that either the consumer or the producer perceives as new. Innovation is a company´s most important source of competitive advantage (Harmsen *et al*., 2000). It is important to consider the difference between radical innovation and incremental innovation. Radical innovation is the introduction of a completely new product on the market whereas incremental innovation is an upgrade or a line extension of an already existing product or product brand (Trott, 2012).

Every year, many new food products are introduced on the food market; however, there are only 2.2 per cent out of these that are radically new products. The other 97.8 per cent are incremental innovations (Costa & Jongen, 2006). The food industry is a tough market to compete in and around 50 per cent of launched products fail within the first year (Lord, 2008).

3.6 Effect on innovation

The effect competition between private labels and national brand manufacturers has on innovation is ambiguous; on one hand, competition could increase the incremental profits for innovation, but it can also reduce the incentive for innovation (Aghion *et al.,* 2005). Competition can for instance reduce innovation when the market initially is intense (Aghion et al., 2001).

3.6.1 Manufacturer uncertainties

If retailers favor their private label brands at the expense of national brands, manufacturers might not see it profitable to invest in product development given a higher uncertainty regarding payoffs from their investments (Hoch & Banerji, 1993). These uncertainties will be tougher on small manufacturers as they are more vulnerable to contract changes. Private labels can therefore both act as a discouragement for product innovation, as well as increase the entry barriers for small manufacturers (European Commission, 2011). If private labels continue to increase, the risk that national brands ultimately will vanish from the store shelves increases, leaving consumers with a reduced product range. Increases of "copycat" private labels therefore have a negative impact on product development (European Commission, 2011).

Retailers have strategic reasons for favoring their own brand over their competing brands, given higher gross margins and profits. Since retailers manage marketing, sales and shelf space in their stores, they can exploit this situation as a method to undermine national brands and to promote their own brands (Dobson, 2005). This can affect national brand manufacturer's incentives for future investments in product development since they might not recover the investment costs (Dobson & Chakraborty, 2008). Private labels are in many cases copycat products, as they can take advantage of the national brand´s product development efforts (Hoch & Banjeri, 1993).

3.6.2 Shelf space

Shelf space competition refers to the retailer's control over the placement of private labels and national brands on the store shelves. National brand manufacturers can offer the retailer incentives in order to obtain a certain place on their shelves; however, this is ultimately the retailer's decision to make (Steiner, 2004). Since retailers have the final say in what products they sell in their stores, shelf space competition can be an unfair fight for national brand manufacturers (Dobson & Chakraborty, 2008). When retailers promote private label brands over national brands, the manufacturer response is often to increase their marketing activities, which ultimately affects consumers with higher product prices (Dobson & Chakraborty, 2008; Parker & Kim, 1997). The potential disadvantage private labels can have for consumers is when retailers promote their private labels at the expense of national brand products by restricting consumer choice and distorting price structures (European Commission, 2011).

Limited shelf space can reduce national brand manufacturer's incentive to innovate new products (European Commission, 2011) and since private labels occupy more and more shelf space there is less space available for national brand products (Kumar & Steenkamp, 2007). Because of this, national brands have to compete more aggressively for the remaining shelf space. Small manufacturers are more vulnerable to this aggressive type of competition since they cannot match the resources and R&D departments of their larger competitors (Kumar & Steenkamp, 2007). A decrease in available shelf space can therefore serve as a major entry barrier especially for small national brand manufacturers that might not have the ability to pay access fees for a guaranteed shelf space spot (European Commission, 2011).

When a private label is introduced in a product category, it will most likely replace the national brand with the lowest market share in that category (Scott-Morton & Zettelmeyer, 2004).

3.6.3 Retailer advantage

Private labels have changed retailers from being mere agents distributing national brands, to controlling complete product development and marketing processes. National brand manufacturers are becoming more anonymous to consumers when the direct link with consumers is broken, leading manufacturers to becoming mere agents to serve retailer needs (Dobson & Chakraborty, 2008).

Private label retailers can benefit from a second-mover advantage. Knowledge about new national products and their marketing strategies allows retailers to quickly launch a "copycat" product, thus undermining the incentive for national brand manufacturers to invest in product development (Dobson & Chakraborty, 2008).

