Competition Issues in the Grocery Sector in Jamaica

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I. BACKGROUND

The groceries sector makes a significant impact on the welfare of consumers in Jamaica. Intuitively, one would expect the impact to be significant due to (i) the wide cross section of individuals who consume grocery items; (ii) the high fraction consumers' budget allocated to the sector; and (iii) the high frequency in which many consumers interact with retailers of groceries in Jamaica. Indeed, the Statistical Institute of Jamaica includes *Food and Non-Alcoholic Beverages* as a component in its "basket" of consumer goods and services used to track inflation. This Food and Non-Alcoholic component is assigned the greatest weight of 37.4% in the basket, almost three times the weight of 12.8% assigned to the second most significant component. Three formats have developed to cater to the wide disparity in disposable income observed in Jamaica. The traditional "corner shops" cater to consumers with the least amount of disposable income while wholesale clubs cater to the most affluent consumers. Supermarkets cater to the needs of consumers falling in between these two extremes. Competition among retailers usually takes places within a distribution format and infrequently across formats.

Corner Shops

Corner Shops are small grocery outlets located in most communities throughout Jamaica. Accordingly, it is the most prevalent means of retailing groceries in Jamaica. It is estimated that annual revenues from corner shops is less USD 33,450 ("Corner Shops: The Poor Man's Supermarket," **The Sunday Daily Gleaner,** January 24, 2010). Corner shops appeal primarily to consumers with the least disposable income who typically visit the shops more than once per day ("The Poor Survive on Daily Miracles," **The Sunday Observer,** February 16, 2014). These Corner Shops often use creative methods to accommodate their customer base. Two of the more popular methods are i) "trust"; and (ii) innovative repackaging. *Trust* is an unsecured credit option available to select customers which allow them to take possession of goods with only a gentleman's agreement to repay the loan at a future date. Due to the obvious risk involved, the harsh economic climate in recent years has led a growing number of Corner Shops to limit such practice. *Innovative repackaging*, which can be considered an 'unbundling' of goods, involves Corner Shop owners breaking up a single unit of a good and offer it to its customers in smaller units. For example, Corner Shops make it possible for consumers to purchase "half" of a loaf of bread or "a single sausage" despite such items not being packaged by the manufacturers in such retail units.

Customers typically patronize shops closest to their homes; this is the fact that most customers walk rather than drive or ride to Corner shops.

Wholesale Clubs

A wholesale club refers to a large outlet which caters exclusively to its paid-up members. They typically cater to the most affluent consumers. These clubs offers a wide variety of goods and are not limited to grocery items. Members benefit from acquiring goods at relatively cheap unit prices by purchasing items packaged in bulk quantities. In a sense, Wholesale Clubs are engaged in 'pure bundling" of goods.

There is only one such club in Jamaica. Its annual revenue is estimated to exceed the equivalent of USD 68 million (PriceSmart, Annual Report, 2012. https://shop.**pricesmart**.com/Investor/Annual-Reports/2012AnnRpt.pdf: accessed August 30, 2015).

Supermarkets

Between the corner shops and wholesale clubs, Supermarket retail outlets cater to the needs of middle income consumers. These outlets offer customers the option of acquiring groceries at retail and wholesale quantities and do not require membership as a pre-requisite for shopping. Competition among retailers is usually more intense among supermarkets relative to other categories of retailers. Accordingly, the study on competition dynamics in the retail sector will focus on supermarkets. We are therefore limited in extrapolating results found in this paper to the wider retail market. Our previous research into this sector has revealed that a group of supermarkets have implemented strategies to bring greater value to final consumers. These strategies include (i) coordinated bulk purchasing and (ii) consumer loyalty rewards program. Each Supermarket in the group sourced their goods through the Group thereby benefit from lower prices associated with bulk purchasing. The savings are then passed through to consumers through joint advertised price specials.[1]

