

Premium Private Label Sourcing: Competition and Negotiation

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Abstract

As private labels become proliferated, more retailers are introducing premium PLs (PPLs) that oftentimes replace marginal national brands. A PPL can be sourced either from the NB manufacturer who wants to utilize excess capacity or from a dedicated PL manufacturer who can produce a high-quality imitation. The PL from the former source is likely to be identical to the corresponding NB except for the branding and packaging. In this paper, we examine a retailer's problem of tiered PL sourcing, in which a PPL is supplied by the NB manufacturer (dual brander), and an economy PL (EPL) is supplied by a dedicated PL supplier. From an equilibrium-negotiation solution, we derive profit implications and the negotiation power of the retailer. Interestingly, even if the retailer holds a strong negotiation power, we find it optimal for the retailer to leave some chips on the table for the NB manufacturer.

Keywords: *Premium Private Label; Distribution Channel; Nash Equilibrium*

Track: Product and Brand Management