

## FACTORS AFFECTING PRIVATE LABEL BRAND PRONENESS AMONG CONSUMERS

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### Abstract

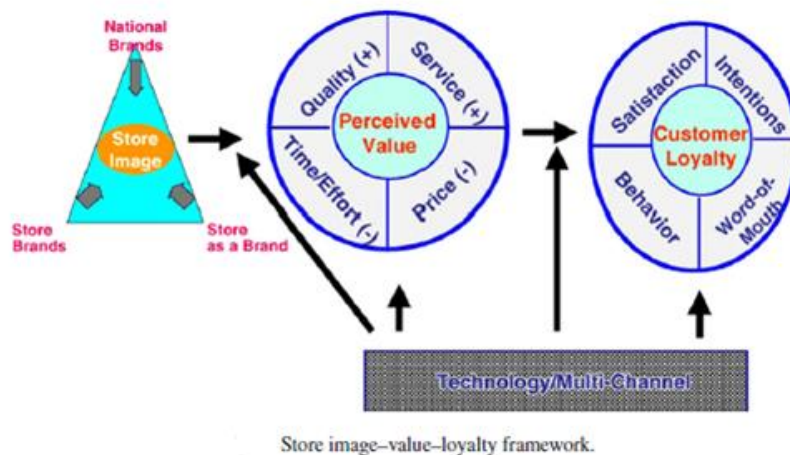
Over the last few decades private label brands have emerged very heavily across various markets and product categories and are becoming a very important aspect of retail industry. They have become a very important aspect of the overall product offering by the retailers, and are posing a major completion to national brands. Consumer proneness towards and buying of private label brands is increasing across various product categories. This paper tries to theoretically explore the factors that are responsible for this phenomenon, upon which going forward, empirical research can be based.

**Key Words:** Private Labels, Retailing, Store brands.

**Full paper:**

Rise of retailer as a brand is one of the most important phenomenon happening in retailing and is becoming a very important area of academic research as well as professional inquisitiveness. As explained in a suggested framework mentioned below, store brands are one of the three critical aspects that impact store image which further has an impact on the perceived value and customer loyalty.

**Figure 1: Store Image-value-loyalty Framework.<sup>1</sup>**



Thought the linkages as outlined in the framework above need further empirical testing for confirmation, there is enough literature that point towards that direction. For instance, consumers' perceptions of the depth of retailer's assortment within a product category<sup>2</sup> are an important dimension of store image and key driver of store choice (Ailwadi & Keller, 2004).

In general, the term store brand refers to a brand owned by a retailer (a marketing chain or any other typical retail structure) or by a wholesale distributor, and the sale of which

<sup>1</sup> Adopted from Grewal, D. & Levy, M. (2009). Emerging Issues in Retailing Research. *Journal of Retailing*, 85 (4), 522-526.

<sup>2</sup> Private label is one way of offering assortment depth within a product category.

is limited to that distributor's/retailer's stores (Herstein and Gamliel, 2004). Store Brand has had many synonyms over the years such as: private label, private brand, own brand, distributor brand, retail brand and own label. It is understood that private brands are different from national brands (manufacturer's brands) in terms of price, the brand image and quality, though over the years these differences have blurred. Private labels are moving away from just being generic products to becoming an alternative option of value or quality to manufacturer brands, especially in the context of the developed world (Oubina *et al.*, 2006). Retailers have been evolving out of their generic and copy cat strategies to actually providing premium and challenger brands (Baltas, 1997; Kumar and Steenkamp, 2007). Because of these blurring differences between store brands and manufacturer brands, world over consumers have been buying store brands with a lot of confidence in them. To illustrate, as of today, private label brands account for around 25% to 40% of the total retail sales in most of the European markets and around 20% in the US. In emerging markets like China, India, Egypt, Russia and Indonesia though store brands have low penetration, it is predicted that in coming few decades, private brands share would make-up about 50 percent of the total retail sales in the developing world (Kumar and Steenkamp, 2007). From this perspective it becomes an interesting area of investigation as to what factors are contributing towards the success of private label brands across various markets. Why private label brand proneness is increasing among consumers?

History of private label brands reveals that a few reasons for the emergence of private brands are:

- The consumers' resistance towards manufacturers' brands as they perceived them to be too innovative not to be trusted and requiring considerable consumer experience.
- Consumers developing loyalty towards the retailer who would give them credit and take barter, and it made it seem offensive to insist on a national brand when the retailer suggested something else.
- The economic slowdown in the developed world also added to the demand for private brands, when the customers started looking for low price products (Herstein and Gamliel, 2004). During recessionary periods, consumers may want to economize their expenditure and so consumers would always look forward to switching to private labels by the fact that they are relatively cheaper than national brands (Lamey *et al.*, 2007).

