

## **Do Manufacturers Like Private Labels?**

*The number of private label (brands exclusive to a retailer) products has grown steadily in recent years. In particular, a number of supermarket chains have increased private label products in their supermarkets as part of their strategy, mainly for differentiation and profitability purposes.*

*But why would a large manufacturer want to produce a private label product that will directly compete against their flagship product? Hopefully this activity will provide the answer.*

### **The Supermarket Chain Wants a Private Label Cookie Product Line**

Assume you are part of the management team of a cookie manufacturer. A major supermarket chain has approached your firm to manufacture a private label version of one of your best-selling and most profitable cookie product lines. The supermarket chain would like a cookie that is a similar design, look, and reasonably similar quality (can be a little less).

While they want the packaging to look fairly basic (to communicate a lower price biscuit), but they want it clear to consumers that the product is comparable to your popular cookie line. They want to purchase this new product at a 25% lower price than they now pay for your current cookie line.

They then plan to retail both products, virtually side-by-side, with the private label version retailing at \$1.99, compared to your cookie normal retail price of around \$2.50.

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### **Student Discussion Questions**

1. To what extent will the private label product directly compete with your existing brand?
2. Are your loyal customers likely to switch to the new private label product? (That is, is the target market for the private label line your existing customers or budget shoppers?)
3. Is this approach an effective way for your firm to gain a share of the budget shopper market without damaging your brand with price reductions?
4. Therefore, would you decide to manufacture the 'competitor' private label cookies for the supermarket chain, or kindly decline their offer? Why?