Since retailers control pricing, promotion and shelf space placement for both private labels and national brands in their stores, they can favor private labels and undermine national brands (Dobson & Chakraborty, 2008).

4. Results and discussion

Four retailers working in some of Sweden's largest food retailing companies and four people from the academia were interviewed with the aim to provide an expert opinion on the subject of private labels. The following section presents the results from the survey and analyzes these in comparison with the literature on the subject.

Letters sent to participants, as well as the survey questions and answers, can be found in the appendix.

4.1 Retailers

Three out of the four Swedish retailers participating in this study answered that their private label sales accounts for 20-25 per cent of their total sales volume. The fourth retailer, *Retailer C* answered that their private labels accounts for 8.4 per cent of their total sales. This is in line with findings in literature, where the average market share for private labels in the food industry is 23 per cent in Europe (Gabrielsen & Sørgard, 2007). For *Retailer C*, private label sales account only for 8.4 per cent. An explanation for this can be that since they have only produced private labels since 2010, they have not had as long a time as other retailers to build a well-known private label brand.

4.1.1 Private labels today

All four retailers produce more private label products today compared to five years ago. This is well in line with the fact that private labels are increasing in the food industry with an annual growth rate of 4 per cent (European Commission, 2011).

Regarding the introduction of national brand products on the market, *Retailer C* answered that there are more products introduced today compared to five years ago, although a majority of these are line extensions. *Retailer D* instead thought that there are fewer products introduced today, as stated in this quote:

"It is extremely difficult to enter the market with a completely new brand in the grocery market today. I would say that fewer products are introduced on the market today. However, there are more brands today on the market compared with 5-10 years ago, but it is harder to enter" (Appendix 2, p.40).

Even though the opinions on national brand products differed between *Retailer C* and *Retailer D*, they can both be supported by literature. Many new products are introduced on the market today, however, only 2.2 per cent of these are radically new and the rest are incremental, such as line extensions (Trott, 2012; Costa & Jongen, 2006). The literature also suggests that private labels can lead to higher entry barriers especially for small manufacturers, which makes it more difficult for them to enter the market (European Commission, 2011). Retailers might also be discouraged to innovate new products due to the high failure rate for new products in the food industry (Lord, 2008).

4.1.2 Benefits from producing private labels

All retailers agreed that private labels involve a variety of benefits. *Retailer A* answered that private labels provide them with the opportunity to launch products not available at their competitor´s, as well as contributing to their profitable growth. Another benefit the retailers pinpointed is that private labels give them more knowledge about their products, which makes them a more competent discussion partner to their national brand distributers. *Retailer B-D* instead focused on the consumer benefits and the ability to provide consumers with a unique product and an alternative to national brands with maintained quality to a lower price. A reason for producing private labels is stated in the answer from *Retailer B:*

"To provide the consumers with a wider offer, lower prices with maintained or higher quality and more unique products. Create unique offers so that the consumer chooses us. Create profitability" (Appendix 2, p.39).

According to the literature, a main rationale for retailers to sell private labels is the higher profitability. Retailer´s gross margins for private labels are 20-30 per cent higher than the gross margins on national brands (Hoch & Banerji, 1993). A second benefit according to findings in literature is that private labels is the most effective retailer method for securing consumer loyalty by selling a retailer specific product (Jonas & Roosen, 2005; Codron *et al*., 2005). Becoming a more competent discussion partner towards distributers can relate to having a better negotiating power, which strengthens the retailer's position towards manufacturers (Grunert, 2006; Mills, 1999).

The benefits highlighted in the survey are strongly linked to the benefits that can be found in the literature. Together, this provides a strong basis for understanding why private labels are an important strategy for retailers to use in their competition with national brands.

4.1.3 Risks from producing private labels

Retailers A and *D* considered the main risk with private labels to be the higher amount of product responsibility, where investments in quality assurance is important since a deficient product could end up hurting the company brand. *Retailer A* however considers the possibilities as more important:

> *"The possibilities outweigh the risks, but naturally, we have to take more responsibility for every individual product as brand owner and invest more resources on for instance quality assurance"* (Appendix, 2, p.39).

Retailers B and *C* instead considered the main risk to be maintaining a good balance between private labels and national brands on the shelves. A good balance on the shelves makes consumers perceive the retailer to have a varied assortment that satisfies all target groups. Keeping private labels as a complement to national brands is therefore considered important.

