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National Brands and Private Labels in Retailing

First International Symposium NB&PL, Barcelona, June 2014

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Preface

The global economic crisis has strongly modified consumers' purchasing behaviour. In particular, consumers' brand preferences for National Brands (NBs) and Private Labels (PLs) have dramatically changed. Thus, the global economic slump has accelerated the growth of PLs at the same time as the underlying long-term shift in power moves from manufacturers to retailers. In the past, PL sales spiked during a recession but quickly returned to normal levels at the first sign of an upturn. However, this time PLs remain static.

PLs in the consumer packaged goods industry have experienced an intense worldwide surge in availability and market share in recent years. In this regard, PLs have been introduced to over 90 % of all consumer packaged goods categories. PLs already account for 56.9 % of the total consumer packaged goods (CPG) consumption in the UK (49.2 % value share), 49.6 % in Germany (37.7 % value share), 49.5 % in Spain (40.4 % value share), and 22.9 % in the USA (18.5 % value share).

There are many reasons for retailers to increase the presence of their brands. Three aspects can be highlighted: (1) higher retail margins on PLs, (2) leverage with national brands and (3) higher consumer store loyalty. There is significant evidence to support the first two reasons; the fact that PLs generate high margins for retailers has been acknowledged in both business and academic press. In the academic context, previous literature reports average gross retailer PL margins of up to 30 % and even higher. Also, a retailer's PL percentage margins are high on average, although such margins vary considerably across categories. Manufacturer and retailer power, along with category concentration, are category-level aspects influencing a retailer's margin in terms of both PLs and NBs.

The 'new landscape' in which NBs and PLs compete offers new exciting opportunities for researchers to discover different aspects underlying this new framework. It is with this goal in mind that this First International Symposium on Advances in National Brands & Private Labels in Retailing (IS-NB&PL 2014) has been launched and organized. Although there are some conferences including sessions related to the topic, this symposium is believed to be the first international

forum to present and discuss original, rigorous and significant contributions specifically on NB and PL issues.

Each paper submitted to NB&PL 2014 has gone through a stringent peer review process by members of the Programme Committee, which comprises 36 internationally renowned researchers from 13 countries.

A total of 18 papers have been accepted, and they address diverse areas of application such as assortment decisions, dual-brand manufacturers, positioning, branding, consumer preferences, online context, economic crisis, review of literature, PL share, PL trends and PL innovation, among others. A wide variety of theoretical and methodological approaches have been used.

We believe that this first international symposium has achieved the aim set initially: to encourage, promote and publish high-quality contributions on national brands and private labels that can aid retailers and manufacturers in dealing with a wide range of issues. Nonetheless, we hope that this is only the first of many future editions which will help to strengthen this promising research field.

Finally, we wish to acknowledge the support of our sponsors: the Ramón Areces Foundation (with backing from El Corte Inglés) and the Universitat Oberta de Catalunya. We would also like to thank IRI Worldwide (Spanish office) for helping us put together the panels of professionals to discuss several topics at the conference. Last but not least, we would like to thank all the contributing authors, members of the Programme Committee and the rest of the Organizing Committee for their highly valuable work in enabling the success of this first edition of NB&PL; it would not have been possible without you all. Thank you for your generous contribution.

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Contents

Part V Trends and Theoretical Research

Part I
Strategic Decisions

Estimation of Product Category Sales' Responsiveness to Assortment Size

Juan Carlos Gázquez-Abad and Francisco J. Martínez-López

Abstract Assortment is one of the most important competitive tools a retailer has at his disposal to gain sustainable differentiation. Offering more variety should help a retailer to attract more consumers into the store and direct them towards the category as well as induce them to make purchases once inside. This paper presents an empirical estimate of assortment size elasticities of 12 FMCG categories across five store formats. Results show that assortment size elasticities are higher for fill-in categories, i.e., those categories bought occasionally by a small percentage of households, and which are dependent on store format.

Keywords Assortment • Assortment size elasticities • Hypermarket • Supermarket

1 Introduction

Product assortment is one of the most important competitive tools a retailer has at his disposal to gain sustainable differentiation (Simonson, 1999; Stassen, Mittelstaedt, & Mittelstaedt, 1999). Retailer practice reveals that assortment, together with factors such as price or promotions, help attract consumers into the store (Kahn, 1999) and retain core customers (Grewal, Levy, Mehrotra, & Sharma, 1999).

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The notion of assortment variety in retailing could plausibly be discussed on a technical level, then at the operational or measurement level. On the former, assortment variety refers to the number of choices available within a product group (e.g., a category). On the operational or measurement level, assortment variety could be further segregated into objective and perceptual assortment variety according to the measure adopted (Peng, 2008). Regarding objective measures of assortment variety, assortment size—measured by the total number of SKUs—(Chiang & Wilcox, 1997) or assortment composition—e.g., category attributes such as brand and flavour—(Boatwright & Nunes, 2001) can be included in this group. On the other hand, the perceptual measure of assortment variety includes aspects such as the ease of shopping (Broniarczyk & Hoyer, 2006), the availability of the consumer's preferred brand (Broniarczyk, Hoyer, & McAlister, 1998) or the congruency between consumers' internal and retailers' external assortment organization (Morales, Kahn, McAlister, & Broniarczyk, 2005). This paper focuses on objective assortment variety measured by the total number of SKUs.

The notion that perceived variety is a function of assortment size is fairly straightforward (Chernev, 2011). For example, Amine and Cadenat (2003) found that, besides the availability of the leading national brands and the presence of favourite brands, individuals primarily use the number of SKUs when forming their assortment evaluation. In this respect, a larger assortment tends to be perceived as having greater variety. Conventional wisdom suggests that greater variety benefits consumers (Chernev, 2006). The assumption that more choice is always better is not only intuitively appealing but is also supported by numerous findings in many disciplines (Chernev, 2003a), such as decision making, social psychology and economics.

Nevertheless, a recently advanced alternative viewpoint has suggested that larger assortments do not always benefit choice (Chernev, 2003a), because they can confuse consumers, increasing the probability of delaying their choice or not choosing at all (Chernev, 2003a, 2003b; Dhar, 1997; Greenleaf & Lehmann, 1995; Schwartz et al., 2002). Indeed, there are some studies showing that retailers can eliminate a substantial number of SKUs without negatively affecting category sales (Zhang & Krishna, 2007). This is interesting, as it is known that although larger assortments might be more attractive, they also tend to diminish returns because the marginal benefits from each additional alternative tend to decrease with the increase in assortment size (Chernev & Hamilton, 2009). Therefore, and given that the increase in benefits happens at a decreasing rate, there is a point at which benefits are offset by the additional costs of evaluating all the available alternatives (Roberts & Lattin, 1991). Nevertheless, such an optimal level seems to depend on the product category under analysis, as van Ketel (2006) showed. In other words, consumers may have different thresholds or "optimal points" for different products (van Ketel, 2006).

Understanding the relationship between assortment size and category sales is particularly important for retailers. A clearer knowledge on how category sales react to a change in the number of SKUs will help retailers to better organize their assortments. In this paper, we propose an empirical estimate of assortment size

elasticities of 12 FMCG categories across five store formats. We extend prior research in the relationship between assortment size and category sales by estimating assortment size elasticities, not explicitly done by previous research. We estimate assortment size elasticities from several FMCG categories characterized using the penetration-frequency distinction developed by Dhar, Hoch, and Kumar (2001) and across store formats (hypermarket and supermarket), providing additional insights.

2 Assortment Size–Category Sales Relationship

Wroe Alderson defined the assortment concept in marketing in the early 1950s (Wind, 1977) as "a heterogeneous collection of products designed to serve the needs of some behaviour system" (Alderson, 1957:195). Assortment reflects a retailer's strategic positioning (McGoldrick, 2002) and differentiates the various formats of bricks-and-mortar retailers (Peng, 2008). Thus, a specialty retailer tends to carry a narrower but deeper assortment than e.g., a supermarket or—especially—a discounter. In this respect, few retailers offer both a very wide and very deep assortment as they are essentially limited by their resources, especially by the physical site or shelf space (McGoldrick, 2002). For example, in the context of FMCG, a hypermarket is the type of retailer offering the widest and deepest assortment.

The literature on assortment has traditionally supported the view that greater assortments benefit consumers. Thus, prior research has identified a number of benefits associated with a large assortment (Chernev, 2011). From the point of view of economic research, larger assortments offer an opportunity for a better match between an individual's preferences and the characteristics of the alternatives in the choice set (see Lancaster, 1990 for a review). In this respect, consumers might feel more confident when selecting from those retailers offering large assortments because it is unlikely that a potentially superior alternative is represented in the available choice set (Karni & Schwartz, 1977). An additional economic explanation for the greater preference for large assortments relates to the greater efficiency of time and effort involved in identifying the available alternatives in the case of one-stop shopping associated with retailers offering such larger assortments (Messinger & Narasimhan, 1997). Based on these benefits, several previous studies have found a positive relationship between the number of SKUs contained in a given assortment and sales (e.g., Cadeaux, 1999; Koelemeijer & Oppewal, 1999). Nevertheless, recent research argues that adding new options to a given assortment will have an asymmetric impact on the probability of choosing an option from that assortment (Chernev, 2011:13), depending on the category under study and the store type (Schiffman, Dash, & Dillon, 1977).

Notwithstanding, literature has recently identified a number of negative consequences of larger assortments. One possible explanation is related to the greater cognitive effort that making a choice from larger assortments may require, simply

because it involves evaluating a greater number of alternatives, attribute dimensions and attribute levels (Haynes, 2009; Iyengar & Lepper, 2000). Another explanation is related to the confusion that larger assortments may create among those consumers who are uncertain of their preferences (Chernev, 2011). Such confusion is a consequence of the larger number of attributes and/or attribute levels that must be evaluated in order to form a preference and make a choice (Dhar, 1997; Greenleaf & Lehmann, 1995). Such confusion is also increased as a consequence of the greater number of tradeoffs consumers have to make when comparing the benefits and costs of the different options (Chernev, 2003b). Considered together, these findings suggest that, in the presence of preference uncertainty, choices from large assortments can potentially lead to a lower choice probability and weaker preferences for the selected alternative (Chernev, 2006:51). Indeed, there are many papers supporting this idea. For instance, Iyengar and Lepper (2000), in the context of gourmet jams, showed that consumers were more likely to make a purchase when being presented with an assortment comprising six items than with an assortment comprising 24 items (30 % versus 3 %). Similar findings have been reported by many authors in a variety of product categories, such as consumer electronics (Chernev, 2003a), chocolates (Berger, Draganska, & Simonson, 2007; Chernev, 2003b) and mutual funds (Morrin, Broniarczyk, & Inman, 2011).