Competition Law Enforcement and Competition Advocacy

Despite its obvious importance consumers, the groceries sector remarkably has evolved without significant interventions by the national competition authority, i.e. the Fair Trading Commission (FTC), The earliest intervention came in the form of advocacy efforts in 2006 when FTC successfully lobbied for the removal of a provision in the Jamaica Dairy Development Board (JDDB) Bill which gave the JDDB the authority to set the farm gate price of diary milk. The intervention was deemed necessary as such authority would ultimately result in higher prices for dairy-based products sold to final consumers. The FTC has since conducted three investigations into alleged collusive conduct in the sector which were concluded without any sufficient evidence to prosecute the matter under the Fair Competition Act ("Milk Price Warning," **The Observer,** December 10, 2005).

In recent times, the Staff of the FTC has noticed a growing trend of retailers introducing *private labels* in their outlets. Invariably, the private labels offered consumers a cheaper alternative to nationally recognized *branded goods*. According, in 2015 the staff initiated a study of the groceries sector with the objective of assessing the effect of private labels is having on the competitive dynamics in the retail sector.

Business Strategy and Consumer Welfare

We have already described the varying means through which the three retail formants cater to the needs of consumers. Irrespective of disposable incomes, however, all consumers desire to acquire quality goods at the most affordable prices. It is evident that retailers in Jamaica are so motivated to satisfy this basic desire of consumers.

Corner Shops

Extending unsecured credit, without interest, is a highly risky business strategy. Such credit usually is extended with punitive interest rates to reflect the risky nature of the strategy. As described earlier in the paper, corner shops adopt such policy without any interest rate obligation. At best, such a strategy

[1] The joint advertising on the part of the group of supermarkets was the subject of an investigation carried out by the Fair Trading Commission in Jamaica.

would disrupt the cash flow of the business which would have implications for the ability of corner shops to restock their goods. At worse, just a handful of delinquent debtors could lead to bankruptcy. Rather than turning away everyone without the means of completing payment for the goods, however, most Corner Shops manage the risks associated with unsecured credit by being highly selective in the individuals they trust their goods to. Therefore, Corner Shop owners assume significant risks to the benefit of consumers.

Supermarkets

The introduction of private labels was designed to ensure that consumers have access to quality products at more affordable prices. By private labels we mean brands which are sold exclusively by a particular supermarket. By all accounts, supermarkets assume a significant risk in the distribution of private label products to the benefit of consumers.

In what follows, we briefly review the literature on private labels after which we describe the methods employed to collect data for this research. We then discuss the results of our survey and then offer come concluding remarks.

II. LITERATURE REVIEW

What is considered a private label product?[2] "[Private label products] encompass all merchandise sold under a retailer's brand. That brand can be the retailer's own name or a name created exclusively by that retailer. In some cases, a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group (PLMA, see www.plmainternational.com)." Over the years, they have been perceived as low-cost leaders, rivaling national brands for a place in the baskets and trolleys of consumers.[3] Retailers tend to see the private label products as strategic weapons in the fight to wrest control over the goods they sell from manufacturers (Borden, 1942).

Private label products have been around for some time now in places like Europe, Canada and the Unites States of America. Their rise has been well documented and they have been generally accepted by manufacturers as a significant competitor in the marketplace. In developed countries (Europe, North America and the Pacific) their market share is above 15%, going up to as high as 45% (Europe) – but in developing countries the share is below 10% (Nielsen, 2014). While the Caribbean was not mentioned explicitly in the study it fits in the category of developing countries. There is limited available research on private label products in the region and even less in the area of competition between private label products and branded goods. This paper seeks to add to the literature in this regard by exploring answers to the following questions: What is the role of private product labels? How should shelf space

[2] Store brand and private labels are used synonymously throughout this paper. Private labels refer to brands distributed exclusively by a retailer.

[3] National brands refer to all brands which are not distributed exclusively to any particular retailer, irrespective of whether they are manufactured locally or imported.

be used by retailers in competing with national brands? What are the categories of goods that are most likely to have a successful private label product?