These risks are in line with the risks that were highlighted in the literature studies, where the retailer is responsible for all choices regarding private labels. Since this means more investments, it also leads to a higher uncertainty for the retailer regarding payoffs from their investment. Investments in quality assurance are important since a low quality product can end up impairing the company brand, and quality is the most important aspect when consumers purchase private labels (Hoch and Banerji, 1993). A second risk that was pinpointed in the survey was the ability to maintain a good balance between different brands.

These results establish the importance for retailers to manage product quality in order to maintain their company image and to increase the consumer´s view on private labels quality image. Maintaining a good balance between private labels and national brands on the store shelves is also important in order to satisfy their consumers.

4.1.4 Consumer view

The general opinion from the retailers is that consumers in general have a positive perception of private label brands. *Retailer A* explained that consumers perceive their private labels just as any other brand since their private labels do not have the same name as their chain name. *Retailer C* answered that their consumers are not all positive, mainly since their consumers are not used to purchase private labels in these stores (*Retailer C* have only produced private labels since 2010). *Retailer D* explained that consumers are generally positive because of the lower price and the ratio between price and quality that private labels offer. This is consistent with findings in literature, where the main reason for private label success is its low price (Hoch and Banerji, 1993).

Retailer D also answered that the negative consumer views are linked to private labels taking shelf space away from national brands:

"The disadvantage is that private labels take space from the more established national brands. We cannot sell four different brands of rice, so we have three national brands and one private label, one national brand therefore disappears from our stores, which can upset some consumers" (Appendix 2, p.42).

The introduction of private labels usually means that a national brand disappears from the shelves. This is linked to the literature where private labels increase the risk for national brands to ultimately disappear from the store shelves (European Commission, 2011).

These findings imply that consumers´ main reason for purchasing private labels is the price setting, even if they consider its quality as inferior to national brands. It also implies that a continued development of private labels could lead to the disappearance of national brands on the market, thus leaving the consumers with a reduced product choice.

4.1.5 Competition

All retailers expected that the market share of their private label brands would continue to increase in the future with the introduction of more innovative products. This is stated in the answer from *Retailer D:*

"We will continue to increase our sales of private labels, we will introduce products in new categories and develop new brands with new functions within for instance health" (Appendix 2, p.41).

The survey also reveled that at a store level, the main competition between private labels and national brands occurs on the store shelves where the consumers ultimately decide which product to purchase. This is in line with the fact that private labels lead to less shelf space available for national brand manufacturers, who then have to compete more aggressively for a guaranteed shelf spot (Kumar & Steenkamp, 2007). Findings in literature also suggest that private labels usually lead to the replacement of a national brand product, usually the product with the lowest market share within that food category (Scott-Morton & Zettelmeyer, 2004). *Retailer D* furthered this argument by stating that:

"They fight for the same shelve space. We use our private labels to put press on national brands since they unjustified want to raise their prices" (Appendix 2, p.41).

Several studies, however, indicate that increases in private labels shares are correlated with an increase in national brand prices (Bontemps *et al*., 2008; Gabrielsen & Sørgard, 2007; Ward *et al*., 2002; Parker & Kim, 1997). This increase is an effect of national brand manufacturer´s strategy of dealing with private labels by increasing their marketing activities (Gabrielsen & Sørgard, 2007; Soberman & Parker, 2004).

The fact that the main competition between private labels and national brands occurs on the store shelves show that it is ultimately the consumers who decide how successful a new product will be. Private labels lead to a tougher shelf space competition, which could ultimately lead to the disappearance of a national brand product in that product category. Introducing private labels in order to put economical pressure on national brand manufacturers to lower their prices can thus have the opposite effect.

4.1.6 Effect on innovation

Retailers A, B and *D* consider private labels to have a positive effect on competition in the food industry. *Retailer A* furthered this statement by stating:

"The experience is that private labels contribute to increased competition and increased product development rate from national brand manufacturers as a result" (Appendix 2, p.41).