Given these contradictory conclusions, the direction of causality is one of the primary problems that researchers have to face with regard to sales—assortment size relationship. Although the above mentioned papers have examined the relationship between these two aspects, most of them use experimentation. However, this methodology is often rather inconclusive (Corstjens & Doyle, 1981); additionally, although it can be used to detect a correlation between differences in assortment size and variations of demand, it does not demonstrate the existence of a casual link between both variables.

3 Empirical Estimation of the Sales-Assortment Relationship

A sales-assortment relationship is estimated from a pooled database of 17,496 stores provided by IRI Worldwide. This number can be assumed to represent virtually 100 % of all Spanish grocery retailers. Stores are classified into two categories, namely hypermarkets and supermarkets. Hypermarkets are classified into two categories: big hypermarkets (>5,000 m^2 of surface area) and small hypermarkets (2,501–5,000 m^2 of surface area). Supermarkets are classified into three categories: big supermarkets (1,001–2,500 m^2 of surface area), medium-sized supermarkets (401–1,001 m^2 of surface area) and small supermarkets (100–1,000 m^2 of surface area). Table 1 shows the number of stores for each retailing format and geographical area.

Table 1 Grocery stores database

Spain by geographical area	# stores
(I) Barcelona Metropolitan Area	1,514
(II) North-East	2,494
(III) Central-East	2,284
(IV) South	4,084
(V) Madrid Metropolitan Area	1,467
(VI) Centrum	1,758
(VII) North-West	2,196
(VIII) North	1,735
	17,496
Store format	# stores
Small Supermarket	8,285
Medium-sized Supermarket	5,799
Big Supermarket	2,988
Supermarkets	*17,072*
Small Hypermarket	131
Big Hypermarket	293
Hypermarkets	*424*
	17,496

The database includes information gathered over 5 years (2008–2012) on weekly sales and on assortment size by category. In total, 12 categories have been analyzed (*beer*, *milk*, *yoghurt*, *bakery*, *fresh bread*, *nuts*, *coffee*, *tuna*, *toilet tissue*, *deodorant*, *freshener* and *laundry detergent*). These categories are characterized using the penetration-frequency distinction developed by Dhar et al. (2001). These authors classified categories into "high" and "low" penetration (percentage of households that purchase the category) and frequency (average number of times per year that category is purchased) (Dhar et al., 2001:170). According to both aspects, categories fall into one of four groups: (1) *staples* (high penetration/high frequency); (2) *niches* (low penetration/high frequency; (3) *variety enhancers* (high penetration/low frequency); and (4) *fill-ins* (low penetration/low frequency). The selection of product categories (and placing them in each of the four groups defined by Dhar and colleagues) has been made based on a sample of 53 categories accounting for more than 60 % of Spanish market FMCG sales. Using data on rotation and sales volume, we have ranked all 53 categories according to their levels of penetration and frequency. From such ranking we have classified product categories as follows: beer, milk and yoghurt (*staples*); bakery, fresh bread and nuts (*niches*); coffee, tuna and toilet tissue (*variety enhancers*), and deodorant, freshener and laundry detergent (*fill-ins*). In selecting such categories, we have considered the presence of food categories (the most important in the typical Spanish shopping-basket), but also of personal care and cleaning products.

We estimate regular assortment elasticity for each store and category using a demand model function linking sales to assortment size. Unit sales are used as the dependent variable, and assortment size and the lagged dependent variable as the

explanatory variables. Unit sales are most commonly used in sales response models for store-level scanner data (Blattberg & George, 1991). Assortment size is measured as the number of SKUs in the category. The use of the number of SKUs to measure assortment size is consistent with the view of previous literature (e.g., Chiang & Wilcox, 1997). The lagged dependent variable is included to capture the dynamics of sales response and to eliminate residual serial correlation (see Blattberg & George, 1991).

A log model was selected to model the response function because (1) regular assortment elasticity is directly provided by the estimated parameters; (2) it provides better fits in terms of the lowest sum of the squared error for a greater number of stores (Shankar & Krishnamurthi, 1996), and (3) the overstatement of elasticity estimates, if any, is lowest for the log form when compared to the linear form (Bolton, 1989).

Therefore, the following model is used for the sales response function for each store format and product category.

$$LS_{ijt} = \beta_{0ij} + \beta_{1ij} LAS_{ijt} + \beta_{2ij} LS_{ij(t\text{-}1)} + \varepsilon_{ijt}$$

where $i = 1,2,\ldots 12$ denotes the product category, $j = 1, 2, 3, 4, 5$ the store format, t (1,...260) the week of observation, and

LS_{ijt} = Logarithm of unit sales

LAS_{ijt} = Logarithm of assortment size in number of SKUs

β_{0ij} = Intercept term

β_{1ij} = Assortment size elasticity of the product category i, format j

ε_{ijt} = Stochastic disturbance term assumed to be independent and identically distributed normal with mean 0 and variance $\sigma^2{}_{\varepsilon ij}$

4 Results

Statistical estimates of assortment size elasticities are satisfactory as shown by the F-tests, all significant at 0.01 %. High values for R^2 are obtained, ranging from 0.024 to 0.859 for product categories and store formats (the average R^2 is 0.5737). The distribution of the assortment size elasticity for the different store formats and product categories is given in Tables 2 and 3, respectively. The average value for the assortment size elasticity is 0.2039.

Assortment size elasticities[1] for each product category and store format vary considerably from −0.138 to 0.694 (Fig. 1). Looking at the lowest values, there are a significant number of product categories with elasticities which do not differ notably from zero at 0.05 % level (4 in *big hypermarkets*, 4 in *small hypermarkets*, 3 in *big supermarkets*, 2 in *medium-sized supermarkets* and 3 in *small*

[1] The complete results on assortment size elasticities can be found in Appendix.

Table 2 Distribution of assortment elasticities across store formats

	Big hypermarket	Small hypermarket	Big supermarket	Medium-sized supermarket	Small supermarket
Mean	0.2535	0.1199	0.1382	0.3032	0.2046
Standard deviation	0.2422	0.1170	0.2015	0.2495	0.2201
Minimum	0	0	−0.1380	0	0
Maximum	0.6940	0.3850	0.6590	0.6740	0.6270

Table 3 Distribution of assortment elasticities across product categories

	Staples			Niche		
	Beer	Milk	Yoghurt	Bakery	Fresh bread	Nuts
Mean	0.0862	0.0310	0.1756	0.2582	−0.0008	0.0944
Standard deviation	0.0882	0.0693	0.0738	0.1070	0.0961	0.1032
Minimum	0	0	0.0790	0.1200	−0.1380	0
Maximum	0.1930	0.1550	0.2610	0.4150	0.1340	0.25
	Variety enhancers			Fill-in		
	Coffee	Tuna	Toilet tissue	Deodorant	Freshener	Laundry detergent
Mean	0.1642	0.1748	0.140	0.3294	0.3994	0.5946
Standard deviation	0.2329	0.0516	0.0955	0.2818	0.2885	0.1225
Minimum	0	0.1070	0	0	0	0.3850
Maximum	0.5620	0.2330	0.2680	0.6110	0.6740	0.6940

supermarkets); a share of assortment size increase does not result in any change in share of sales. These unresponsive categories cover mainly milk, fresh bread, beer, nuts and coffee. Excepting coffee, unresponsive categories are included either in the staples (beer and milk) or niche (fresh bread and nuts) categories. More surprisingly, we found a negative assortment size elasticity (−0.138) for the fresh bread category in big supermarkets. We can, therefore, assume that in big supermarkets, for fresh bread, criteria other than sales optimization are taken into account to increase the number of SKUs. In terms of store format, both hypermarkets and supermarkets show the same number (8) of elasticities which do not differ notably from zero. Nevertheless, while both big and small hypermarkets show the same number (4 each) of elasticities not differing notably from zero, there are differences in supermarket stores. Thus, we find 3 elasticities in the case of big and small supermarkets, and 2 in the case of medium-sized supermarkets.

Regarding hypermarkets, store profiles for big and small stores are very similar, as can be seen in Fig. 1. Nevertheless, the 95 % confidence level for the average comparison test for these two store types does confirm that the average assortment size elasticity for big hypermarkets is more than twice as large (0.2535 vs. 0.1199).

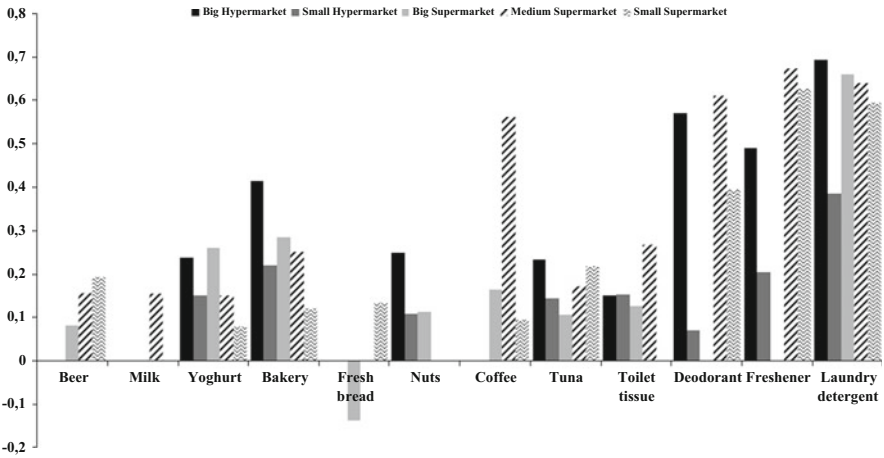

Fig. 1 Assortment size elasticities

In the case of supermarkets, average comparison tests confirm that the average assortment size elasticity for medium-sized supermarkets is the highest (0.3032). Nevertheless, the average comparison test for big and small supermarkets does not confirm the existence of differences between average assortment size elasticities between them. We can, therefore, assume that in the hypermarket format, the greater the selling surface the stronger the relationship between assortment size and category sales. By contrast, in the supermarket format, we find evidence of an inverted-U relationship between assortment size and category sales.

