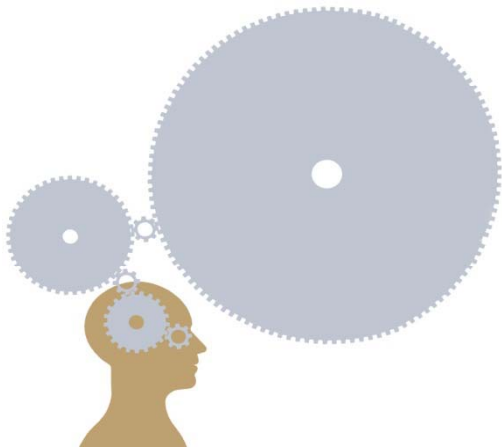


The economic benefits of retailer own-brands

APED Conference

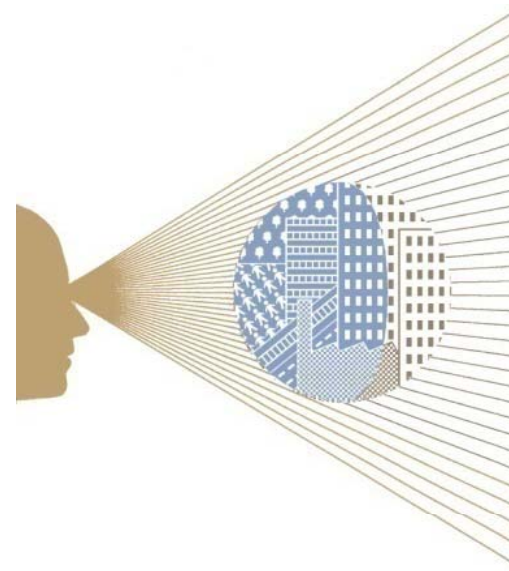
Reinder van Dijk, Managing Consultant

March 28th 2011



Overview

- Oxera's brief
- the role of own-brands in the supply chain
- the impact of own-brands on:
 - suppliers
 - retailers
 - consumers
- concluding remarks



Oxera's brief

- Oxera was commissioned by ERRT to produce a report assessing the benefits of own-brands
- aim of contributing to the ongoing debate
 - identifying the benefits of retailer own-brands and addressing common misperceptions
- focus on suppliers, retailers, and ultimately consumers
- the report uses publicly available sources of evidence, supplemented with information provided by ERRT members

