CONSUMER PERCEPTIONS OF PRIVATE LABELS VS NATIONAL BRANDS

Introduction

Private Label (PL) brands are known to be quickly growing in sales, and this represents big challenges for National Brands (NB). “Increased shopping frequency has been associated with greater brand familiarity, and thus a greater incidence of PL purchasing” (Shannon, 2005). A major question that rises is if consumers are willing to continue paying a price premium for their NB, while economy is clearly not flourishing. Even though consumers recognize quality differences between PL’s and NB’s, they switch to PL’s because of the healing it provides to their pockets. This implicates more marketing efforts from the NB’s to build up their brand equities and loyalties. Also, it is known that PL products increase retailer’s power over suppliers in the vertical and horizontal channels. “Between 1999 and 2003, private label products in supermarkets grew at an annual rate of 17.9 percent compared to national brand product sales growth 14 percent during the same time period (PLMA, 2004). In addition, recent work shows that there is a necessary coexistence between store and manufacturer brands in the consumer packaged goods sector” (Pepe, 2011). All of this puts NB manufacturers in a tough position where they have to look for alternatives to compensate for their decreasing sales volumes. Many have opted to increase their price premiums over PL’s so they can retain or grow their profits regardless of the drops in sales volumes. “Most stores sell some combination of NB’s as well as PL’s. PL’s are of particular interest, because these help the stores in differentiating their merchandize, increase the potential sales by attracting more customers and they may help control costs and build up store loyalty” (Vahie, 2006).

In first place, are consumers really willing to pay a premium price for NB’s over PL’s? NB’s are best differentiated from PL’s for their quality, and it can be said that price has a lot of impact over brand image; also this premium price has direct impact on the profitability of the NB company. There has also been much research from the consumer-side factors that drive PL success (e.g., Ailawadi, Neslin, and Gedenk 2001; Erdem, Zhao, and Valenzuela 2004), but marketing has received less attention, which is very interesting and important when we speak about brands and products. Another aspect that should be considered is that PL development varies by country so it’s behavior and impact can be very different. The researchers of this study will focus on markets with a developed PL’s to understand how NB’s can fight them. For the purpose of this study, only Puerto Rico will be in scope, which is safe to say that is a pretty developed PL country.

Academic studies have provided very useful insights to combat increasing PL sales; still we find several gaps that have yet to be addressed. For example, there are many factors that influence the choice of a PL over a NB, like consumer socio-economic status, store image, price promotions, packaging, product innovation, marketing, and advertising. This study was conducted to investigate some of these specific factors that influence the PL brand image and the consumer choice between PL’s and NB’s, specifically characteristics of consumers, their socio-economic status, store image, perceived quality of PL’s and NB’s, prices, packaging, and the difference between product categories.

Literature Review

Price Consciousness

“Price is unquestionably one of the most important marketplace cues. It represents the amount of money that must be given up, and therefore higher prices negatively affect purchase probabilities” (Lichtenstein, 1993). This puts NB manufacturers at a disadvantage because usually PL’s are at a lower price point. In these times, consumers are searching for value for their purchases, and a higher price point at the shelf is not necessarily the most attractive marketing strategy. The vertical integration that some retailers with PL’s brands have gives them cost benefits; therefore they can have lower prices but still have higher margins.

H1: Price consciousness will have a positive impact on PL attitudes.

Store Image

PL’s can be resumed into three categories: (1) representative brand, (2) exclusive private label brand; and (3) confined label (Beneke, 2010). Even though there are three different types of PL’s, many consumers don’t notice the difference between them. “According to Kumar and Steenkamp (2007), half of private label brands are copycat brands. These brands essentially attempt to imitate the packaging and content of first tier manufacturer brands” (Beneke, 2010). This perception has caused a debate of opinion on the topic of store loyalty given by PL’s (Richardson 1997; Aliwaldi, 2008). However, other retailers use PL brands to increase
their business as well as to win loyalty from their customers. PL brands give them a differentiation from the competition. These brands supplement the retailer’s image and strengthen its relationship and loyalty with consumers (Abratt, 2011). Store loyalty results in increased profits for retailers since consumers will purchase more in the store (Ailawadi, 2008).

H2 Store image will have a positive impact on PL attitudes.

Product Quality

The PL trend is becoming more apparent as stores include new product lines and categories to their portfolio. “Quality improvements and decreases in price differentials between private label and manufacturer brands have led to an increase in the importance placed on packaging” (Beneke, 2010). This is changing the previous perception of management that PL’s do not need flamboyant packaging or advertising in purchase points to complete the sale. Though it may be true that sales can be achieved without them, it is probable that those two elements can help to increase sales even further.