5 Conclusions and Managerial Implications

Our results support the positive relationship between assortment size and sales found in previous studies using experimentation. Thus, assortment size elasticities are significantly non-zero for most product categories and store formats (average assortment size elasticity is 0.2039). The two exceptions are the milk and fresh bread categories (four out of five elasticities and three out of five elasticities, respectively, which do not differ notably from zero). Nevertheless, elasticities vary greatly from one category to another as well as from one store format to another (except for big and small supermarkets), suggesting that various store and category characteristics might explain the sensitivity to assortment size.

Regarding product category, our results show that fill-in categories have the highest assortment size elasticities. The average assortment size elasticity for those product categories classified as fill-in (deodorant, freshener and laundry detergent) is 0.4411. This result indicates that increasing the number of SKUs will be most effective in those categories with a lesser percentage of households that purchase

the product and with a lower frequency. By contrast, staple categories (i.e., those categories bought frequently by a high percentage of households), have the lowest assortment size elasticities. The average assortment size elasticity for these categories (i.e., beer, milk and yoghurt) is 0.0976, which is consistent with the results of Dhar and colleagues (2001), who found that the positive effects of increasing both category breadth and depth of an assortment were only found in variety-enhancers such as pickles, niches such as cheese and fill-ins such as pancake mix, but not in staple categories. This could be a consequence of staple categories having reached saturation levels (Drèze, Hoch, & Purk, 1994). The low value we have obtained in this paper seems to confirm the limited role played by assortment as staples' sales enhancer. Niches and variety enhancers show a medium (and very similar) level of assortment size elasticities. Average value is 0.1172 (niches) and 0.1596 (variety enhancers).

All in all, our results suggest—as in the Dhar and colleagues' (2001) conclusions—that a retailer's decision to reduce assortment in staples categories is less risky, as it is expected to have little impact on sales, unlike decisions taken on niches, variety enhancers and specially, on fill-ins, where assortment size elasticities are higher.

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Appendix: Assortment Size Elasticities for Each Product Category and Store Format

		Staples			Niche		
		Beer	Milk	Yoghurt	Bakery	Fresh bread	Nuts
Big Hypermarkets	Assortment size	0.032	−0.081	0.238***	0.415***	−0.050	0.250***
	Lagged depen-dent variable	0.702***	0.271***	0.609***	0.563***	0.373***	0.577***
	Adjusted R^2	0.494	0.082	0.614	0.849	0.138	0.507
Small Hypermarkets	Assortment size	0.060	−0.003	0.150**	0.221***	−0.004	0.109*
	Lagged dependent variable	0.858***	0.177**	0.755***	0.724***	0.655***	0.622***
	Adjusted R^2	0.766	0.024	0.747	0.765	0.424	0.418
Big Supermarkets	Assortment size	0.082**	0.068	0.261***	0.284***	−0.138**	0.113***
	Lagged dependent variable	0.876***	0.480***	0.675***	0.627***	0.768***	0.853***
	Adjusted R^2	0.828	0.231	0.810	0.682	0.743	0.810
Medium Supermarkets	Assortment size	0.156***	0.155**	0.150**	0.251***	0.009	0.043
	Lagged dependent variable	0.815***	0.511***	0.690***	0.719***	0.646***	0.775***
	Adjusted R^2	0.843	0.294	0.611	0.855	0.413	0.597
Small Supermarkets	Assortment size	0.193***	−0.078	0.079*	0.120**	0.134**	0.016
	Lagged dependent variable	0.752***	0.631***	0.787***	0.810***	0.575***	0.783***
	Adjusted R^2	0.787	0.435	0.680	0.766	0.365	0.602

		Variety enhancers			Fill-in		
		Coffee	Tuna	Toilet tissue	Deodorant	Freshener	Laundry detergent
Big Hypermarkets	Assortment size	0.027	0.233***	0.151*	0.571***	0.491***	0.694***
	Lagged dependent variable	0.349***	0.511***	0.245***	0.282***	0.414***	0.183***
	Adjusted R^2	0.115	0.369	0.088	0.582	0.509	0.714
Small Hypermarkets	Assortment size	0.013	0.145***	0.154**	0.070*	0.205***	0.385***
	Lagged dependent variable	0.377***	0.765***	0.511***	0.822***	0.554***	0.543***
	Adjusted R^2	0.134	0.705	0.317	0.697	0.405	0.776
Big Supermarkets	Assortment size	0.164***	0.107**	0.127***	0.035	−0.077	0.659***
	Lagged dependent variable	0.748***	0.840***	0.822***	0.899***	0.789***	0.176**
	Adjusted R^2	0.697	0.735	0.806	0.789	0.708	0.630
Medium Supermarkets	Assortment size	0.562***	0.172***	0.268***	0.611***	0.674***	0.640***
	Lagged dependent variable	0.252***	0.744***	0.276***	0.369***	0.316***	0.319***
	Adjusted R^2	0.520	0.676	0.187	0.820	0.820	0.849
Small Supermarkets	Assortment size	0.095*	0.217***	0.021	0.395***	0.627***	0.595***
	Lagged dependent variable	0.713***	0.724***	0.300***	0.586***	0.354***	0.366***
	Adjusted R^2	0.488	0.750	0.082	0.787	0.630	0.859

*Significant at 0.05 level; **significant at 0.01 level; ***significant at 0.000 level

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The Competition Effects of Lookalike Private Label Products

Paul W. Dobson and Li Zhou

Abstract This paper considers the competition effects of lookalike products, which seek to mimic the packaging, design and appearance of leading brands. Such products, most notable in the fast-moving-consumer-goods (FMCG) sector, are particularly associated with items promoted by retail organizations as part of their private-label programmes. The market power and control over the supply chain which the major retailers now enjoy means that by developing lookalike products they may have the opportunity to exploit unfairly and anti-competitively the image and goodwill that brand manufacturers have developed through careful and continual product and marketing investment. This, in turn, could distort the way and the extent to which manufacturers compete, enhance retailer control over the supply chain. In the process, this could undermine manufacturer branded goods which smaller retailers traditionally rely on, thus weakening their competitive position and resulting in further concentration of retail markets and less choice of store types and product varieties for consumers. The continuing absence of a rapid and effective legal remedy to prevent the rewards from brand investment being misappropriated by imitators means that such action will likely continue, with the upshot that manufacturer and retailer competition may be distorted to the detriment of consumer welfare and the public interest.

Keywords Lookalike products • Private label • Brands • Retailers • Market power • Consumer welfare

This paper revises and updates a previously titled paper by Dobson (1998b) ("The Competition Effects of Look-alike Products", University of Nottingham Business School Discussion Paper, No. 1998: VI, 1998).

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1 Introduction

Branding, which allows products to differentiate themselves from one another, can offer significant economic benefits in providing consumers with consistently high product quality and increased variety or customization. However, concern about damage to brand investment and goodwill with consumers has arisen from the arrival of lookalike products, which seek to mimic the packaging, design and appearance of leading brands (d'Astous, & Gargouri, 2001; Miaoulis & d'Amato, 1978; van Horen & Pieters, 2012). Such products, most notable in the fast-moving-consumer-goods (FMCG) sector, are particularly, though not only, associated with products promoted by retail organizations in the later stages of the evolutionary life of their private-label programmes (Kumar & Steenkamp, 2007; Phillip, Gibson, & Freeman, 2013). The temptation to avoid the considerable product and promotion investment necessary in establishing a new brand, while generalizing the quality or functionality of leading brands through exterior similarity, has led to a proliferation of copy-cat products, typically where retailers have sought to re-position private-label goods upmarket to imitate the leading brands (Hyman, Kopf, & Lee, 2010).

The issue of lookalikes has an intellectual property rights dimension to protect and encourage investment (Wadlow, 2011). However, law and regulations to deter unfair competition from imitating brands are weak in most countries. For example, in the UK, lawsuits around copycat trade dress are traditionally judged under the law of passing off, which requires establishment of three elements in order to proceeding a conflict in court: (1) distinctiveness of the trade dress of the original brand, (2) the likelihood of consumer confusion, and (3) actual damage caused by this confusion.[1] These three elements are notoriously difficult to establish, especially the third one.

Given the key concern of trademark infringement litigation centres on consumer confusion, research has focused on three key aspects: (1) demonstrating potential brand confusion caused by high similarity lookalikes (Howard, Kerin, & Gengler, 2000; Miaoulis & d'Amato, 1978; Warlop & Alba, 2004); (2) testing consumers' confusion propensity (d'Astous & Gargouri, 2001; Falkowski, Olszewska, & Ulatowska, 2014; Walsh, Hennig-Thurau, & Mitchell, 2007); (3) conceptualizing and measuring such confusion empirically (Kapferer, 1995; Walsh & Mitchell, 2005). Underlying this research is the basic belief is that the more similar the lookalikes are to national brands, then the stronger the likelihood of brand confusion and the stronger the positive evaluation that consumers would rate the lookalikes, in turn causing greater damage toward original brands (Howard, Kerin, & Gengler, 2000; Warlop & Alba, 2004). However, more recent research also suggests that compared to blatant and highly similar lookalikes, subtler and moderately similar lookalikes can be more easily accepted by consumers (van Horen & Pieters, 2012). When evaluation takes place comparatively, moderately similar copycats are

[1] For details on the legal position in a range of countries and a wide array of examples, see Phillip et al. (2013).

actually evaluated more positively than strongly similar copycats, especially when the leader brand is present rather than absent. This suggests that consumers react negatively to strong lookalikes when comparisons are direct and stark, being sensitive to the issue of not wishing to be duped or misled and aware of a deliberate intention to imitate. Nevertheless, outside of a laboratory experiment setting, in real shopping situations where purchase decisions are made in an instant on the basis of snap judgments, strong lookalikes still have the opportunity to attract consumers and, without care, could be mistaken for their brands they blatantly imitate.