Until mid 1970s, private brands were perceived as inferior to national brands as far as quality was concerned, but over the years private labels have come to be preferred as good alternative to national brands as they have become at par in terms of quality (Herstein and Gamliel, 2004). In a study on private label success, Hoch and Banerji (1993) have concluded that quality is one of the most important variables that have contributed to the success of private brands as they do better in product categories where the product quality is high and the quality variability is low. The study also brings out that depth of price discount and the promotion intensity are not significant factors in explaining the market share of private labels. This further implies that **quality** is important to consumers even while considering private labels for purchase and they do not buy private brands merely on the basis of price.

The store-image-value framework that the author presented in the beginning of the paper brought out the importance of store brands and its impact of the store image. What kind of store brands the store carries has its effect on how the consumers perceive the store

per se as a brand. Conversely, the **store image** also has an impact on how consumers perceive the private label brands that the store carries. Consumers' perceptions about the store as a brand and their experiences with the store play an important role in how they perceive the private brand offering from the store and their subsequent purchase intentions. If the consumers have had a good experience with the store in the past in terms of services, product offerings etc. they are likely to experiment with the private brand offerings of the store. Also store loyalty plays a role in leading consumers to be more aware of private label attribute, directly linked with the retailer's name. This translates into better perception about the private label offering and subsequently into higher demand for it (Berges *et al.*, 2009).

**Consumer learning** of the private label brand quality and other product attributes is also considered to be one factor responsible for more and more consumers shifting (if not completely than at least partially) their preferences towards private label brands. This shift in preference seems to be a permanent one. Lamey *et al.* (2007), in their research work tried to build a framework that would help understand how consumers' (demand side) responses to the business cycle fluctuations may result in to a predictable effect on the private label sales. They reasoned that during recessionary periods, consumers may want to economize their expenditure by either consuming less quantity or by buying private label brands which are economical. Once the economy starts recovering, consumers may still continue to economize on their expenditure due to various reasons: consumers find themselves as lower income levels immediately after a contraction period; the immediate rise in the income may be used to pay off debts and build a precautionary stock for bad times in future and; a general pessimism regarding the recent recession. More so in reality, when using the private labels at the time of recession consumers learn that they fair much better in terms of quality than their actual perceptions and with this positive experience about private labels they may never switch back to national brands and continue buying private labels even in the times of boom.

As regards to factors, other than price and quality, which consumers consider while making private brand purchases, a few studies do bring out the following aspects:

- **Perceived Risk:** Risk that the consumers perceive while making private label brand purchase decision. This risk can be social risk (friends and family members disapproving their purchases and/or making fun of them), financial risk (private label not performing as expected and thereby the consumer faces a financial loss) and performance risk (private label actually performs in a harmful manner thereby causing some physical injury to the consumer) (Batra and Sinha, 2000). Consumers' private label buying increases in those product categories where the perceived consequences of making a purchase mistake are less. In product categories where the consumers perceived quality variability to be high, they preferred buying national brands rather than private labels.
- **Family Brand Preferences:** There is a positive relationship between the consumers' brand choice (involvement) and their perceived family brand preferences, meaning, in case of products where consumers did care about brand and felt brands are important, their family members also felt the same and preferred branded products, though this may not always ensure that the consumer will finally buy in considering the family brand preferences (Livesey and Lennon 2007).
- **Perceived Product Characteristics:** Kwon, Lee & Kwon (2008) investigate the effects of perceived product characteristics (i.e. involvement, product type, and switching cost) and consumer value consciousness on private brand purchase

intent. It was found that consumers are more prone to buy private brands where involvement and perceived switching costs are low and the effects of product involvement and switching cost appear to be consistent regardless of the level of consumer value consciousness. Even though highly value-conscious consumers are generally believed to be the typical buyers of private brand products, they are as equally influenced by product characteristics as low value conscious consumers are. The results indicate the robust effect of product characteristics (i.e. product involvement and switching cost) across levels of value consciousness. As regards to the product type, search or experience, the study suggests that the search properties of the product, as opposed to experiential properties, are likely to increase consumer private brand purchase intent. The significant interaction effect between product type and value consciousness suggests that the effect of product type is more manifest when value consciousness is low. In other words, low value-conscious consumers are more likely to purchase private brands when the products are search goods rather than experience goods, while highly value-conscious consumers who have higher purchase intent would be less sensitive to product type. The experience nature of the product leads to higher felt quality variations and higher felt consequence of making a purchase mistake (Batra and Sinha, 2000).

#### **Conclusion:**

Though price is one important consideration that consumers make while buying private label brands, quality is equally important to them. Consumer learning happens based on their experience with the private label brand and once learned about the comparable offering (if not superior) of the private label brands, consumers are likely to stick to them rather than switch back to national brands. Perceived risk, product characteristics in terms of where the product is of high or low involvement type and search v/s experience type and family brand preferences also has an impact on the consumers' proneness towards private label brands.

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