Assessing the role or significance of private label products

As private label products evolve overtime through diversification, growth in sales and market share, academics have posited numerous explanations for these evolutionary factors (Dhar and Hoch, 1997; Steiner 2004; Rubio and Yague 2007; Chakraborty, 2013). As they became more prominent, branded products began to consider them as legitimate competitors and treated them as such. The rivalry between private label and branded products pivots on price and quality. Traditionally, private label products sought to compete with branded products by targeting the price conscious consumers (Choi and Fredj, 2006 & 2013; Volpe, 2011; Kotler, 1994, Lugli, 1993). To do this, they offered cheaper alternatives in grocery categories with high sales volumes. The thinking behind this approach was that as spending power decreases, *ceteris paribus*, consumers are more likely to substitute away from higher priced goods to cheaper goods.

Blois (2000) noted that price conscious consumers place a higher value on “steals” (quantity per dollar) than they did on “value for money” (quality per dollar). His declaration is premised on the assumption that there is a positive relationship between price and quality (for more on this, see research by Shugan, 1984 and Suri and Monroe, 1999). Garretson et al., (2002) posits that “while value-consciousness is a commonality among consumers who seek price savings…lower average prices of the private labels cause such products to be regarded as less attractive. Quite likely, the low price on private label signals inferior quality for consumers.” Manufacturers in their bid to counter the private label threat would focus on the value-conscious consumers. Perceived differences in quality between the two products are a significant determinant in the minds of consumers and branded products have the advantage in this regard (Sethuraman, 2004; Hoch and Banerji, 1993 and Dunne and Narasimhan, 1999). Holt et al. (2004) posit that quality is the primary feature that drives consumers to select branded products over private label products. Some studies have actually found that, the more consumers perceive private labels as being “risky” the less likely they will be to give them a try (Erdem et al., 2002; Richardson et al., 1996; Nielsen, 2014). Is there really a quality-gap? Academics (Manzur et al., 2011; Garretson et al., 2002; Quelch and Harding, 1996) acknowledge that there is a gap which is closing, but has not yet closed. The general conclusion is that private label products have a reputation for being inferior in quality. Until private label products manage to change consumer perception, be it real or imagined, retailers will not reap the benefits that accompany customer loyalty enjoyed by branded products. In fact, they could actually lose consumers according to Dhar and Ray (2004) who state that “stronger brand loyalty leads consumers to switch stores rather than switch between products within a store.”

Shelf Space strategy to be employed by retailers

The level of promotions is a defining feature that can be used to gauge competition between private label and branded products or two branded products is (Kumar and Leone, 1988). These promotions include, but are not limited to, in-store coupons, bonus buys, feature advertisements, product displays and price discounts. On the one hand, private label products are traditionally the low price leader in the competitive relationship with branded products. The most significant advantage private label products have over branded products is that retailers control the space within which both categories of products compete. This raises the issue of shelf space allocation and its control. Several studies have explored this use of shelf space as a strategic tool in the retail trade (Zameer et al., 2012; Nawel Amrouche, 2007, etc.). On the other hand, branded products' main advantage is their reputation of being the best value for money. This reputation has been built over decades of advertising and through delivery of consistent quality (Quelch and Harding, 1996). So with these loaded guns in both competitors' arsenal – which strategy should either product employ: fight or truce?

Fight

"He will win who knows when to fight and when not to fight." Sun Tzu – The Art of War.