While much of the literature has focused on these intellectual property aspects and the consumer psychology in buying lookalikes, this paper seeks to address the more neglected competition aspects of lookalikes and how they impact on competition at the manufacturing and retailing levels as well as ultimately on consumers in respect of the product choices, quality and prices on offer to them. The intention here is to provide a broad competitive perspective, looking at the effects of lookalikes on vertical competition between manufacturers and retailers, and the terms of trade, as well as on horizontal competition respectively amongst manufacturers and amongst retailers. This is still a nascent area of research and there remains significant scope for both further theoretical and empirical research.

2 The Effect of Lookalikes on Manufacturer Competition

Manufacturers develop brands as a means of differentiating their products from those of rivals, where the reward from the risky investment in undertaking innovative and promotional activity is the competitive advantage of having a product on the market which has a loyal consumer base (primarily for items bought on a recurring basis) (e.g. Anselmsson & Johansson, 2009). However, the proliferation of lookalike private label products, packaged very similarly to established branded goods, poses a threat to this healthy manufacturer competition directly in various ways: (1) revenue squeeze, (2) brand dilution, (3) innovation reduction, (4) packaging change waste, (5) secondary brands elimination, and (6) diversion of advertising (e.g. Phillip et al., 2013).

The source of these lookalikes is principally associated with large multiple retailers, though other manufacturers and importers may also be sources (British Brand Group, 2012). In particular, lookalikes have arisen where the major retailers have sought to position some private labels as a direct target to the leading manufacturer brands, drawing on the quality association and in effect free-riding on manufacturer brand investment for innovation and marketing (Morrin, Lee, & Allenby, 2006). Revenue is then taken from the branded goods manufacturer where uninformed or inattentive shoppers confuse the two products, i.e. the brand and the imitator, and purchase the lookalike by mistake (or they might recognise the different packaging but assume that the goods are otherwise identical and made by the same manufacturer) (Falkowski et al., 2014; van Horen & Pieters, 2012; Zaichkowsky, 2006). Thus the brand innovator is deprived of its returns to

undertaking risky investment and its reputation, and thereby its sales, may suffer when consumers assume that the branded good and its look-alike are made by the same manufacturer whereas the quality of the look-alike turns out to be poor (Walsh & Mitchell, 2007).

The result is that the brand manufacturer is likely to suffer disproportionate brand dilution, either in the form of blurring its distinctive characters or tarnish its reputation, over and above what would be the effect from normal competition (Morrin et al., 2006; Pulling, Simmons, & Netemeyer, 2006). In order maintain the distinction from lookalikes and stay ahead, branded manufacturers are forced to re-design their packaging constantly, which may cause wasted cost in "over-innovation" (Dobson & Yadav, 2012). Furthermore, unlike the size and scale advantages and financial deep pockets that the main retailers possess, the smaller or more specialized brand manufacturers may lack such ability, being unable to finance and resource the continual innovation required for their packaging redesign or product reformulation, to compete effectively with lookalikes. Moreover, by controlling the choice of products stocked, the retailers can favour their lookalike private labels over the brands, even the extent of delisting them and removing them from their store shelves, making harder for these smaller brand manufacturers to survive with the loss of sales and loss of scale economies.

It should be emphasized, though, that the problem of lookalikes is not a problem of retailer private labels per se. Firstly, private labels can be distinctively packaged and distinctively marketed, and can represent genuine good value for consumers. Secondly, lookalikes are not necessarily at the instigation of retailers, but also come from other manufacturers and importers. Nevertheless, the market power and control over the supply chain which the major retailer now enjoy means that, by developing lookalike products (rather than distinctively presented private labels, which they are clearly capable of generating), they are best placed to exploit unfairly and anti-competitively the image and goodwill that brand manufacturers have developed with consumers through careful and continual product and marketing development (e.g. Richards, Hamilton, & Patterson, 2010).

Research shows that in a product category where there exists a stand-out leading brand, which has a high market share and brand awareness, private labels may well be better off positioning their products close to the leading brand, for the sake of consumer acceptance, drawing away sales from this brand and increasing the retailer's negotiating position with the brand manufacturer (Ailawadi & Keller, 2004; Kumar & Steenkamp, 2007; Sethuraman, 2004). There is less incentive to mimic a particular brand when the market is more shared by various brands, and it might be better for the retailer to position private label more distinctly in its packaging as a point of differentiation and serving latent demand (Richards et al., 2010; Sayman, Hoch, & Raju, 2002).

With their size and scale and general expertise in developing private labels across multiple product categories and having generally flexible relationships with suppliers, retailers can respond quickly to new product developments to produce lookalikes shortly after new branded products are introduced (Dobson & Chakraborty, 2009; Fousekis, 2010). This ability greatly cuts the time for which a

branded goods manufacturer can recoup its investment arising from the novelty of its product in consumers' minds before private label imitations appear and take sales away. These free-riding trends may ultimately reduce the quality and variety of goods available to the consumer. However, different from taking litigation action against each other when manufacturers spot trademark infringement, they are reluctant to legally fight against the retailer copycats, in the fear of being delisted or losing shelf space (Sethuraman & Raju, 2012).

The net result is that effective consumer choice is likely to be reduced as the number of brands diminishes, in particular where support for secondary brands is taken away, reducing inter-brand competition to the point where only the leading brands survive through continuous new product and packaging design to take on own-label goods. The decline in secondary brands, in a number of product categories in the major stores, suggests that this trend is already emerging (e.g. Davies & Brito, 2004). Nevertheless, little empirical evidence has been yielded to prove such negative effects to date on a general scale behind particular instances.

3 The Effect of Lookalikes on Retail Competition

Top branded FMCG products have extensive above- and below-the-line marketing support which helps create a carefully crafted brand image. The image may be of quality, performance or even a lifestyle associated with the product (Ferraro, Kirmani, & Matherly, 2013). By putting private label products in similar packaging, retailers hope to become associated with this brand image. Most importantly it may provide a signal to consumers to reduce their uncertainty, which acts as a central role at the very beginning of consumer choice (Kirmani & Rao, 2000). Clearly any strategy to improve quality perception will be of importance to retailers and imitation rather than innovation may be the preferred soft option when it comes to developing private label goods, made all the more easy by the weakness of existing legislation to protect against pirating product design and packaging features (Hyman et al., 2010; Phillip et al., 2013; van Horen & Pieters, 2013).

In developing lookalikes rather than distinctively packaged private labels, retailers are driven partly by the pure profit motive of avoiding the costs of establishing a new brand, but also by the competitive motive that mimicking may improve the quality perception of their own label goods and hence their perceived retail offer relative to rival retailers (Sayman et al., 2002). Thus even though innovative and distinctive private label products may be developed, retailers may for certain product categories turn to developing lookalikes when rewards to this route are more lucrative and less risky than developing more original products (Dobson & Chakraborty, 2009; Fousekis, 2010). The clearest gains to imitation are likely to accrue to those retailers which have extensive private label programmes, and so have a ready pool of suppliers able to imitate brand design, yet rely on stocking key brands to attract consumers to visit the store (Hyman et al., 2010). Category management can then come into play, recognising that the placement and

arrangement of products within a store can have significant effects on the purchasing behaviour of consumers (Chandon, Hutchinson, Bradlow, & Young, 2009). In this situation, retailers can use product placement and arrangement, through the allocation of shelf-space, as well in-store promotion, to direct consumers to lookalikes in certain product categories and then use their control over retail prices, and perhaps deliberate stock-outs, to steer demand away from the relevant branded goods and in the process present the illusion of offering consumers better value for money (Dobson & Chakraborty, 2009; Richards et al., 2010).

In contrast, small retailers, with insufficient demand for private label production to be viable, are reliant on brands but at the same time they cannot negotiate prices as low as major retailers, and the costs of brands are increased by displacement by lookalike sales (when economies of scale are lost) (Bontemps, Orozco, & Réquillart, 2008). Specifically, lower demand may mean that the costs of production of brands rise, as there are fewer units of output over which to spread fixed and output indivisible costs such as advertising (Fabian, Philippe, & Vincent, 2004). Thus their competitive position is weakened vis-a-vis the large store groups, so reducing effective inter-retailer competition. Moreover, this competition may be further diminished if large retailers use lookalikes in a predatory manner (i.e. where prices are set close to or below cost in order to predate smaller retailers) (Bontemps, Orozco, Réquillart, & Trevisiol, 2005). Ultimately, the reduction in the number of retailers gives that remain enhanced market power and the opportunity to raise prices.

These effects on reducing inter-retailer competition need also to be put into the broader context of diminished retailer competition as a consequence of reduced consumer search activity across different stores where one-stop-shopping has become the norm; with store loyalty taking precedence over brand loyalty (London Economics, 1997). One consequence is that consumers' switching costs may then be sufficiently high that they would rather purchase lookalikes if the (original) brand is unavailable than go to a different store. Apart from the implications for branded manufacturers' returns to advertising and their overall sales, this raises the possibility of deliberate stock-outs by retailers in an attempt to induce consumers to switch to private label lookalike products. This is credible because consumers in most part visit stores to purchase a wide variety of products, not just a single branded good, and the greater the store loyalty the less likely consumers are to switch stores in search of any particular brand in response to price promotions or stock-outs (Dobson, 1998a). More generally it points to the market power which large retailers now possess, enabling them to set prices which allow for considerable retail margins and profits to be earned in the absence of vigorous competition (Dobson & Chakraborty, 2009; Fousekis, 2010).

4 The Overall Effect on Consumers and Societal Welfare

The imitation of branded goods remains a contentious (and litigious) area, given the scale of rewards involved, and the implications regarding how close producers may copy the character, design and packaging aspects of leading brands. Lookalikes go beyond drawing on simple visual cues associated with colours and shapes of existing brand packaging to mimic and thereby undermine the essential distinguishing features associated with the brand and its packaging, falling short of blatant reproduction but plagiarising the brand's trade dress (Miceli & Pieters, 2010; van Horen & Pieters, 2012). Furthermore, lookalikes do not arise by accident but are created deliberately with the intention of free-riding on investments undertaken by brand producers (Sethuraman, 2004). In response, brand owners will only invest in their brand if they are fairly sure of their ability to reap the reward from their investment, but if this is no longer so then manufacturers will become much less willing to make the necessary investments (Davies & Brito, 2004). For instance, in research conducted by Wilke and Zaichkowsky (1999), among the 30 companies investigated, 19 had been imitated by retailers, but only 9 firms (these firms were reported to have previously success experience in similar litigation) initiated legal action. In the long term, brands may become undermined to the extent that may disappear if they earn insufficient returns.