Retailer A therefore meant that private labels have a positive effect on innovation. *Retailer D* argued that private labels provide retailers with the possibility to produce products that national brands otherwise would not have launched. The literature regarding private label effects on innovation however, does not agree with this. Findings in literature instead states that private label development eventually can undermine innovation in the food industry by reducing the incentive for national brand manufacturers to invest in product development activities (Dobson & Chakraborty, 2008). This is especially the case in the development of "copycat" private labels, meaning products that are very similar to a national brand product. Retailers can then quickly launch a similar product without having to spend as much resources on product development activities (Dobson & Chakraborty, 2008).

Retailer C however had a different view on this compared to the other retailers and considered that private labels could have a negative impact on innovation because of the generally high competition in the food industry.

Findings in literature on this subject argue that increased competition of private labels on the market can lead to the discouragement of innovation of new products. It is thus implied that the continued expansion of private labels, especially "copycat" private labels, can have a negative impact on innovation in the food industry. This could ultimately lead to the development of fewer new products on the market.

4.2 Experts

4.2.1 Innovation rate in the food industry today

The general opinion amongst the experts in this survey is that the innovation rate in the food industry is rather slow. *Expert C* explained that the innovation rate is

"Relatively slow, especially concerning organic, fair-trade and other products in the line of sustainable development" (Appendix 4, p.44). *Expert D* instead answered that the innovation rate *"depends on the product category. In some categories, there is rapid development especially with changes to packaging design and reformulations"* (Appendix 4, p.44).

This is consistent with the literature where only 2.2 per cent of new products are radically new and the rest are incremental innovations (Costa & Jongen, 2006). *Expert B* answered that the innovation rate is improving, but is inhibited by a large price focus, where there is a small difference between products.

4.2.2 Private labels in the future

All participants agreed that private labels would continue to increase their market shares in the food industry. An explanation for this provided by *Expert C* is that it is in the retailer´s interest to increase private label development. *Expert D* argued that private labels would continue to grow by this using this statement

"Private labels will continue to grow in market share and more retailers will adopt a good-better-best or budget-standard-premium three tier approach to private labels to compete more strongly with brands" (Appendix 4, p.46).

Expert B argued that private labels would increase in a slower pace than previously. The development rate will be especially slow if the increase will be in low-price private labels. These opinions are in line with the literature, which states that private labels will continue to increase in the future (Hultman *et al*., 2008) by improvements in quality and packaging (Choi & Coughlan, 2006).

These findings establish that private labels most likely will continue to increase on the market, but that this is dependent on what type of private labels will be introduced. The main reason for this continued increase is the development of high quality private labels.

4.2.3 Risks from producing private labels

All participants in this survey concurred that there are certain risks for retailers to sell private label products. However, *Expert A* pointed out that

"There are more advantages for retailers giving that private labels do give them higher volumes and may be even higher margins. As the private labels are also retailer specific, they can also help in establishing customer reliability" (Appendix 4 p.45).

Expert B answered that private labels can lead to reduced competition on the market but that there are few risks for the consumers. *Experts C* and *D* on the other hand both argued that a consumer risk could be that the retailers become too uniform instead of keeping a good balance between private labels and national brands, and providing a good diversity in the stores. Retailers can display private labels more than national brands in exposure, marketing activities and shelf positioning. All participants in this survey agreed that retailers might favor private labels in the competition with national brands on the market, which could be a risk for the consumer in reduced product choice.

Expert A thought that retailers are favoring private labels, probably because of the higher profitability. *Expert C* answered that retailers display private labels more than national brands in exposure and marketing activities. *Expert D* argued that retailers might favor private labels in their competition with national brands by stating that

"*The retail may favor private labels in terms of its shelf positioning adjacent to brands, in-store marketing support, use of blatant "switch and save" campaigns and other means to encourage consumers to switch to PL and away from brands"* (Appendix 4 p.45).

The fact that retailers have reasons for favoring private labels is established in literature since it provides retailers with higher profits and increased consumer loyalty (Dobson, 2005; Hoch & Banerji, 1993).

These findings suggest that maintaining a good balance between private labels and national brands in the stores is important in order to satisfy all consumers. The retailers that were interviewed also shared this view. The findings imply that if retailers would exploit the situation of favoring private labels, it would generate more uncertainty for national brand manufacturers. This can act as a reduced incentive to innovate new products, which can ultimately reduce consumers' product choice.

