



ERS *Report Summary*

Economic Research Service

December 2011

U.S. Department of Agriculture



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of an ERS report.

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The Relationship Between National Brand and Private Label Food Products Prices, Promotions, Recessions, and Recoveries

Richard Volpe

What Is the Issue?

One of the most striking changes in U.S. food retailing over the past two decades has been the rise of private labels (PLs), also known as store brands. Retailers have expanded PL product offerings across the supermarket, and PLs have increased in popularity, as measured by both dollar sales and shares within product categories. Since promotional competition between PLs and national brands (NBs) has the potential to benefit consumers through lower prices and expanded product choices, this report quantifies the magnitude and dynamics of PL price discounts and then tests for NB/PL strategic promotional interaction. Particular attention is paid to how the 2007-09 recession and subsequent recovery affected NB/PL interaction, showing how price dynamics evolved from recession to recovery.

What Did the Study Find?

Retailers promote private label products (offer price discounts) strategically in response to national brand pricing promotions to protect PL sales during NB promotions. However, the extent of the retailer response varies widely across supermarket departments and is also affected by both the density of food stores and the market share of supercenters within a market area.

- On average, PLs are priced about 23 percent lower than NBs, both with and without promotions. This gap is smaller than that found in previous analyses using older data, suggesting that these items may have become more comparable in price and quality over time.
- NB/PL promotional interaction was strongest among processed, storable products, but much weaker for produce, fresh meat, and seafood.
- In general, as market concentration increased within an area, the intensity of within-store NB/PL promotional interaction also increased.
- NB/PL promotional interaction lessened, however, as the market share of supercenters increased, which may be due to supermarkets focusing on everyday low prices generally, rather than on promotions, when competing with supercenters.
- Promotional activity for NBs changed very little during the recession, while PL promotional activity increased.

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How Was the Study Conducted?

This study used 2008-10 data on prices and promotions for two major supermarket chains that operate primarily in the Western United States. The data were gathered directly from the corporate web sites of the chains. The broad scope of the data, covering thousands of the products available in each supermarket and over 250 product categories in every major department, allowed for the study of NB/PL interaction across a wide range of product dimensions. The intrastore promotional interaction between NBs and PLs was analyzed using contingency tables and then regression analysis was used to identify key determinants of NB/PL promotional timing. Because the time series included a part of the recent recession as well as the subsequent recovery, the analysis allowed for NB/PL interaction to vary across these economic phases.