Without branded goods widely stocked across the retailer class, though, there will be significantly reduced inter-retailer competition adversely affecting consumer welfare, where price rivalry may be dampened and retailers concentrate on non-price methods of increasing store loyalty, raising consumers' switching costs and therefore reducing the elasticity of their own-label products (Bontemps et al., 2005). To a certain extent moves towards this situation are already occurring. Brands, and in particular secondary brands, are squeezed by private labels and lookalikes by a combination of factors. Notably, branded manufacturers' margins are pressurised at the wholesale level by the retailers' market power, reducing their ability to invest in products and process. This effect is compounded by private label and non-price promotions increasing store loyalty but diminishing individual brand loyalty (Kumar & Steenkamp, 2007). The result is that retailer competition is dampened, as shopping-around for groceries and other FMCGs diminishes, to the detriment of consumer and societal welfare.

Thus in the short term the introduction of look-alikes is in consumers' interests, as they gain the same level of product development and marketing but pay a premium price for a shorter period, in the long term it can be detrimental. Observing the swift introduction of imitations, brand manufacturers may either reduce the level of investment or continue to develop new aspects to products more quickly. The former reduces consumer welfare as the quality of products is less than without imitation (if quality is seen as a function of advanced development) and the variety is likely to be lower as fewer manufacturers engage in development, where in particular secondary brands may disappear. Alternatively, particularly for the leading brands, manufacturers may fight to maintain their position by continually

revising product design and re-packaging.[2] This simply leads to socially excessive product development, a waste of resources and therefore lowers overall welfare where manufacturers are effectively pushed into rent-seeking behaviour to keep one step ahead of imitations. However, the present absence of rapid and effective legal remedy to prevent the rewards from brand investment being misappropriated by imitators means that such action will continue, in the process serving to distort manufacturer and retailer competition to the detriment of the public interest.

At present, there are limited legal remedies to prevent retailers developing lookalikes that fall short of being replicas or obvious imitations of established brands. Few FMCG products are protected by patents, and other than trade marks on brand names and logos, retailers have plenty of scope to develop very close lookalikes. For a brand manufacturer, the retailer is both its "customer" and its "competitor" when it develops, markets and sells private label goods (Dobson & Chakraborty, 2009). This "double agent" role gives the retailers consider leverage over brand producers and makes them reluctant to take legal action or threaten to boycott the retailer, which will simply result in lost sales and lost economies of scale. Faced with only limited options for retaliation, there is often little that brand producers can do to prevent their investments being undermined and competition being distorted and harmed by private label lookalikes. Ultimately this will be bad for consumers when it reduces product choice, undermines investments in quality, and raises prices when retail power increases and retail markets become more concentrated over time. As well as offering scope for further academic research, this consumer welfare aspect an onus on competition authorities to understand better the competitive dynamic taking place in these markets and ensure that competition at both manufacturer and retailer level is protected to the greater good of consumers.

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[2] For instance, Dobson (1998b) points to a notable case where following the introduction of a series of lookalike products resembling the cleaning product Flash in 1986, and after inconclusive court proceedings, Procter & Gamble re-packaged their product in 1992. This in turn was mimicked within 1 year. Further new packaging was introduced by P&G in 1994, again to be mimicked—for the third time. Similar tacking can be spotted when examines another P&G product—Head and Shoulders.

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How Assortment Composition Affects Consumers' Intentions to Buy PL

Juan Carlos Gázquez-Abad and Francisco J. Martínez-López

Abstract Recent professional publications show that national brand (NB) delistings are not uncommon in food retailing. However, retailers' boycotts of individual brands might have negative consequences. This paper analyses how offering an 'only-Private label (PL)' or 'PL and NB' assortment influences consumers' intentions to buy PL. Our research is based on a controlled online experiment with a large existing consumer panel in the American market owned by IRI Worldwide. Our results suggest that both the number of NBs and the proportion of high-equity NBs contained in a given assortment are aspects of interest for retailers to take into account when designing their product offer.

Keywords Assortment • Private label • National brands

1 Introduction

Private labels (PLs) in the consumer packaged goods (CPG) industry have experienced an intense worldwide surge in availability and market share in recent years (Ailawadi, Pauwels, & Steenkamp, 2008), emerging as fierce competitors of national brands (Lamey, Deleersnyder, Steenkamp, & Dekimpe, 2012). To be specific, PL has increased its share across Europe with a value share of 35.6 % and a unit share of 45.1 %. Value shares vary from 16.8 % in Italy to 50.5 % in the

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UK (IRI, 2012a). In the US, PLs have outperformed national brands in 11 of the last 12 years in terms of sales growth (Lamey and colleagues, 2012). Currently, PLs account for 17.1 % of total CPG consumption (14.4 % value share) (IRI, 2012b).

As the above figures indicate, the number of national brands has been reduced in favour of PLs (Olbrich & Grewe, 2013). In this regard, PLs have gained market share over national brands, and there appears to be no end in sight (Lamey et al., 2012:1). Why do retailers want to expand their PLs? Ailawadi and colleagues (2008) indicate three main reasons: (1) higher retail margins on PL; (2) negotiating leverage with national brands, and (3) higher consumer store loyalty. On top of these incentives, retailers have found an "ally" in the current global economic crisis. According to IRI (2012b), nearly half (47 %) of consumers buy more PL today than they did before the economic downturn began.

The global economic slump has additionally accelerated the underlying long-term shift in power from manufacturers to retailers (Berg & Queck, 2010). Retailers' control over brand assortment and positioning on the shelves enables them to delist a manufacturer brand if their demands are not matched (Bloom & Perry, 2001). There are many examples in recent practitioner publications indicating that manufacturer brand delistings are not uncommon in the CPG industry (Sloot & Verhoef, 2008). *Walmart* cut big brand names Hefty and Glad from its food storage shelves in favour of its own Great Value brand. The two big brands only managed to get their shelf space back when Hefty increased its advertising more than sevenfold and agreed to produce *Walmart*'s own private label brand (Kelemen, 2012:2). Likewise, Glad increased its advertising spending by 58 % in 2009 (Consumer Goods Technology, 2010). The former Dutch food retail chain *Edah* decided to delete 2,000 manufacturer brand items prior to introducing 1,000 store brand items. In December 2008, the Spanish retailer *Mercadona* (in terms of retail space, the largest food retailer operating in Spain) delisted almost 800 items from several manufacturers, including Nestlé and Sara Lee, together with other important Spanish high-equity brands such as Calvo, Pascual and Vileda.

Boycotts of individual brands in retailing may have negative consequences, such as lower customer satisfaction or increased store switching behaviour. Indeed, many of the abovementioned retailers were forced to reintroduce these national brands (accepting the conditions of the manufacturer) in order to prevent consumer boycotts and further damage to their image (Sloot & Verhoef, 2011). Such was the case of the Dutch chain *Edah* and the Spanish retailer *Mercadona*.

This does not bode well for PLs. Why might assortments containing no manufacturer brands be expected to have negative consequences? One important argument which has been put forward in the literature is that a "complete" assortment is one that carries most available brands and in which all well-known brands are available (Sloot & Verhoef, 2008). Consequently, consumers will view an assortment in which all manufacturer brands have been delisted as incomplete. Thus, it would be reasonable to suggest that delisting national brands could harm the image and store sales of a retailer.

This paper aims to shed light on these issues by analysing the potential negative consequences of a retailer's decision to delist all NBs, offering an assortment based only on its own PL, or a significant number of NBs. In particular, we consider the

consequences on intentions to buy PL. Our empirical analysis focuses on an experiment conducted in the US. In this country, PL accounts for 14.4 % of CPG dollar sales and 17.1 % of its units (IRI, 2012b). Although PL share of CPG dollar sales increased slightly during 2012, unit sales slipped (−0.2 %) for the second consecutive year. PL sales remain quite concentrated, and even the heaviest buyers of PL allocate only one out of every four CPG dollars to PL solutions.

2 Research Framework

From the consumer's perspective, assortment plays a key role in store choice (Briesch, Chintagunta, & Fox, 2009) and retail patronage (Pan & Zinkhan, 2006). In this context, customers expect retailers to offer the right mix of items. However, what constitutes the "right mix of products" remains unclear for most retailers (Bauer, Kotouc, & Rudolph, 2012). From the retailer's perspective, there are obvious benefits in emphasising its own brand (Altintas, Kiliç, Senol, & Isin, 2010): (1) control is gained over shelf space; (2) negotiating power over manufacturers is strengthened, and (3) the number of NBs on the shelves is reduced, thereby releasing shelf space to sell the retailer's PL.

Nevertheless, from a consumer's perspective, a "complete" assortment might be one that carries most available brands (number of brands) and in which all well-known, high-equity brands are available (Sloot & Verhoef, 2008). Oppewal and Koelemeijer (2005) support this idea when suggesting that a manufacturer brand's presence may enhance consumers' overall perception of both assortment appeal and the variety offered by the store. According to this view, retailers cannot push PLs too much at the expense of NBs, since the latter continue to be major traffic builders, and therefore reducing their presence might make the store less attractive to its most profitable shoppers (Ailawadi & Harlam, 2004). In general, NB rivals are (still) perceived as being more similar to one another than to PLs (Geyskens, Gielens, & Gijsbrechts, 2010). This leads consumers to a higher willingness to pay for NBs (Steenkamp, van Heerde, & Geyskens, 2010). Furthermore, consumers are still reluctant to choose PLs for reasons associated with social acceptance (Zielke & Dobbelstein, 2007). Therefore, most retailers need branded goods to differentiate themselves from competitors (Ailawadi et al., 2008). However, although delisting NBs can benefit a retailer's operational costs by reducing SKUs, inventory costs and out-of-stock situations (Wiebach & Hildebrandt, 2012), customers could also move to competing stores when they feel that a retailer is favouring its own brands over the NBs more than other retailers do. Recently, *Walmart* experimented with a reduced assortment structure, with only one top national brand and their own PL brand in a specific category, but their customers backlashed against it (Dass & Kumar, 2012). Their store-level sales in the category dropped by 40 %, forcing the retailer to revert back to its original assortment composition policy (CNN, 2010).