H3: Product quality perceptions will have a positive impact on NB attitudes.

PL Experiences

Many experts argue that consumer’s repeat purchase decisions are based on past choices, “it may be that consumers choose the brand on the basis of a simple heuristic (e.g., brand awareness, package, price)” (Macdonald, 2000). To preserve brand awareness from loyal customers and/or increase brand awareness in new customers, new brand characteristics should be frequently introduced. Consumers tend to make their purchase decision based on anticipated satisfaction from a product (Vahie, 2006).

H4: Positive experience with PL’s will have positive impact on PL attitudes.

Loyalty

A few years ago store brands were almost irrelevant for most of consumers, but lately there are more and more PL brands. Retailers are looking for a way to retain their customers and differentiate from the rest of retailers and the best way in doing so is to gain customer loyalty, which is gained by keeping your customers happy. Customer satisfaction results in store loyalty and there are doing this through their own brands (Pepe, 2011). Private label strategy can help retailers attract customer traffic and create loyalty to the store by offering exclusive product lines and premium products (Corstjens and Lal, 2000).

H5: Loyalty with PL’s will have a positive impact on PL attitudes.

Price/Quality Perceptions

The sudden growth of PL’s can be attributed to two major causes: (1) to compete in the price driven segment (Hoch and Banerjee, 1993) and (2) to increases the power of the retailer (Mills, 1995). In addition to the arguments of higher margin and improved bargaining position, we argue that store brands can play a role in increasing store-switching costs, which leads to greater store differentiation and higher profits for the retailer” (Corstjens and Lal, 2000).

H6: Positive price/quality perceptions with PL’s will have positive impact on PL attitudes.

Social Aspects

Researchers are not confident of which factor is the one that contributes the most to the purchase decision; this factor may also vary from customer to customer. However, various researchers coincide that “the effects of shelf space allocation, perceived quality and risk perception” (Dursun, 2011); are some of the most common amongst customers. Perceived risk is commonly defined as the customer’s subjective expectations of a loss. Risk may present within a customer in several ways such as; uncertainty toward the performance of the brand or product, fear that the product or brand doesn’t possess the needed attributes; and the perception that purchase of the brand or product may not be socially acceptable. A consumer may take into account what his or
her friends or family may think of them when this consumer purchases a product. If the brand is not considered to be of good quality this may affect the purchase intention or vice versa. Some consumers may purchase low quality brands for their personal use, but when these products are going to be used by a second or third party they may prefer to purchase the higher quality brand to be socially accepted.

**H7: Greater concern for social aspects, greater the NB attitude.**

**Risk**

NB purchases are more likely to happen when consumers are certain that they can obtain the satisfaction they consider valuable from the product’s performance. On the other hand, “there are empirical evidences suggesting that perceived risk decreases PL proneness” (Dursun, 2011). “Branding generally acts to reduce risks and the majority of studies have found that consumers perceived less risk with a branded good than with generic alternatives” (Mitchell, 1998). Marketers spend billions of dollars annually seeking competitive advantage by attempting to reduce consumers’ perceptions of risk associated with the purchase of their brands. “The concept is related to the fact that consumers are often uncertain about the outcome of a choice between brands in a particular product class and can become quite concerned about the consequences of a poor or wrong decision” (Havlena, W. & DeSarbo, W., 1991).

**H8: Greater risk perception, greater NB attitude.**

**Store Quality Perceptions**

Which factors drive a customer to purchase certain goods may vary from consumer to consumer and between product lines. However, one thing is for sure, there is a specific trigger when it comes to a consumer making their final purchase decision; both PL’s and NB’s, as well as store owners, want to identify this trigger so that consumers select their product and stores amongst others. There are three components that stores need to maintain customer loyalty; they are the retailer’s store image, quality of the merchandise and/or brands sold, and price and/or promotions. “Consumers use certain cues and signals for these components; store name, brand name and price discounts” (Grewal, 1998); which are needed to make the purchase decision in hopes of gaining customer loyalty. Store image involves product and service quality as well as the physical environment of the store. Retailers must strive to make their stores attractive to consumers as well as choose the right products to stock to draw them in. “Retailers, who enjoy high store name awareness, are likely to do well in the information superhighway as store name familiarity and image will reduce purchase anxiety for the store loyalists” (Grewal, 1998).