Manufacturers have overtime introduced fighter brands that have the purpose of boosting revenues through protection of the premier brand or to ward off competition from another brand. [4] Ritson (2009) argues that the results from the introduction of fighter brands have been mixed at best. There are however common characteristics among the successful fighter brands that must be considered by anyone that is thinking of introducing one. Ritson (2009) documents the following considerations when looking to introduce a fighter brand: assess cannibalization impact; assess the likelihood of it eliminating the competition; ensure it has a successful business model; continuously re-evaluate position. Common examples cited for successful fighter brands are the cases of Qantas' Jetsar and Anheuser-Busch's Bavarian brand, Intel Celeron processors and Logan by Renault. Nielsen (2014) identifies the following as characteristics for private label products to reap success: minimum differentiation and low brand quality; high price sensitivity and high purchase frequency; and low innovation rate. He argues that if these conditions are not met in the market for the introduction of the private label product being considered, retailers should stand down. An example of this is the milk market in the United States of America (USA). Private labels represent 40% or more of this market in the developed markets (Nielsen, 2014). Branded products are encouraged to cooperate with a private label product if these conditions are met in the market. In addition branded products can stave off competition from private label brands if they can successfully maneuver the launch of a fighter brand.

Truce

The common goal of manufacturers and retailers is to get the consumers purchasing their respective products notwithstanding the fact that retailers also benefit from sales of branded products. To encourage greater consumption expenditure, some academics (see for example, Steenkamp and Dekimpe, 1997; Scaff et al., 2011), recommend that manufacturers explore the option of strategic collaboration or "sleeping with the enemy," whereby manufacturers seek to partner with retailers by producing their private label products. This is an option explored by companies like Kraft General Foods, Dole, and Heinz etc. (They however caution against doing this if there is a "cannibalization" on their own brand's sales). A well documented case of this strategy being used successfully is by Afga – the film roll

[4] Ritson (2009) defines fighter brands as those cheaper brands created by an organization to respond to low priced rivals, with the intent to attack the threat head on and protect their premium priced offerings.

manufacturer. In 1994 they had only 2% of the film roll market of North America. They however managed to increase this percentage to approximately 18% of the film rolls through its strategic commitment to producing private label products (Dunne and Narasimhan 1999).

Scaff et al. (2011) also asserts that the competitive strategies employed by manufacturers – improved innovation; direct-to-consumers and value tiers – often destroy the value for both retailers and manufacturers. His recommendation is that they collaborate in a strategic way to maximize value to both.

Private label product friendly categories of goods

Studies have found that the more branded products existing within a category of the goods, the more difficult it will be for private label products to be successful due to the intensity of the competition (Dhar and Hoch, 1997 and Hoch and Banerji 1993). This is due to the increased advertising that will take place in this category. Branded products, by their nature, have a wider reach than private label products, with a larger budget for advertising.

Contrastingly, Raju et al (1995), using a game theoretic approach to determine the conditions under which a private label will most likely to succeed, found that: 1) private label products are likely to increase the overall profits of the category, where there are a large number of branded products; and 2) private label products are more likely to succeed in a category if the cross-price sensitivity among branded products is low but high between branded products and private label products. The first point is supported by Steiner (2002) who asserts that a country's social welfare is maximized when a group of leading branded products receive strong competition from private label products.

Furthermore, Quelch and Harding (1996) found that private label products are better served by feeding off the hard work done by these branded products. They posit that private label products have been thriving in more mature markets – contrasted with growing markets where branded products tend to focus – in high-demand categories thereby capitalizing on the efforts already exerted by branded products' manufacturers in these markets. Similarly Nielsen (2014) reasoned that private label products were more likely to reap success in commodity-driven, high-purchase categories and those where consumers perceive minimal differentiation. Although this may be true, retailers are not given a completely free ride. The work on their part must be done to ensure that their goods are comparable to that of the branded products in terms of effectiveness. One way that they can demonstrate this is through packaging: Batra and Sinha (2000) found that consumers will select the branded products if they cannot rely on the product packaging information to assess the product quality. Retailers must therefore seize the opportunity to compete directly whenever necessary and get closer to the customer (Manzur et al., 2011).