4.2.4 Competition

The general opinion from the survey is that private labels continue to increase in the food industry and that their market share increases faster than national brands on the market. *Expert D* furthers this statement by explaining that private label market shares increase in most food categories over time but that national brands maintain a strong position through intensifying marketing and price promotions. This is also in line with the literature where national brand manufacturers consider their brand value and good reputation as their strongest strategy to cope with private labels (Hultman *et al*., 2008). National brand manufacturers also choose to concentrate on brand loyal consumers whereas private labels focus on consumers willing to switch brands (Gabrielsen & Sørgard, 2007).

Expert A explained that private labels keep gaining market shares and that they are true substitutes to national brands, sold to a lower price. This can be linked to the fact that private labels are 38 per cent cheaper than national brands in Sweden (Anselmsson *et al.*, 2008) and that price is the main reason for consumers to purchase private labels (Sinha & Batra, 1999). It is also consistent with the fact that consumers are becoming more price conscious and have an increased resistance towards national brand price setting (Sinha & Batra, 1999).

Expert D answered that private labels compete with national brands by explaining that

> *"They compete as an alternative to brands on value for money, tending to undercut brand prices and using this to build market share. Premium private label is increasing its market share as is budget private label and the multi-tier approach used by retailers means that private label can be pitched at different consumer segments"* (Appendix 4 p.44).

Findings in literature states that private labels in many cases are "copycat" products that can take advantage of previous product development efforts (Hoch & Banjeri, 1993). Private label retailers can therefore benefit from a second-mover advantage in order to make a quick launch of a similar product, sold to a lower price (Dobson & Chakraborty, 2008).

Together these findings show that brand loyal consumers continue to purchase national brand products despite the lower price of private labels. It also shows that price conscious consumers prefer to purchase private labels and that these consumers probably are not brand loyal and therefore more willing to switch to a cheaper brand. In addition, retailers can quickly launch a "copycat" product, which could reduce the incentive for national brand manufacturers to invest in product development. It also shows that brand value is a strong manufacturer strategy for dealing with the increased competition from private labels.

4.2.5 Effect on innovation

Experts A and *D* both argued that product copying can affect the innovation rate in the food industry since imitating products limits the profits of innovation and therefore reduces the incentive to take the costs for developing new products.

Both *Experts A* and *D* also argued that private labels could lead to the development of fewer new products on the market. A reason for this, stated by *Experts A,* is that

> *"The presence of private labels limits the space in the shelves for the branded products, and private labels also take market shares away from the branded products. Therefore, private labels reduce the incentive to launch new products because of a higher failure risk, when private labels are very competitive and the margins of branded products decrease"* (Appendix 4 p.46).

Experts D argued that private labels could affect innovation

> *"Brand producers will be deterred from developing new variants if they are restricted in shelf space or fear that once brought to the market they will be immediately copied by the PL and so not recover the fixed costs of innovation"* (Appendix 4 p.46).

This can be linked to the literature where retailers can benefit from a second mover advantage when they introduce "copycat" private labels. Retailers can then benefit from knowledge about newly innovated products, making it possible to launch a quick "copycat" product on the market (Dobson & Chakraborty, 2008). *Experts B* however argued that the risk for private labels affecting innovation in the food industry is very small by explaining that:

> *"The risk for this is very small if it is continued competition in the distribution chain, look at the UK where private labels account for 50 per cent and they have the best food retail in Europe"* (Appendix 4 p.46).

Economic literature regarding this suggests that competition could reduce the incentive for innovation, especially if the competition in the market is already intense (Aghion *et al.*, 2005; Aghion et al., 2001). Increased entry barriers, such as difficulties to obtain shelf space or extensive advertising by national brand manufacturers make it more challenging for small manufacturers to enter and compete on the market (Scott-Morton & Zettelmeyer, 2004).

Together these findings on innovation effects suggest that private labels can reduce the incentives for national brand manufacturers to launch new products. This could ultimately lead to the development of fewer new products on the market. The findings also suggest that "copycat" private labels are the main threat towards reduced innovation on the market. It is also implied that small manufacturers are extra vulnerable to the increased competition of private labels on the market. It is therefore possible that it will be more difficult for small manufacturers to enter the market and to maintain their shelf space in the future.