Given these arguments, negative consequences are expected for those retailers delisting all national brands in a given assortment and offering, thereby opting for an 'only-PL' assortment. Delisting national brands and the impact this has on consumer reactions has been examined by Sloot and Verhoef (2008) and Wiebach and Hildebrandt (2012). Sloot and Verhoef (2008) analyse the behavioural consequences (in terms of store switching intention and brand switching intention) of a (primary) brand delisting in 16 different stores and 10 product categories. Their results show that many consumers are brand loyal, but only a small proportion will cancel their purchase if their preferred brands become unavailable. Additionally, they found empirical support for the negative impact of delisting high market share brands on category sales and store choice. Wiebach and Hildebrandt (2012) further developed four separate studies, in which they used a context theory to test the effects of delisting on the shifts in brand choice shares. Their results provided evidence that context effects emerge in situations when brand items are removed. Thus, Wiebach and Hildebrandt (2012) revealed that removing "dominated", "similar" or "extreme" alternatives from the shelf affects the choice shares of the remaining brands in a theory-based predictable way. The so-called "similarity effect" supports the fact that introducing a higher number of high-equity, premium quality NBs decreases the utility of similar products, namely, other similar NBs (Geyskens et al., 2010).

3 Data and Variable Operationalisation

Figure 1 shows the framework that guides our research. 1,400 individuals belonging to a large existing consumer panel in the US owned by *IRI Worldwide*[1] participated in a controlled online experiment. These individuals (73 % female, 27 % male) ranged in age from 24 to 79 (average of 52.9). In the experiment, we manipulated two aspects of assortment variety, namely assortment size and assortment composition. With regard to the former, all participants were provided with one of three different assortment sizes (One brand: only PL; four brands; and ten brands).

Regarding assortment composition, assortment conditions included only PL—this is the case of assortments that only contain one brand—and PL and manufacturer brands. Additionally, in the latter condition, assortment varied according to the equity of the PL (high-equity PL vs. low-equity PL) and the proportion of high- and low-equity national brands (one-third or two-thirds high-equity national brands). Therefore, the ten assortments were the following:

1. (1 brand) High-equity private label (PL)
2. (1 brand) Low-equity PL
3. (4 brands) High-equity PL + 3 National brands (NBs) (one-third high equity)

[1] More details about the composition of the panel are available from the corresponding author upon request.

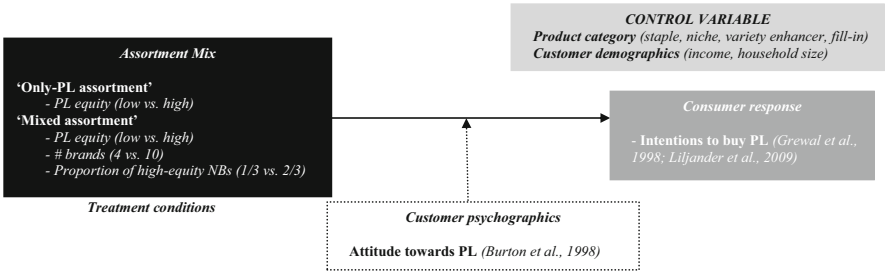

Fig. 1 Research framework

4. (4 brands) High-equity PL + 3 NBs (two-thirds high equity)
5. (4 brands) Low-equity PL + 3 NBs (one-third high equity)
6. (4 brands) Low-equity PL + 3 NBs (two-thirds high equity)
7. (10 brands) High-equity PL + 9 NBs (one-third high equity)
8. (10 brands) High-equity PL + 9 NBs (two-thirds high equity)
9. (10 brands) Low-equity PL + 9 NBs (one-third high equity)
10. (10 brands) Low-equity PL + 9 NBs (two-thirds high equity)

Participants were randomly assigned to the conditions. The final number of participants per assortment type was 35 subjects. Given that the experiment was conducted in four product categories, the total number of participants per assortment condition was 140. The experiment was conducted in four product categories: (1) *yoghurt*; (2) *fresh bread & rolls*; (3) *laundry detergent*, and (4) *toilet tissue*. These categories are characterised using the penetration-frequency distinction developed by Dhar, Hoch, and Kumar (2001). These authors classified categories into "high" and "low" penetration (percentage of households that purchase the category) and frequency (average number of times per year category is purchased) (Dhar and colleagues, 2001:170). According to both aspects, categories fall into one of four groups: (1) *staples* (high penetration/high frequency); (2) *niches* (low penetration/high frequency; (3) *variety enhancers* (high penetration/low frequency); and (4) *fill-ins* (low penetration/low frequency). The selection of product categories (and their inclusion in each of the four groups defined by Dhar and colleagues) was made from a sample of 53 categories that account for more than 60 % of FMCG sales in the US market. Using data on rotation and sales volume, we ranked all 53 categories according to their levels of penetration and frequency. From this ranking we selected the following four product categories: *yoghurt* (staples); *fresh bread & rolls* (niches); *toilet tissue* (variety enhancers), and *laundry detergent* (fill-ins). With the selection of these categories, we ensured that there were two food categories (the most important category in Americans' shopping baskets), but also personal care and cleaning product categories. Within each condition, the brands (both PL and MB) presented were classified (high equity vs. low equity) and selected according to their market share in the US and the rating

Table 1 Mean (std. deviation) of IBPL (average) per assortment type (pooled data)

Assortment composition		IBPL (1–7 scale)	
'Only-PL'	High-equity PL	3.95 (2.052)	3.875 (2.0804)
	Low-equity PL	3.8 (2.113)	
4 brands	High-equity PL & one-third high-equity NBs	3.819 (2.1227)	3.6417 (1.9834)
	High-equity PL & two-thirds high-equity NBs	3.4738 (1.8604)	
	Low-equity PL & one-third high-equity NBs	3.7762 (2.1148)	
	Low-equity PL & two-thirds high-equity NBs	3.4976 (1.8114)	
10 brands	High-equity PL & one-third high-equity NBs	3.0738 (2.1951)	3.2244 (2.0035)
	High-equity PL & two-thirds high-equity NBs	3.3262 (2.026)	
	Low-equity PL & one-third high-equity NBs	3.1786 (1.852)	
	Low-equity PL & two-thirds high-equity NBs	3.319 (1.9353)	
F-value (significance)		3.129 (0.001)	11.435 (0.000)

given by the owners of the consumer panel to each brand.[2] After viewing an online presentation of the assortment[3] respondents filled out a questionnaire that assessed several aspects.

3.1 Dependent Variable: Intentions to Buy the PL

For the purpose of this study, the dependent variable is the consumer's intention to buy the PL (*IBPL*). We used a three-item, seven-point scale adapted from Grewal, Krishnan, Baker, and Borin (1998), and Liljander, Polsa, and van Riel (2009). The average IBPL scores are shown in Table 1.

Our results show that the larger the number of brands (1, 4 or 10 brands) in a given assortment, the lower the IBPL ($F = 11.435$, $p < 0.000$), as shown in Fig. 2.

3.2 Moderating and Control Variables

Attitude towards the PL (APL) is included as a moderating variable. It was measured adapting the scale originally proposed by Burton, Lichtenstein, Netemeyer, and Garretson (1998). A positive relationship between the consumer's attitude towards store brands and his/her intention to buy such a brand is anticipated. In addition, product category is included as a control variable. Given that there are four categories, three *dummy* variables also had to be included in the equation. Laundry detergent was selected as the reference, because it is the 'fill-in' category (low penetration/low frequency). Finally, two demographic variables were

[2] They rate brands by indicating the perceived consumer preference.

[3] Details about assortments are available from the corresponding author upon request.

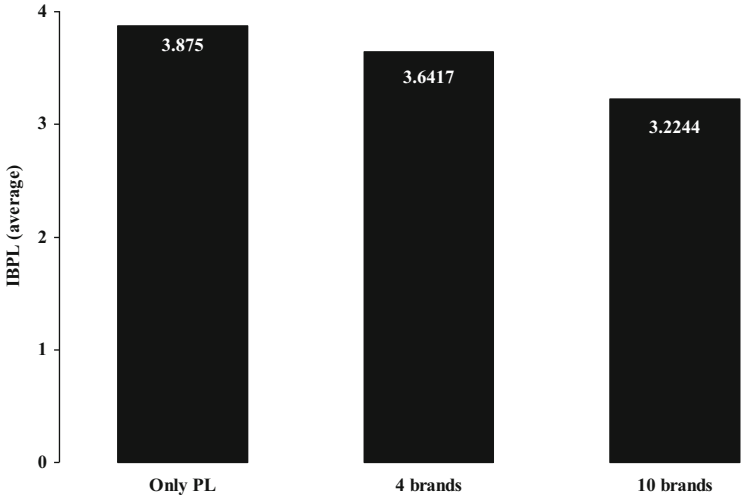

Fig. 2 Average IBPL for 'only-PL', four and ten brands assortments

considered as control variables: income and household size. These variables have traditionally been found to be very relevant when explaining consumers' PL purchasing behaviour (Ailawadi, Neslin, & Gedenk, 2001).

3.3 Treatment Conditions

As indicated above, there were three different assortment sizes (1 brand, 4 brands and 10 brands). Thus, we may differentiate between two groups of assortments: (a) only-PL assortment, and (b) PL and NB assortment. While in the former there is only one attribute (PL's equity) of two levels (high-equity and low-equity), in those assortments including a mix of PLs and NBs, there are three attributes (PL's equity, # of brands, and proportion of high-equity NBs) of two levels each. Attributes and their levels are shown in Table 2.

For the 'only-PL' assortments, there is one attribute of two levels; therefore, only two scenarios are defined. For the 'mixed assortments', with three factors of two levels each, the number of possible scenarios is $2^3 = 8$. In this case, we also included two-factor interactions and the three-factor interaction. The design matrix is shown in Table 3.