III. RESEARCH METHODOLOGY

The study seeks to understand competition in the supermarket sector, particularly between private label and branded products. The aim is to understand the mutualism symbiotic relationship between retailers and merchandisers. This dynamism led the Commission to use a qualitative methodology to satisfy the objectives of this exploratory study. Additionally, there is limited literature available on the topic and therefore a qualitative methodology would best serve to get a sufficiently deep understanding of the topic.

The main tool used for collecting data was semi-structured, personal interviews which allowed interviewees to liberally give their thoughts and opinions on the topic. In addition to this, the Commission used non-participant observation technique to gather additional information and ensure credibility of participants' information. A purposive sampling technique was used to ensure selected participants generate the most useful data, it also limited the time spent collecting data. The Commission's primary assumption was that private label products represented a significant strategy for retailers to snatch market share from branded products, thereby maximizing their profits due to the significantly better margins available. On this assumption, participants were selected based on their "observed" prominence (merchandisers and supermarkets) and use of private label products (supermarkets).

The participants were contacted by means of a letter with a follow-up phone call to schedule an interview. The interviews with merchandisers helped to give a general idea of their thoughts and visions, as well as their views on the relationship they shared with the retailers. Except for one of the four face to face interviews, a recording was done to ensure that all possible information was collected and would be available to ensure maximum accuracy in the transcribing session afterwards. Where this was not permissible, an assistant was brought to aid in ensuring said benefits were obtained. Similarly, where it was not possible to record the interviews, interviewees were sent the questions after which a telephone interview was scheduled to clarify answers provided.

The use of secondary data was extensive. The purpose of this was to get background information on private label products and branded products competition. Secondary data sources included journal articles, newspaper articles, books and industry reports. To enhance validity and to triangulate the results of the study the Commission returned the transcribed interviews to the interviewees to confirm that their views were correctly reflected. The Commission also visited the stores on count of anonymity to corroborate information given in interviews. These observations lasted an average of 10-20 minutes.

On average each interview lasted 30 minutes (initial interview) followed by a 15 minutes clarification and verification session 6-8 weeks later. All questions were standardized in relation to the topic of private label product competition; its historical context; significance of shelf space; interest or lack thereof in competing by supermarkets. The open ended nature of the questions served to extract as much information from the interviewees as possible. Eisenhardt's (1989) methodology was adopted where by both a cross-case and within-case analysis approach was used. The cross-case analysis approach was useful in comparing what was happening in other parts of the world with Jamaica's own experiences regarding the topic. Similarly a within-case analysis was used*,* though to a lesser extent, to determine any significant relationships that existed in each individual relationship.

The primary objective of the interviews was to gain insights into participants' views of their relationship with each other as well as to check for any clues as to what the future holds. All participants interviewed were at senior decision making level. The persons representing the supermarkets, for example, had the authority to decide what goods were stocked, purchasing decisions and other duties involved in the operation of the supermarket. Similarly, the merchandising representatives were managers who were influential in dictating what goods were sent to a particular location and the terms of trade.

The approach taken here is similar to that of Corbin and Strauss (1998) who noted that taking the findings from the words of respondents aids in the getting much more information than would have been available from alternative research methods.

To avoid the paper being discursive the following simple reporting outlay was adopted. The discussion of findings included evidence from the interviews. The literature is referenced in the discussion to bring some context to the study.

IV. DISCUSSION OF RESULTS

The research explores the answer to the following question. What is the nature of competition between private label products and branded products in the groceries sector? To answer this question and related issues, the Commission interviewed two major stakeholder groups in the groceries distributive chain– merchandisers (upstream) and retailers (downstream).[5] Six of the leading supermarkets were selected to participate in the study along with the four top merchandisers. The response rate among supermarkets was 67% (four of the six supermarkets participated) whilst the rate amongst merchandisers was 75% (three of four merchandisers participated).

All participants were involved in the business for at least a decade. All indicated that the change in dynamics of their customers was a significant factor that shaped the evolution of supermarkets. One mentioned that “overtime the population has grown to accept the supermarket concept due to their exposure to foreign influences, education and modernization”.