5. Conclusion

The results of this study suggest that a continued increase of private label products might impede innovation in the food industry, since it reduces the incentive for national brand manufacturers to invest in product development. The retailers´ contra experts´ views on this differed, where the majority of the retailers considered private labels to have a positive effect on innovation and competition on the market. However, two of the experts and the scarce literature on the subject indicate that private labels could have a negative impact on the innovation in the food industry. A main reason for this is that private labels take market shares and shelf space away from national brand manufacturers and thus reduce the incentive for innovation of new products. Another main reason highlighted by the experts in this study is the fear of being immediately copied and therefore not to be able to recover the cost of innovation. The possible negative effects of private labels are mainly in regards to the development of "copycat" private labels. The study also shows that small manufacturers are extra vulnerable to increases in private label products on the shelves since they do not possess the same resources to compete. The findings also establish that private labels will continue to increase on the market, mainly for two main reasons. The first is that private labels provide the retailers with higher profits and the second is that consumers continue to purchase private labels because of the lower price.

The available literature on private label effects on innovation in the food industry is scarce and therefore needs to be enriched with more studies in order to achieve deeper insights regarding the subject. More studies on private labels and its competition with national brands in the food industry can help us understand the competition between different brands and how private labels ultimately can affect innovation.

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7. Appendix

7.1 Appendix 1 Letter to retailers

Hi!

I am currently studying the master's program Food Innovation and Market at the Swedish University of Agricultural Sciences, and I am currently writing my master's thesis, which is about private labels in the food industry and more specifically its competition with national brands on the market.

As one of Sweden's largest food retailers, I would very much like to get a picture of how you work with private labels. I therefore wonder if you would be willing to answer a survey regarding how you work with private labels and how you think the future of private labels will be? The survey is estimated to take about 15-20 minutes and if you are willing to participate, this survey will be sent in a separate email.

I would be extremely grateful if you choose to participate!

Kind regards

Sofia Glimvall
Student - Food Innovation & Market
Swedish University of Agricultural Sciences

7.2 Appendix 2 Survey distributed to retailers in Sweden

1. How much of your grocery sales is private labels responsible for?

Retailer A: Approximately 25 per cent
Retailer B: Approximately 20 per cent
Retailer C: 8.4 per cent of our total sales
Retailer D: Approximately 24 per cent of revenue in value, a bit more in volume

2. What is the biggest reason for your company to produce and sell private labels?

Retailer A: Private labels contribute to our lucrative growth. Private labels makes it possible to launch product categories that not available at our competitors. The better we do that, the more our stores range is appreciated. Private labels give us knowledge about our products, making us a more competent discussion partner for our national brand distributers.
Retailer B: To provide the consumers with a wider offer, lower prices with maintained or higher quality and more unique products. Create unique offer so that the consumer chooses us. Create profitability.
Retailer C: To provide the consumers with an alternative to national brand products to a lower price
Retailer D: We make more money on private labels and can provide the consumers a lower price for the same quality.

3. Does your company see any risks with selling a large amount of private labels compared to selling national brands?

Retailer A: The possibilities outweigh the risks, but naturally, we have to take more responsibility for every individual product as brand owner and invest more resources on for instance quality assurance.
Retailer B: It is important to keep a balance in our offer, so that the consumers perceive us to have a rich and variation assortment for all target groups and wallets. Private labels have nothing to do with national brands. Many of our strongest A-brands are large global companies. We purchase private labels from both national

companies as well as international and many of them are family owned.
Retailer C: The most important for our company is the diversity. Our own private labels is a complement to national brands
Retailer D: Yes, we are the consignor and are responsible for the product quality. Our company brand will suffer if our products are deficient.

4. Does your company produce and sell more or less private label products now, compared with 5-10 years ago?

Retailer A: More
Retailer B: More
Retailer C: More
Retailer D: More

5. Does your company introduce more or less national brands on your shelves compared with 5-10 years ago?

Retailer A: -
Retailer B: There are no numbers on this, but there is a large mobility on the shelves and many new suppliers besides private labels are introduced. We also chose to use own suppliers, many with local connection.
Retailer C: More, however these are more line extension products on existing brands.
Retailer D: It is extremely difficult to enter the market with a completely new brand in the grocery market today. I would say that fewer products is introduced on the market today. However, there are more brands today on the market compared with 5-10 years ago, but it is harder to enter.