Prior to estimating the model, in view of the correlation between the independent variables, we checked a possible multicollinearity in our data to avoid undesired effects. We also computed the variance inflation factors and found that all are less than 3.148, which is clearly below the recommended level of 6. Therefore, multicollinearity may not affect our estimation results (Hair, Anderson, Tatham, & Black, 1998). Table 4 shows the results of the regression models for both 'only-PL' and 'PL and NB' assortments.

Table 2 Conjoint attributes and corresponding levels

Attribute	Levels
# Brands[a] (C)	+1 Ten brands −1 Four brands
PL's equity (D)	+1 High-equity −1 Low-equity
Proportion of high-equity NBs[a] (N)	+1 Two-thirds of the total number of NBs −1 One-third of the total number of NBs

[a]Only for those assortments comprising both PL and NBs

Table 3 Design matrix

Scenario	# brands (C)	PL equity (D)	Proportion of high-equity NBs (N)	CD	CN	DN	CDN
(1)		−1					
(2)		+1					
(3)	+1	−1	−1	−1	+1	−1	+1
(4)	+1	−1	+1	−1	−1	+1	−1
(5)	−1	−1	−1	+1	+1	+1	−1
(6)	−1	−1	+1	+1	−1	−1	+1
(7)	+1	+1	−1	+1	−1	−1	−1
(8)	+1	+1	+1	+1	+1	+1	+1
(9)	−1	+1	−1	−1	−1	+1	+1
(10)	−1	+1	+1	−1	+1	−1	−1

As shown in Table 4, consumers are more likely to buy PL, as their attitude towards this type of brand is more positive. This relationship is stronger for 'only-PL' assortments than for 'mixed' assortments (0.564 vs. 0.495). With regard to 'only-PL' assortments, it is worth highlighting that the PL's equity does not have any direct or moderating influence on IBPL. Thus, the influence of 'only PL' assortments on IBPL does not depend on the brand equity of the PL. In addition, the higher the number of household members, the stronger the IBPL (0.189; $p = 0.027$). Household size also shows a significant and positive relationship with IBPL for 'mixed' assortments (0.091; $p = 0.039$). With respect to those assortments containing both PLs and NBs, we observed that the number of brands has a significant (negative) influence on IBPL (−0.091, $p = 0.000$). This can be seen in Fig. 3. For those assortments containing ten brands (PL and nine NBs), the consumer's IBPL is 9.1 % lower than for those assortments with four brands (PL and three NBs).

Additionally, the number of brands has an indirect influence on IBPL through the interaction between this factor and the proportion of high-equity NBs (0.052; $p = 0.039$). Following the same argument represented in Fig. 3, the interpretation is that for those assortments containing four brands (with at least one-third high-equity NBs) or those with ten brands (with at least two-thirds high-equity NBs), the consumer's intention to buy PL is lower (5.2 %). Finally, our results suggest that the higher the income level, the lower the IBPL. This is in accordance with previous literature relating PLs to economic restrictions (see, for example, Ailawadi and

Table 4 Estimation results

'Only-PL' assortment	Std. beta	*p*-Value[a]
PL's equity (D)	0.021	0.253
Attitude towards PL (APL)	**0.564**	**0.000**
D × APL	0.012	0.253
Income level	−0.048	0.575
Household size	**0.189**	**0.027**
Yoghurt	0.001	0.984
Fresh bread	0.083	0.160
Toilet tissue	−0.042	0.484
F-value (significance)	**20.238 (0.003)**	
R^2 (adjusted)	**0.355**	
'PL and NB' assortment	Std. beta	*p*-Value[a]
# Brands (C)	**−0.091**	**0.000**
PL's equity (D)	0.004	0.878
Proportion of high-equity NBs (N)	−0.009	0.707
CD	0.021	0.408
CN	**0.052**	**0.039**
DN	0.001	0.971
CDN	0.002	0.926
APL	**0.495**	**0.000**
C × APL	−0.014	0.577
D × APL	0.028	0.263
N × APL	−0.011	0.677
Income level	**−0.130**	**0.003**
Household size	**0.091**	**0.039**
Yoghurt	−0.041	0.185
Fresh bread	**0.145**	**0.000**
Toilet tissue	0.038	0.219
F-value (significance)	**30.118 (0.000)**	
R^2 (adjusted)	**0.294**	

[a]Significant relations ($p < 0.05$) appear in bold

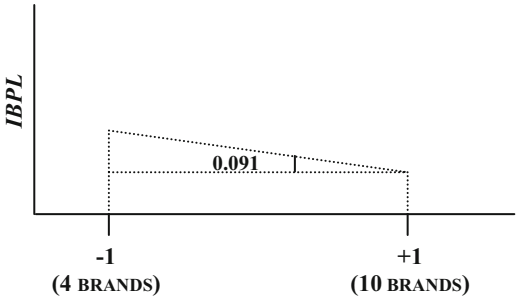

Fig. 3 Effect of number of brands (4 vs. 10) on IBPL ('mixed' assortments)

colleagues, 2001). As for product categories, our results suggest that IBPL for fresh bread (niche) is higher (14.5 %) than for laundry detergent.

4 Conclusions

Our results confirm that attitude towards store brands is of relevance when seeking to explain consumers' intentions to buy PL, particularly in the case of assortments that only contain PL. Our results also suggest that those assortments containing a higher number of NBs (9 vs. 3) show a lower IBPL. Nevertheless, this influence will also depend on the proportion of high-equity NBs contained in the proposed assortment. Thus, if "smaller" assortments (i.e. four brands) 'only' contain one-third of high-equity NBs, consumers' IBPL will be higher than in the case of "larger" assortments containing the same proportion of high-equity NBs. Therefore, we recommend that retailers bear both aspects in mind—the number of brands and the proportion of high-equity NBs—when designing their assortments. In summary, our results reveal that the higher the number of NBs contained in a given assortment, the lower the IBPL. However, for 'mixed' assortments this relationship will also depend on the proportion of high-equity NBs. Given the results obtained for the interactive variable (number of brands x proportion of high-equity NBs), retailers do not need to offer assortments with a large number of NBs, particularly when the NBs are high-equity.

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Part II
Branding

To Brand, Not to Brand or Both? Consequences for Dual-Brand Firms

Nicolas Ochoa and Julio Cerviño

Abstract In addition to produce their own brands, dual-brand firms also supply private labels for particular retailers. Some leading Spanish brands such as Don Simón, Mahou and Carbonell, have been involved in this practice. Are these firms digging their own graves? The purpose of this study is to understand some reasons behind this phenomenon on Spanish retail market. We explored economical and relational motives of supplying store brands (SBs) by national brand (NB) manufacturers. Our results suggest that dual-brand firms obtain: (1) better treat from retailers, (2) superior economies of scale and, (3) greater negotiation power.

Keywords Store brands • Dual-brand firms • Store brands' manufacturers

1 Introduction

More and more companies decide to add SBs production (for third parties) to their own brand manufacture. Particularly in Spain, some well-known manufacturers either local or multinational, such as Nestlé España, García Carrión (Don Simón), Mahou, Deoleo (Carbonell) have been producing SBs. Which are the reasons behind the production of their own competition? Sethuraman (2009) demands more research on antecedents and consequences of dual branding. Previous literatures focused on theoretical approach and described how NBs manufacturers can be better off by supplying SB products (Chen, Narasimhan, & Dhar, 2010; Gomez-Arias & Bello-Acebron, 2008; Kumar, Radhakrishnan, & Rao, 2010; Wu & Wang, 2005). Empirical studies concentrates on consumers' and retailers' perspective, relegating manufacturers' viewpoint. These few papers from manufacturers'

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perspective use postal surveys data (Gomez Suarez, & Benito, 2008; Oubiña, Rubio, & Yagüe, 2006) or its scope is limited to discount stores (Braak, 2012).

The objective of this work is to understand some of the reasons why NB manufacturers produce SB products. From a conceptual approach, there are four motives to fabricate SBs: strategic, market, relational and economical. We focused on the last two. Our work differs from previous papers in many ways. First, we do not use self-reported data like surveys but unique database from private and public records plus retailer's web shopping search. As most NB manufacturers keep confidentiality about SB production, firms' secrecy could bias results. Second, the research covers the six major retailers of Spanish market which allow us to generalize results. Finally, the study focuses on more than one outcome—most of them, never studied before.

2 Framework

European Competition Commission defines SB as "products made by third parties upstream in the supply chain and sold under retailer's brand". Who are the producers of SBs? Private Label Manufacturers Association classifies SB's producers into three groups: (1) small and medium size manufacturers that concentrate most of their production on SBs, (2) retailers that operate their own plants and, (3) large dual-brand manufacturers. In this paper, we focus on the last group.

The production of SBs depends on manufacturer's and retailer's willingness. Therefore, we construct a conceptual framework to articulate this relationship analyzing the antecedents of SBs production and the possible consequences on manufacturers (Fig. 1).

Antecedents of SB production depend on the interactions between manufacturers and retailers in a given product category. Manufacturer characteristics such as size, cost structure, level of innovation, competitive advantages, product quality, advertising expense, level of specialization and intensity of relationship with retailers condition SB production (Braak, 2012; Gomez-Arias & Bello-Acebron, 2008). Moreover, certain retailers characteristics such as price strategy, level of concentration, promotion policy, and multi-sourcing, favor SB production (Braak, 2012). Finally, product category affects the production of SB products in general and particularly by a NB manufacturer. Features like SB market share, greater purchasing frequency, lower perceived risk, ease of production, number of NBs in the category, stage of development of SB products in the category, absence of strong brand leader, product quality and quality consistency, price substitutability and consumer heterogeneity condition both manufacturers' and retailers' decisions on SB production.