Below we discuss the perspectives of respondents on the following topics: (i) the significance of private labels; (ii) the categories of goods in which private labels are most successful; and (iii) the role of private labels and shelf space in the competitive environment.

Significance of Private Label Brands

Private label products include in-house bakeries or any other product exclusively owned by the supermarkets to be included as private label products. However, the retailers interviewed did not recognize these in-house bakeries or any other non-supermarket branded goods as private label brands. As such probing questions (see specifically question 4 on the supermarkets’ questionnaire in the appendix) had to be included to get as much information in this regard as possible.

[5] Merchandisers can be considered as agents of manufacturers.

There are two main instances which increase the prominence of private label products: increased competition and increased retailer's margins. Retailers seek to increase competition by introducing a private label brand in a particular category in an attempt to get more buying power. By doing this, retail stores increase their leverage when negotiating with suppliers. Hoch and Banerji (1993) state that "For manufacturers of … [branded products], private labels constitute an important source of competition, and manufacturers must have a strategy for dealing with them." Furthermore Gilbert and Matutes (1993), assuming differentiation between products is due to brands' name, showed that two firms will compete on a wide range of products because the differentiation due to the brand name weakens competition between products. One retailer indicated that it introduced an additional private label product to satisfy the demand from consumers. The retailer further stated that:

> "The decision to start supplying [private label products] was the result of customer feedback. The need for lower prices forced us to search how best we could offer a solution. There is also the observation of what is taking place in the international arena."

Another reason for introducing a private label product is to increase the retailer's margins through the offering of an alternative product to the branded product. In doing this, the retailer also captures a different section of the customers that may be under-served by the suppliers. Hoch and Banerji (1993) argues that "Industry sources suggest that retailer gross margins on private labels are 20 percent to 30 percent higher than on [branded products]…"

To address these reasons, the question was asked of the retailers: what would cause you to introduce a [private label product]?

One retailer stated that it had no interest in doing so, while two retailers stated that they would introduce a private label product if it became practical or necessary to do so. One retailer identified the circumstances under which it would introduce a private label product as follows:

> "We will consider introducing [private label products] if it is that the market drives us in that direction. One major factor that could do so is if we can see a significant reduction in the prices of goods by doing so. This is a plausible option if it cuts out the distributor which is one more stage of the network and would thereby increase our margins. We are also cognizant of the drawbacks of introducing private label products. For example, the storage cost factor, the marketing that would need to be done and the reaction of consumers to the product, the uncertainty regarding consumers reaction to the product as there is no guarantee that even if prices are … cheaper that doesn't mean consumers would switch their loyalty from the [branded product]. Additionally, [private label] manufacturers may have a [minimum] quantity of the [private label] product that you would have to purchase. This quantity may not be feasible to your operations and so the problem of loss of inventory due to these goods being perishable. All in all, it would take a large investment for [private label products] to be introduced and we are not at the point right now where we are willing to take that gamble.

This is a similar stance to another retailer who stated that it would consider introducing a private label brand if the market led them in the direction.

Categories of goods Private label products tend to thrive in

Nielsen (2014) gives a list of products/categories in which private label products tended to be most prominent. The characteristics of these products permeated through the categories of goods mentioned by the participants in this study. When asked which categories of goods are most likely to have a successful private label products, all participants stated that those categories that had high volumes of sales. One retailer mentioned the fact that categories such as tin foods seem to be targeted for private label production due to the volumes of trade in those products. This sentiment echoed the other retailers.

One retailer further stated that its strategy of selecting a particular category of private label production depended heavily on the volume of sales of the particular product in that category. In it mentioned that:

> Grocery items have been our most successful [private label product]. This may be due to the fact that they make up 90% of our private label products. [Items such as canned foods] are a big part of our [private label product] success…Our decision to enter into the [private label product segment] was primarily influenced by the demand of customers.