**H9: Greater store quality perceptions, greater PL attitude.**

**Budget**

Due to the increase in accessibility to product information on the internet consumers can now make a more informed purchased decision. Because of the information overload consumers may become more price sensitive while others may still focus on a product’s quality for their purchase intention. “The quality of products offered by a retailer influences customer’s patronage behavior” (Grewal, 1998); as well as the product’s quality influences sponsorship for the product itself. Price and promotions are tools commonly used to increase sales and attract more consumers to the store and/or to a certain product. In today’s economy, it is possible that more people each day base their purchase intentions on price. With prices on goods increasing, consistently average salaries and growing unemployment; consumers may hunt for a good bargain on products regardless of the store or brand. It is also argued that while promotions may attract more consumers to a store, “discounting may have negative effects on the brand’s quality and internal reference prices. Price discounting may even hurt a store’s overall image” (Grewal, 1998). Each of these components should be studied individually, but they may also intertwine and influence each other.

**H10: Greater budget concern, greater PL attitude.**

**Attitudes toward brands**
A product’s quality is one of the factors that consumers evaluate during the decision and purchase process. PL’s have had to evaluate their strategy so they can compete with the NB’s, and it’s safe to say they have been successful at it. Product innovation closes the gap between the perceptual quality of NB’s and PL’s. “Retailers must manage many product categories and consequently lack the technical and financial resources to be innovation leaders. ‘Private labels overwhelmingly play a catch-up game, trying to copy the innovations that NB’s introduce (Kumar and Steenkamp, 2007; Steenkamp, 2010).’” Product packaging also gives advantage to the brand and it’s directly reflected in a brand’s perceived quality. Realizing the importance of innovation and product packaging in the perceptual process, NB’s make a consistent effort to make their product’s look and feel as distinct as possible from PL’s, while PL’s try to copy the packaging of NB’s. “Thus, it is not surprising that copycatting is an important area of conflict between NB’s manufacturers and retailers” Kapferer, 1995).

There may be a pattern between an attitude toward a PL brand and the consumer’s purchase intention. As we have mentioned before some consumers view PL items as a cheap low quality alternative to NB products; that is until they have an experience with the actual product. “Consumers switch more extensively to PL’s during an economic downturn than they switch back to NB’s in a subsequent recovery, permanently boosting PL share over a succession of business cycles” (Steenkamp, 2010); that just may be because they have tried the product and know it’s quality. Usually, NB companies spend more money in creating awareness and educating consumers about their brand and products, which creates a relationship with the end user, and places them at the forefront in the race against PL’s. Also, they invest in market research and take the lead in innovation for the product category, this results in establishing PL’s as followers and the consumer perceives that; which may affect the end user attitude toward PL’s and make them steer toward NB items.

The Private Labels Manufacturer’s Association (PMLA) is a worldwide organization of more than 3,200 manufacturers and marketers of private label products founded on 1979. To the PLMA, PL’s “are manufactured and brought to market in much the same way as the familiar national brands they sit next to on store shelves. Years ago, they might have been called generics, but that name isn’t accurate anymore. Today, they are brands like any other” (PLMA, 2012). This sustains the idea that PL’s are growing and getting a bigger market share consecutively. It may also sustain the idea that positioning of PL’s to consumers has improved over time.

H11: A positive attitude toward PL’s will impact positively purchase intention of PL’s.

H12: A positive attitude toward NB’s will impact negatively purchase intention of PL’s.

Methodology

The Puerto Rican sampling frame was of a convenience sample of 550 consumers. The questionnaire consisted of five-point Likert-type scale items that measured the factors that motivate consumers to purchase PL’s and NB’s. The objective of this research was to observe the Puerto Rican consumers’ perception toward PL’s and NB’s.

The survey was made up of 80 questions, consisting of scales, demographics and closed questions. The survey was divided in sections, each consisting of a different factor that may influence the Puerto Ricans consumer’s purchase decision. These factors were: risk, brand value, previous experience, price, economy, quality, store’s image, social aspects, attitude toward NB’s, attitude toward PL’s, loyalty, store quality, and purchase decision. For these questions, the instrument of measurement used was a Likert scale. Then there were two separate questions with a scale to measure the consumer’s willingness to pay and how they would distribute their spending money in different stores. The last five questions of the survey were demographic including; age, income, sex, scholar level, in which store (name) they tend to make their purchases.