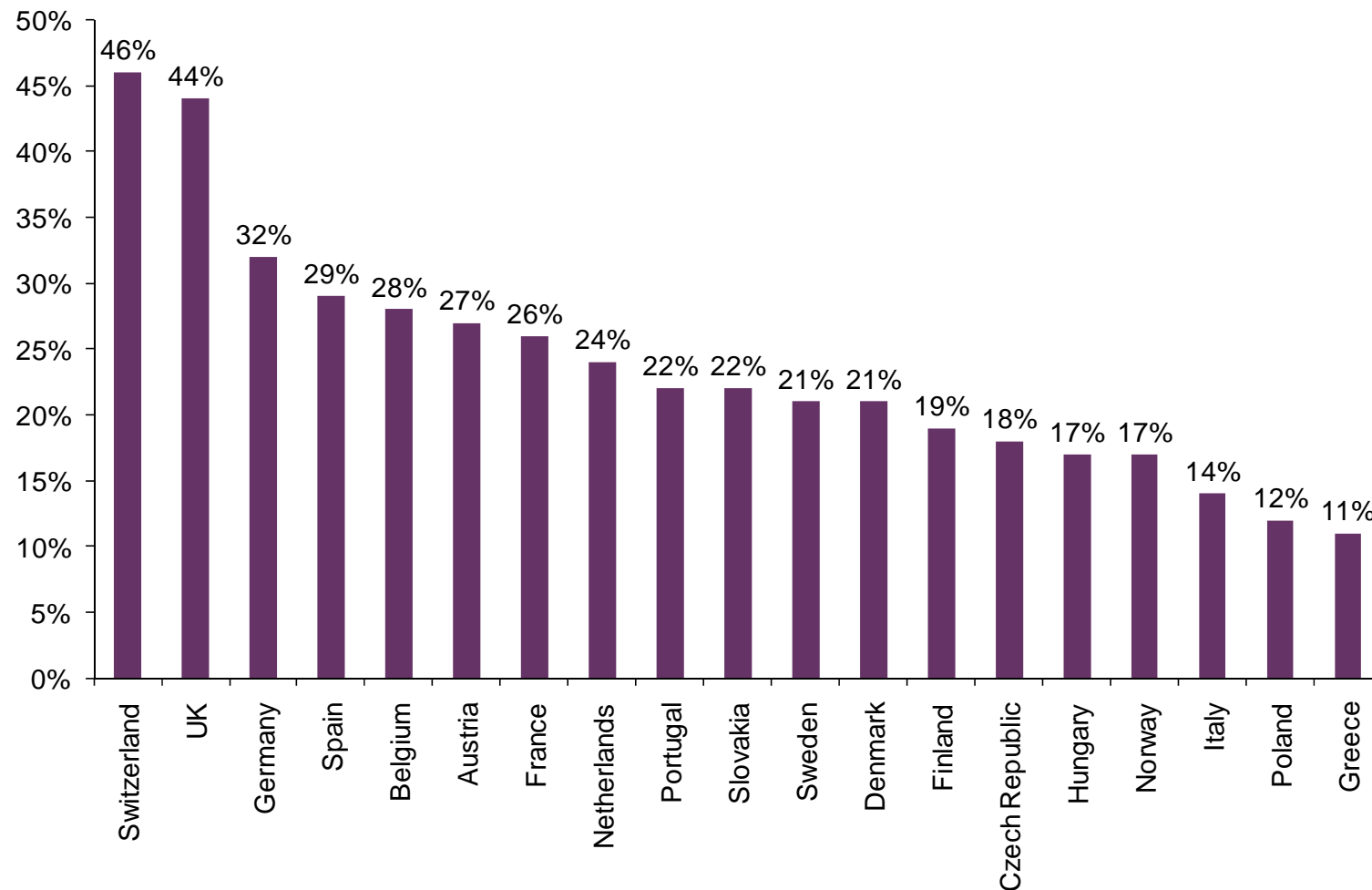
The role of own-brands—past and present

- own-brands no longer fit the traditional stereotype
 - over time, own-brands have become increasingly sophisticated
- own-brands are brands in their own right
- many retailers research, develop, market-test and specify products before contracting out the production element to a third party



The role of own-brands

Own-brand penetration varies significantly by country



Source: Nielsen, based on 2008 data.

The role of own-brands

Own-brand penetration varies by product category

Top ten categories ¹	Own-brand % share	Bottom ten categories ¹	Own-brand % share
Aluminium foil	49	Face moisturisers	3
Complete ready meals	47	Shampoo	3
Milk	43	Insect control	3
Garbage/refuse bags	40	Beer/lager/ales	3
Meat/poultry/game	39	Deodorants	3
Fish/shellfish/seafood	39	Toothpaste	3
Vegetables ¹	38	Baby formula	2
Vegetables ²	36	Lipstick/gloss	2
Kitchen paper/towel	33	Baby food	1
Cheese	33	Chewing gum	1

Note: ¹ Top/bottom ten of the 80 categories covered by the survey in 38 countries. Although these figures are from 2005, Oxera is not aware of any more recent publicly available data on the same basis. ² Vegetables were split into two separate categories.

Source: Adapted from Nielsen (2005), 'The Power of Own-brand: A Review of Growth Trends Around the World', September.

Impact of own-brands—retailers

- stimulate competition and innovation between retailers
 - additional dimension on which retailers can compete
 - own-brand innovation allows retailers to differentiate themselves
- retailers can work more closely with suppliers to source products that consumers demand
- better terms and lower input prices from both own-brand and branded suppliers
 - reduced supplier costs—eg, scale efficiencies, no brand development costs for own-brand suppliers
 - bargaining power

Impact of own-brands—suppliers

- may lead to increased retailer bargaining power in relation to suppliers
 - retailers negotiate the best deals from suppliers but have no long-term interest in forcing out efficient suppliers
- impact on innovation?
- route to mass market for small suppliers
 - removes costs and risks involved in developing supplier brand
 - examples such as Hilton (Tesco) and Francisco Aragón (Mercadona)
 - can lead to long-term relationships (Carrefour case study)