The characteristics of these items are similar to that of “commodity-driven” products like milk which was identified by Nielsen (2014) as being a category in which branded products find it very difficult to compete with private label products. Canned foods have the characteristics of milk as identified by Nielsen (2014): minimal differentiation and low brand loyalty; high price sensitivity and high purchase frequency; and low innovation rate. When asked to identify the main difference between its private label product and branded product, one retailer stated:

> The major difference between our [private label products] and the [branded products] is price. We provide an inexpensive alternative to [branded products]. In terms of quality, both products are comparable. In fact, for a number of the products, both the [private label and branded products] are manufactured and packaged by the same source. So we do not compromise on quality – we stand by the quality of our products. The only difference in this regard may be the [non-quality] formulation of the product.

This was a revelation that followed closely with the statement given by another retailer to that question:

> The only major difference I would say in most instances is the labeling. Often times (private label and branded products] come from the same source- that is, they are manufactured and packaged in the same plant. There are even cases where a [branded product manufacturer] produces a rival’s branded products]. So what merchandisers have to do is to ensure that their product loyalty base is strong and work on building that.

A merchandiser maintained that its advantage has been its quality and the fact that it carries known and trusted branded products. The importance of this fact must not be understated as evidenced by the reported struggles of retailers to establish itself in this regard. When asked about some of the hindrances or difficulties that you associate with having a private label product, the merchandiser responded:

> We have problems getting acceptance. Since we are not yet a recognized brand we have to try very hard to get consumers to sample our private label products. For grocery items, we are able to get them to taste and get feedback but for others it's really difficult getting in ahead of the [branded products].

All the retailers made the point that consumers are price sensitive and so they have to ensure that their prices are competitive. Particularly, one retailer indicated that:

> The economic climate has made it more difficult for consumers to stretch their dollar and so we are very price sensitive. Consumer loyalty is critical to our survival and so our offerings are a reflection of their demand.

He further implies that consumer sensitivity is not only limited to price:

> Generally, the consumers have become more sophisticated with heightened expectations. We have therefore had to adapt to these expectations through our offerings, point of sale and overall improvement of the shopping experience with brighter and more colorful displays

Another retailer maintained that consumers' price sensitivity was the primary reason that they started supplying private label products:

> The decision to start supplying [private label products] was the result of … customer feedback. The need for lower prices forced us to search how best we could offer a solution.

The literature states that private label products are more likely to succeed in a category if the cross-price sensitivity among branded products is low but high between branded and private label products [Raju et al, (1995)]. All the retailers reiterated that they had their own pricing strategies and therefore they are not forced to change their prices by merchandisers. When asked what consideration is given to private label products in the pricing of branded products, one merchandiser maintained that:

> We do not consider [private label products] in isolation. How we determine our prices are dependent on the projected selling price which includes the retailer's margin...we do our research/category studies to see what profitable price that we can offer our goods for. We will never be able to compete head on for each good.

Similarly, in response to the question of "Have you ever been approached by a [merchandiser] to increase the price of your private label product in accordance with their impending price increase?" a retailer replied:

> No. We have our own pricing strategy for our private label products. We consider the prices that prevail in the market and ensure that our prices remain competitive.

Finally, on the characteristic of "low innovation rate," the literature states that branded products tend to win when the innovation rate in a particular category is high, for example, in the mobile phone market or in hair care products. The different types of canned food products have been roughly the same throughout the past two decades in Jamaica.

Shelf Space

Shelf space is the area which is allocated to different products on shelves. It is a precious asset for the retailer because it dictates how many types of goods and quantities of each goods that can be stocked and ultimately influences the sales generated by the business (Zameer et al. 2012). In some markets in Europe and the USA, it's such a prized asset that they charge merchandisers a fee to stock their goods on supermarket shelves. In Jamaica this practice is not adopted. Charges for spaces in supermarkets are limited to gondolas and other secondary exhibits.[6] It has been suggested in the literature that shelf space allocation has been used as a tool to leverage the power of supermarkets in their relationship with merchandisers. This is, however, one strategy which is not implemented by retailers in Jamaica. In fact, one retailer indicated that:

> "Tradition has dictated the shelf space associated with each product. There is no hard and fast rule of the size of shelf space allocated to a particular product."