Analysis of Results

To examine the underlying pattern of the purchase decision-making process between NB’s and PL’s, exploratory factor analysis (Norusis, 1993 and 1994) was used. Principal component was used for factor extraction. Varimax method was used to rotate the initial factor solution. The factor solution accounts approximately for 74.6% of the total variance. Factor loadings above 0.5 are interpreted as significant (Hair et al., 2006). The outcome of the pre-specified items, derived from theory and previous studies, in the questionnaire is satisfactory (KMO: 0.716) (Overall MSA); Bartlett’s Test: Approx. Chi-Square: 2962.755: df
Twelve factors were tested to see which ones influenced the purchase decision of a Puerto Rican consumer. There are five constructs that can influence the purchase intention and there are factors that affect each one of these concepts.

The first construct was attitude toward NB’s in which the purchase intention by the consumer is based on their view of NB’s. This construct was positively affected by the product’s quality, the social aspect and loyalty. This supports the hypothesis that when the purchase intention is based on product quality and/or loyalty the consumer will prefer to purchase NB’s. As Beneke, 2010 said PL’s are often viewed as products with lower price and inferior quality. It also supports the hypothesis that states that when the purchase intention is based on the social aspect it will have a negative relation toward PL brands and the consumer will therefore purchase a NB item. This goes hand in hand with what previous researchers stated that when a consumer’s social acceptance is at jeopardy they will prefer purchasing a NB product.

Attitude toward PL brands is the second construct, it measures why the Puerto Rican consumer purchases a PL product instead of a NB item. This concept was positively supported by the product’s quality, price per quality and PL experience. The hypothesis for the product quality was not supported since consumers supported the purchase intention for a PL based on its quality on the survey. Based on Beneke, 2010 certain retailers are trying to reposition their PL brands as premium so they can compete with NB’s. The hypothesis for price per quality and attitude toward PL brands were positively supported. These factors prove that if you have had a previous positive experience with a PL product you know that it is a good quality product and/or that you are paying a fair price for it’s quality.

The next three constructs measure purchase intention in different scenarios. The first of these three constructs measures the scenario in which if a PL product is available in the product category that the consumer buys, what factors would he or she use to base his purchase decision. This concept, as well as the hypothesis for these factors, was positively supported by store quality, PL experience and attitude toward PL’s. Like Vahie, 2006 stated, retailers attempt to differentiate themselves through their PL’s hoping to attract more customers. Once a consumer has had positive experiences with PL items they are likely to purchase it again and even more likely to purchase if the PL is from a store that they believe to be of high quality.

This scenario is if a consumer will purchase a PL item if their favorite NB item is available in the product category that they buy. The factors that positively support this construct are budget, price per quality and attitude toward PL brands. This construct is not supported by loyalty. All the hypothesis for these factors were positively supported, if a consumer has a budget, focuses on price per quality, has a positive attitude toward PL’s and/or is not loyal to their favorite NB they will purchase a PL item. As it was previously stated, because of the information overload consumers may become more price sensitive and aware of the value that they are receiving for their money; and may be willing to purchase a new brand if it means keeping more money in their pocket.

The last scenario tries to see what factors a Puerto Rican consumer takes into consideration to make a purchase intention if a PL item that the consumer hasn’t purchased before is on sale. The factors that inversely support this construct were loyalty and attitude toward NB’s. The hypotheses for these factors were not supported, because even if a consumer is loyal to their NB and/or has a positive attitude toward NB’s if the PL item is on sale they are willing to try it. Based on the previous research, if a consumer is looking for a specific product of a PL brand they may purchase other PL products offered in store. This is where sales and promotions come into play; as mentioned by Kumar and Steenkamp, 2010 to secure purchases of the store’s PL’s over the NB’s the retailers use in-store promotions to aggressively promote the brands, using a “me-too at a cheaper price” which may result in winning the sale, receiving bigger profit margins and maybe increasing store/PL brand loyalty.

**Conclusions**
After the analysis was done and conclusions were drawn it is clear that consumers are not willing to pay a premium for their NB’s anymore. While consumers still identify quality differences between NB’s and PL’s those differences are becoming slimmer with time to the point that consumers may recognize some PL brands as quality products. NB’s will need to be more aggressive to defend and maintain their market share with the growing boom that PL’s are currently going through.

It is believed that it is clear that with time PL’s will have an even bigger market share that they have now. With a consistently foul economy, growing unemployment and prices increasing; consumers may lean toward the least expensive option which are PL’s. It is important to point out that PL’s have come a long way from their simple packaged, low quality beginnings. PL’s have evolved with better packaging, more diversified and to a higher quality product that consumers become loyal to. It is believed that this study is highly useful for the consumer products industry as the importance of PL’s continues to grow. It can be used by different companies to see which is the next step to take to make their PL the consumer’s favorite brand. At the same time, multinational companies can develop a strategy to counteract the PL growth and help their brands maintain or grow their market share.

References


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