6. What are the benefits with introducing private labels compared with introducing national brands?

Retailer A: See question 2
Retailer B: The benefits are those mentioned in question 2
Retailer C: The profitability increases, both for consumers and for the chain. With private labels, one part in the chain is cut.
Retailer D: We make more money and can create an increased loyalty with our consumers since the products are only sold in our stores.

7. In what way do private labels compete with national brands in your stores?

Retailer A: The competition takes place on the store shelves, where the consumers make their choices
Retailer B: The consumers' decide with their purchases which product they prefer, so the competition takes place on the store shelves.
Retailer C: On the store shelves and on campaign location
Retailer D: They fight for the same shelve space. We use our private labels to put press on national brands since they unjustified want to raise their prices.

8. How do you expect that your own private label brands will develop in the future regarding market share and competitiveness?

Retailer A: Increased market shares by more innovative products.
Retailer B: Increase
Retailer C: We believe that our private labels will account for 15 per cent of our total sales by 2016.
Retailer D: We will continue to increase our sales of private labels; we will introduce products in new categories and develop new brands with new functions within for instance health.

9. Can a large amount of private labels have a negative impact on the introduction of new products on the market?

Retailer A: The experience is that private labels contribute to more competition with increased product development rate from national brand manufacturers as a result
Retailer B: On the contrary, the number of new products will increase
Retailer C: Possibly, because of the generally high competition. If the manufacturer cannot launch their new product at ICA, which have 50 per cent of the market, the product/brand rarely is launched in the Swedish market.
Retailer D: On the contrary, with private labels we have the possibility to launch exactly the products we want to launch, which otherwise would not have been launched on the market via national brands.

10. How do consumers perceive your private label brands?

Retailer A: Our perception is that our consumers value our brands just as any other brands, possibly since our private label brands do not go under the same name as our chain name.
Retailer B: Eight out of ten consumers can imagine purchasing our private label brands.
Retailer C: Our consumers are not only positive! Traditionally, consumers are used to only purchase national brands in our stores. We have only worked with private labels since 2010.
Retailer D: Consumers are generally positive to our private labels. However, there are also many negative views. The benefits are mostly the lower price and the ratio between price and quality. The disadvantage is that private labels take space from the more established national brands. We cannot sell four different brands of rice. So we have three national brands and one private label, one national brand therefore disappear from our stores which can upset some consumers.

7.3 Appendix 3 Letter to experts

Hi!

I am currently studying the master's program Food Innovation and Market at the Swedish University of Agricultural Sciences, and I am currently writing my master's thesis, which is about private labels and more specifically its competition with national brands on the market.

To investigate this topic, I send out a questionnaire to various food chains in Sweden but also in people who are more knowledgeable in the subject. I therefore wonder if you would be willing to answer a survey regarding this subject. The survey is estimated to take about 15-20 minutes and if you are willing to participate, this survey will be sent in a separate email.

I would be extremely grateful if you choose to participate!

Kind regards

Sofia Glimvall
Student - Food Innovation & Market
Swedish University of Agricultural Sciences

7.4 Appendix 4 Survey distributed to experts

1. How is the innovation rate in the food industry developing?

Expert A: Slow
Expert B: Slowly getting better, but is inhibited since there is a large price focus (=small difference between products)
Expert C: Relatively slow, especially concerning organic, fair-trade and other products in the line of sustainable development.
Expert D: This depends on the product category. In some categories, there is rapid development especially with changes to packaging design and reformulations.

2. How are the market share and the number of private labels developing, compared to national brands in the food industry?

Expert A: Faster
Expert B: In 10 years, private labels have grown from a few percent to 25-30 per cent.
Expert C: Private labels increases, do not know in what pace.
Expert D: Generally PL market share is increasing in most categories over time, but brands remain strong in many established categories and have maintained their position through intensifying their marketing and using more price promotions

3. To what degree do private labels compete with national brands, regarding market share, price etc?

Expert A: They are true substitutes of national brands at lower prices, and least in Sweden, but also in Germany, gaining market shares.
Expert B: On every level
Expert C: Do not have any numbers
Expert D: They compete as an alternative to brands on value for money, tending to undercut brand prices and using this to build market share. Premium private label is increasing its market share as is budget private label and the multi-tier approach used by retailers means that private label can be pitched at different consumer segments.