In fact, the retailer stated that gondolas were currently fully booked and he does not foresee any being available in the near future. In addition, the fact that tradition dictates the space occupied by certain products means all the prime spots such as eye-level, next to leading brands etc. would be occupied. No selection criterion was provided by any of the supermarkets regarding which product gets which shelf space. They all mentioned, however, that the criterion used for keeping products in stock was the pace at which they were sold, which was determined by the consumers' demand. One retailer stated that:

> "Shelf space is consumer determined…. [If] good A and good B are side by side with Good A selling twice as fast as the Good B, [then]the shelf space [allocated to] good A [would be] twice as much as that [allocated to] Good B. This method of allocation is very efficient as the final consumers have the final say."

This point was corroborated by a merchandiser:

> "Retailers own their shelf space and so [branded products] must earn their keep. There are no slotting fees charged by any supermarket in Jamaica."

The tendency of local retailers to allocate shelf space for without charge and not use it as a tool to compete is lauded by Scaff (2011) who states that both parties should not fight but collaborate. This is echoed by a Merchandiser in the following sentiment:

> "We have a professional relationship where we are interdependent. We build our [branded products] and the retailer makes profits from the growth generated………….Relationship with the retail trade has improved because they have become more professional too. We sometimes have joint programmes to generate greater consumer off-take."

[6] These include displays within aisles; check out displays and special in store booths etc.

Merchandisers expressed some reservations about the threat of competition from private label products. For example, one merchandiser mentioned that a retailer increased its foothold in the private label product market and thereby sought to limit the amount of shelf space it afforded rival branded products. This will put increasing pressure on merchandisers to get their products on supermarket shelves. The pressure is compounded by the demands placed on the merchandisers by retailers attempting to increase their margins. One retail store manager admitted that:

> "Sometimes we pressure them to cut their prices by seeking a price cut from their sources. We do this because of customer complaints etc. Sometimes they get a price cut and pass a percentage on to us and sometimes they don't. In the event of the latter, they sometimes cut the product or reduce their delivery of the product. This has been happening quite frequently in recent history."

This pressure exerted by retailers has been so impactful that some merchandisers believe they are the worse off in the relationship. One merchandiser stated that they may have to go into retailing to survive.

Concluding Remarks

The Fair Trading Commission has had few reasons to suspect that competition is under threat in the groceries sector over the preceding two decades. This study suggests that the groceries sector is highly competitive and generally provides a welfare opportunity for consumers. We observe that the groceries sector represents a distributive chain in which upstream players (i.e. manufacturers/merchandisers) exert minimal restraints, if any, on downstream players (i.e. retailers). The study also indicate that retailers are highly motivated to secure lower prices for final consumers. In one instance, they put pressure on merchandisers to lower prices so that the savings may be passed on to final consumers. In this regard, therefore, retail outlets exercise some degree of buyer power to the benefit of final consumers. In another strategy they introduce private labels. The introduction of private label products appears not to be a rent-seeking activity as lower prices are offered to final consumers. The introduction of private labels, loyalty reward programs underscores retailers' commitment to offer consumers value for money.

Going forward, it appears that lowering the barriers for the entry of private labels will stimulate even greater levels of competition. In this regard, retailers may consider using slotting fees to finance such a strategy. The overall effect of slotting fees, however, is ambiguous. In addition to the reasons cited in the literature, this study indicates that introducing slotting fees may lessen consumer welfare as the set of products being displayed in supermarkets would then be dictated by the deep pocketed manufactures rather than by consumer preferences.

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