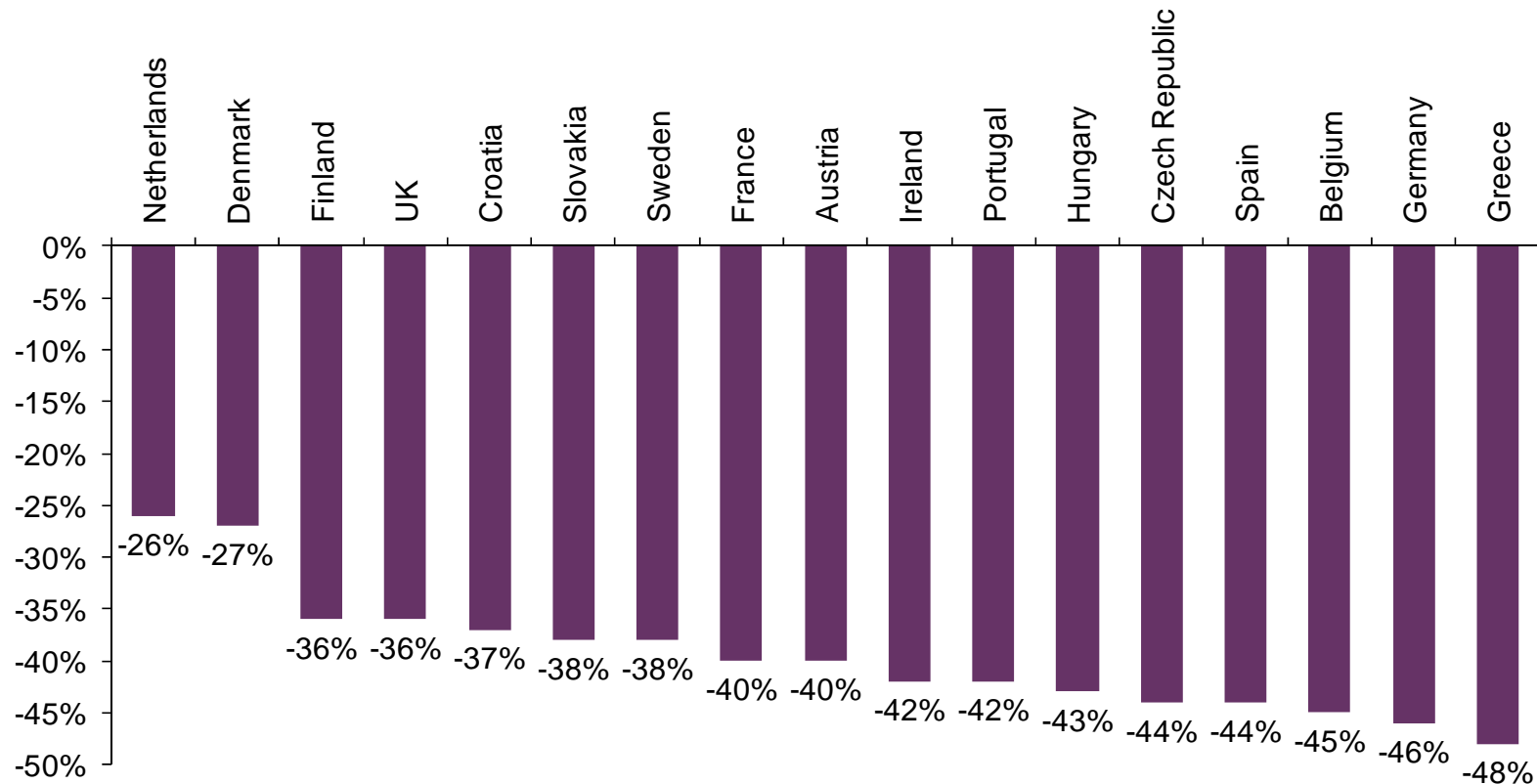
Impact of own-brands—consumers

- benefits to retailers are passed on to consumers
 - lower prices, innovation, products tailored to local needs, etc
- consumers benefit from increased competition between suppliers and between retailers
- direct benefits to those who buy own-brands, indirect benefits to those who buy manufacturer brands



Impact of own-brands—consumers

Price differences between brands and own-brands

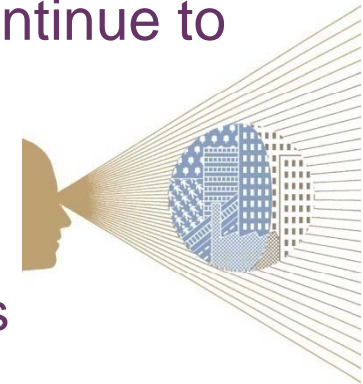


Note: Although these figures are from 2005, Oxera is not aware of any more recent publicly available data on the same basis.

Source: Adapted from Nielsen (2005), 'The Power of Own-brand: A Review of Growth Trends Around the World'.

Concluding remarks

- competition between retailers suggests that the balance of branded goods and own-brands in stores will continue to be driven by what consumers demand
- limits to own-brand growth
 - consumers continue to demand branded products
 - own-brand-only supermarkets remain niche players
- suppliers and brand owners continue to innovate
 - brand owners are developing strategies to compete across a range of price/quality combinations

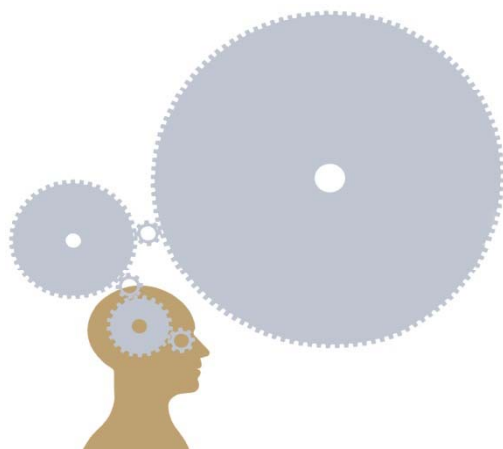


www.oxera.com

Contact:

Reinder van Dijk

+44 (0) 20 7822 2652
reinder@oxera.com



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