

# 3. PRICE MECHANISM IN MONOPOLISTIC COMPETITION



**WHAT IS MONOPOLISTIC COMPETITION?**

# FLASHBACK

Definition

## MONOPOLISTIC COMPETITION



## CASE-STUDY: PRIVATE LABELS versus A-brands



**The strong rise of private labels: a temporary shift in consumer preferences or the new normal?**



**A fundamental factor that has boosted the popularity of private labels is their affordability compared to traditional brands. McKinsey reveals that private labels consistently save consumers 20-30% compared to branded products. Fuelled by the pandemic and growing price consciousness among consumers, private labels are gaining popularity among those seeking cheaper options without compromising on product quality.**

**Cheaper for the end user and more profitable for the retailer. Why? Traditional brands typically allocate significant budgets to extensive marketing campaigns and extensive advertising, all of which contribute to inflated product prices. Private labels, on the other hand, prioritize streamlined production processes, allowing them to pass on significant cost savings to consumers.**

**Where do private labels come from? ‘Sometimes from the same factory as the A-brands,’ says marketing professor Gino Van Ossel at Vlerick Business School. ‘But you won't find that out easily, because manufacturers like to keep that information secret.’ Can you assume that the contents are the same? Not always.**

**Manufacturers employ a wide range of strategies. Let's start with the most obvious form: ‘Companies such as Proctor & Gamble only make their own A-brands,’ says Van Ossel. ‘And then there are companies that only produce private labels on behalf of retail chains. For example, there is a manufacturer of chocolate spread that makes just about all private label chocolate spread for the whole of Europe. That's why those jars are so often the same.’**



**There are also many companies that produce their own brand, but make no secret of the fact that they also supply private labels. ‘Take Ter Beke, for example. This company is known for its Studio 100 character sausages, l'Ardennaise products and Come A Casa, among other things. But the company also produces a lot of so-called “private labels” for retail chains,’ says Van Ossel.**

**Then there is another category of more opportunistic companies. ‘The best-known example is Mondelez,’ says Van Ossel. ‘They make the Leo bar in Herentals. But to optimize the factory's capacity, they supplement production with Olé for Aldi. They would rather not do that, which is why Mondelez is so secretive about it. But by producing one extra private label, they can use their production department much more efficiently.’**

The question remains, of course: if a manufacturer produces both major brands and private labels, is the content the same? 'That's possible, but it's certainly not always the case,' says Van Ossel. 'I myself am aware of products that are marketed under different brands but whose contents are 100 per cent identical. However, this is not the case with many other products. It is impossible to say how many brands this applies to.'

## Olé versus Leo

Take a Leo versus an Olé wafer, for example. 'Some people say they are identical, and I can't taste any difference myself. But there are small differences. If you look at the back of the Olé, you can see that the layer of chocolate is thinner. This is a logical way to save money, because chocolate is the most expensive ingredient.'



**Sometimes the factory workers are aware of the differences, but sometimes they are not. 'Nowadays, all it takes is the push of a button to change the composition or production method. The staff sometimes don't even realize that the product has been changed.' Even more surprising: some companies manufacture products without knowing their exact composition.**

**'That's not so strange,' says the professor. 'Companies guard their recipes with their lives.' He gives the example of Coca-Cola: 'That soft drink is produced all over the world, but the base syrup is made in Atlanta and transported to the bottling plants in a highly concentrated form.'**

## **Is cheaper less healthy?**

**There is no evidence that own brands are less healthy than premium brands. They may differ in composition, and an own brand may contain 'second choice' ingredients, for example. With a premium brand, you will find whole nuts in the bag. With a private label, you are more likely to find small pieces, which are cheaper.**

**Why do businesses create private labels?**

**What are the advantages for the consumer?**

**What are the disadvantages for the consumer?**

TASTE PANEL

Product:

Brand A	Brand B	Brand C	Brand D	Brand E

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