4. Are there any major risks for retailers to sell many private labels instead of national brands?

Expert A: There are more advantages for retailers giving that private labels do give them higher volumes and may be even higher margins. As the private labels are also retailer specific, they can also help in establishing customer reliability
Expert B: Risk for reduced competition, however, I see few risks for the consumers if private labels continue to get all their products on the market.
Expert C: Yes, the risk for the consumers is if the retailers expand so there will be more uniformity instead of diversity in the stores.
Expert D: Yes, having a good variety and mix of products is optimal, even for hard discounters having brands in store help boost consumer footfall, so striking a balance between PL and brands makes sense for most retailers.

5. Are there any differences in how retailers treat private labels opposed to national brands?

Expert A: I think the retailers are favoring private labels, presumably because of better profitability.
Expert B: Yes, they do not innovate themselves instead they place an order. National brands have to innovate themselves. In the calculations for private labels that part is removed = more profits for the stores.
Expert C: Yes, they of course expose their private label brands in their exposure and marketing.
Expert D: Yes, the retail may favor PL in terms of its shelf positioning adjacent to brands, in-store marketing support, use of blatant "switch and save" campaigns and other means to encourage consumers to switch to PL and away from brands.

6. Is product copying an issue for the food industry regarding innovation rate?

Expert A: Yes, as imitating products limit the profit of the innovative product and reduce the advantage to take the costs for developing new products.

Expert B: Not to my knowledge, although I do not know much about that.
Expert C: Don't know
Expert D: Yes, because the brand has the choice of either stopping its investment in repackaging and reformulating (i.e. no innovation) or going to the other extreme of doing it all the time (i.e. wasteful innovation)

7. Can a large amount of private label products lead to the development of fewer new products on the market?

Expert A: Yes, the presence of PL limit the space in the shelves for the branded products, and PL also take market shares away from the branded products. Therefore, it reduces incentives to launch new products because of a higher failure risk when PL is very competitive and the margins of branded products decrease.
Expert B: The risk for this is very small if it is continued competition in the distribution chain, look at the UK where private labels account for 50 per cent and they have the best food retail in Europe.
Expert C: Don't know
Expert D: Yes, because brand producers will be deterred from developing new variants if they are restricted in shelf space or fear that once brought to the market they will be immediately copied by the PL and so not recover the fixed costs of innovation.

8. How do you expect private labels to develop in the future?
   In terms of market share and competitive position

Expert A: Further increase
Expert B: Slower increase but it depends on if the development regards more advanced private labels. The private label share will then increase, but in a slower pace. If the increase will only be low-price private label products, I think the growth rate will be even slower.
Expert C: They will increase, as they have in many other markets since it is in the retailer's interest.
Expert D: PL will continue to grow in market share and more retailers will adopt a good-better-best or budget-standard-premium three tier approach to PL to compete more strongly with brands.

8. Popular scientific summary

The focus of this thesis was to analyze the competition of private labels as well as what effects private labels have on innovation in the food industry. In order to approach this subject, an extensive literature review focusing on relevant and recent articles regarding private label competition and innovation effect was performed. The empirical data for this thesis was collected through interviews performed via a survey tool.

The key results suggest that private label competition could impede innovation in the food industry by reducing the incentive for national brand manufacturers to invest in product development activities. The results also show that "copycat" private labels is a possible threat towards innovation in the food industry and that small manufacturers are extra vulnerable to increases in private label shares since these companies cannot match the resources of their larger competitors.

The results from this thesis can be used in understanding private label competition and the overall competition in the food industry. There is a consensus that the food industry is a low-tech industry and that the innovation rate is rather slow. This thesis could help in explaining why the innovation rate could be considered as rather slow. It could also help in understanding the effects on different groups: 1) for the consumers - as there will be a limited range of products available on the shelf; 2) for smaller manufacturers - as they have limited resources to compete; and 3) for the different private label retailers - in knowing how to strategize their own private label brands.

Further research would be needed in order to assess this potential effect on a larger scale, for example using a larger number of interviews, but also to compare the effects between different countries, to see if there are any significant differences. It could also be of interest to connect these results to other industries, outside of the food industry, to see if the results would be similar.