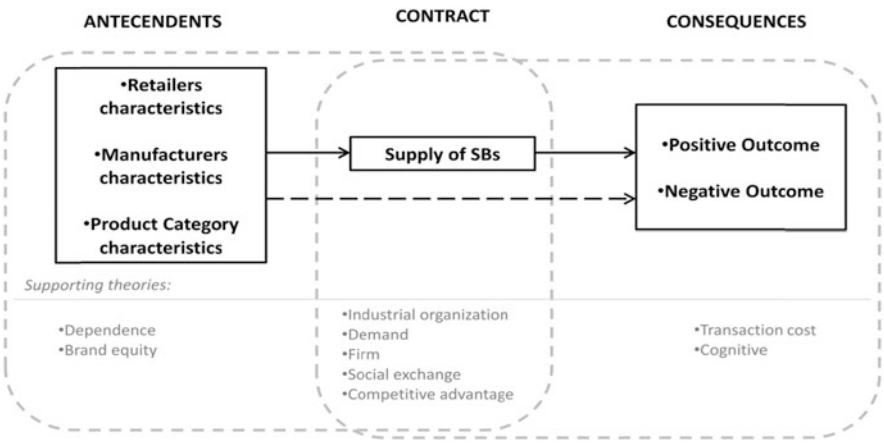

Fig. 1 Our conceptual framework

We classify consequences of SBs production into positive and negative outcomes. On the positive side, these manufacturers can benefit from: economies of scale, increase in total market share, higher profits, improved relationships with retailers, entrance into the channel with lower risk, preventing other companies to produce SB, exercising control over SB positioning, improving NB profits and surviving the channel (Braak, 2012; Chen et al., 2010). As for negative consequences, these manufacturers could experience the increased complexity of the manufacturing process, cannibalization, non-satisfactory profitability, excess dependence on the retailers and bad image.

Finally, we take into account antecedents and their impact on consequences. Manufacturers, retailers and product category characteristics affect outcomes. For instance, firms with increasing sales would have lower economies of scale. Another example is that products from bigger firms have higher chances of being presented in any retailer than smaller and/or unknown firms. Thus, we must consider different antecedents so as to control the results.

2.1 Hypotheses

Microeconomic theory states that a firm must operate within its minimum average cost in order to maximize its profits. Sometimes, manufacturers have idle capacity and add a SB to optimize the production process. Previous surveys showed that the first reason why NB manufacturers produce SBs is to improve economies of scales (Gomez Suarez & Benito, 2008; Mendez et al., 2000). The extra production could help firms during economic downturns when NB demand diminishes and also

during seasonality periods of low sales. Mainly, firms with relatively low variable cost may benefit more by supplying SBs. Therefore, we postulate that:

H1: Dual-brand manufacturers supply SB products because it helps them to improve economies of scale (ES).

More than a half of dual-brand manufacturers produce SBs to cooperate with large distributors (Gomez Suarez & Benito, 2008). They increases the likelihood of its NB's shelf presence (Braak, 2012). Dual-brand manufacturers supply SBs products to assure cooperation and sharing of information, particularly leading brands (Mendez et al., 2000). Reciprocity theory and cooperative behavior support the complementarities between retailers and manufacturers in different areas such as production, category management and entry into new markets (Mason, 1993). Once retailers and manufacturers invest in this relationship, transactions costs of abandoning each other increases (Anderson & Weitz, 1992). Retailers could benefit from homogenous quality of SB (Oubiña et al., 2006), while dual-brand firms could receive a better deal. We explore two dimensions of this better agreement: (1) price distance between SB products and NB products and, (2) NB's frequency on retailers' shelves. In the first case the degree of competition between SBs and NBs depends on their relative positioning (Blattberg & Wisniewski, 1989; R. A. J. Sethuraman, 1995). Context literature suggests that brands with similar qualities will compete more (similarity effect) and those in a middle position will be better off than extreme ones (compromise effect) (Geyskens et al., 2010). Then, from economic or standard NB viewpoint the best position would be between a standard SB and competing NBs. Thus, retailers can benefit dual-brand firms by position their NBs in the middle (reducing the distance between SB and NB). In the second case, whether the retailer benefits dual-brand firms, it would increase their NB products' presence. Therefore, we establish the following hypothesis:

H2: NB products that belong to dual-brand manufacturers receive a better treat on retailers where they supply SBs than on other retailers in terms of: (a) Shorter relative distance between SB and NB products, and (b) Higher NB's shelves frequency.

Whether the retailer benefits SB suppliers increasing their NB's presence, the retailer will depend more on that manufacturer as it would receive two brands (or more) for one supplier (Puelles Perez, 1995). On the other hand, the manufacturers will centralize more their sales on that retailer. Hence, both the retailer and the manufacturer will increase dependency (or negotiation power depending on the perspective). However, the result of power balance it is unclear. Thus, we develop the next hypothesis:

H3: When a dual-brand firm supplies SB products for a retailer, it will increase the negotiation power of both the retailer and the manufacturer.

3 Methodology

In this study we focus on Fast Moving Consumer Goods (FMCG) in Spain. The selected retailers, stores and product categories were the following:

- *The six largest retailers in Spain*: Carrefour, Mercadona, Eroski, DIA, El Corte Inglés and Alcampo. Together they represent nearly 65 % of FMCG sales.
- *Fourteen product categories*: Sausages, Oils, Juice, Aluminum Foil, Nuts, Coffee, Milk, Cookies, Pet food, Candies, Shampoo, Refreshments, Water, Beers. This selection responds to maximum diversity criteria in terms of level of penetration and growth rate.
- *Stores located in Madrid*: One store per retailer was randomly chosen and data from stores' web shopping search were obtained. We checked for differences between products and prices in different stores of the same retailer and we found small error of less than 5 %. Then, the variety of products[1] listed in one retailer but different stores in Madrid are quite similar. As DIA supermarket has no web access to store prices, we collected data directly from the store. The error of data collection method (Web-searching vs. in-store observation) was less than 7 %.

Then, we constructed our database where the unit of analysis is a manufacturer of any brand (SB or NB) in a certain category at a specific retailer. The sample size is 2,604 observations. We complete our database adding information from SABI (economic and financial variables) and Alimarket (a Spanish retail consultancy and market research firm). Most relevant variables and operationalization are shown in Fig. 2.

We estimated different outcomes of each firm based on SB production. Firms' strategy is determined by its own characteristics and industry conditions (Shaver, 1998). For instance, an innovative firm would be less inclined to follow a dual-brand strategy. Therefore, the decision of producing both type of brands, NBs and SBs or only one (either NBs or SBs) would be endogenous. We used Heckman correction model to solve this problem (Heckman, 1979). The correction model splits the estimation into two steps: (1) we estimated the probability of the firm of being dual based on their characteristics and industry conditions; (2) we estimated its performance based on firm type, firm characteristics and correction term for correlation between errors and endogeneity.

[1] A product is defined by variety and size. Variety is represented by different formats, packages, flavors, compositions but not size (Gomez Suarez, 2005).

Variable	Operationalization	Source	Description	Level
Firm type	Dummy	Alimarket & Web search	We constructed three dummy variables, one per each type of firm: SB specialized, NB specialized and Dual ones.	M
Economies of Scale	Construction of Economies of Scale (ES)	SABI & Web search	This measure is obtained by multiplying total cost by average price and then dividing it by sales. Production is approximate, dividing sales by price.	M
Relationship with the retailer	Price Distance (Pdist)	Web search	Distance between average NB price and average SB price per retailer-category.	M-C-R
	General Price Distance (gPdist)	Web search	Distance between average NB price and average SB price per category.	M-C-R
	Brand Quantity Distance (Qdis)	Web search	Distance measured by amount of NB between average NB price and average SB price per retailer-category.	M-C-R
	General Brand Quantity Distance (gQdis)	Web search	Distance measured by amount of NB between average NB price and average SB price per category.	M-C-R
	NB Presence (NB pres)	Web search	Binary variable: 1 in the case where manufacturer is present on retailer-category shelves and 0 otherwise.	M-C-R
	NB product frequency (NBprodfreq)	Web search	Amount of NB products[2]that one manufacturer has in a specific retailer-category over the total amount of NB products that a retailer has on its shelves in that product category.	M-C-R
	NB frequency (NB brandfreq)	Web search	Amount of NBs that one manufacturer has in a specific retailer-category over the total amount of NBs that a retailer has on its shelves in that product category.	M-C-R
Store Brand production	SB presence (SB pres)	Alimarket	Binary variable: 1 in the case where a manufacturer produces a retailer-category SB and 0 when it does not produce.	M-R-C
Diversification	Total dependence (Dependency)	Web search	Amount of products a manufacturer has on a retailer in a specific category over the amount of products that this manufacturer has on that category in "all" retailers.	M-R-C
Power relationship	Power (PowerRatio)	Web search	(NB product frequency) / (total dependence). It measures which part has more power.	M-C-R

Level: M: Manufacturer, C: Category and R: Retailer.

Fig. 2 Variables and operationalization. [a]The amount of products would be less or equal than facings. To measure the relationship with the retailer, we make some assumptions. Lacking information on sales inside a retailer, we approximate this measure by product and brand frequency. Correlations of manufacturer real market share and a market share constructed by product (0.62) and brand frequencies (0.53) are significant. Even when allocation of SB is larger than its market share, relative distribution between NB shelves spaces are likely to be correlated with their market power (Fernandez Nogales & Gomez Suarez, 2005)

Table 1 Types of SBs per category

	Generic	Standard	Premium
Oil	5	17	3
Water	3	7	
Pet Food	5	12	
Coffee	5	13	2
Beer	2	9	
Shampoo	3	10	1
Sausages	29	42	10
Nuts	10	18	7
Cookies		36	5
Candies	7	11	
Milk	1	16	2
Aluminum foil	4	6	
Carbonated Beverages	6	11	1
Juices	4	14	4

4 Results

4.1 Descriptive Statistics

We focus on generic and standard (e.g. me-too) SBs in this paper. Other types of SBs such as premium, value-innovator or category-specific respond to different rationale of SB production (Table 1).

4.2 Firm's Economies of Scales

Results on column 1 and 2 of Fig. 3 show that dual firms have lower ES, suggesting an advantage on production or on costs with respect to non-dual firms (firms focused on NBs). Results remain negative and significant when we modify dependent variable by ES 1-year difference (column 3 and 4). Estimates illustrate that dual firms decrease their ES more than firms focused on NBs, suggesting a reduction on average costs.

We checked the strength of our results analyzing ES curve effect. Assuming a common average cost curve by category, we compared each firm with that curve. Results stay negative and significant, supporting our first hypothesis. Controls variables include manufacturer market share, category average price (and probably higher rotation), level of flexibility of the firm (fixed assets/total assets), firm's net

	ES	ES	Diff ES	Diff ES
	(1)	(2)	(3)	(4)
Dual	-1.508** (0.7600)	-5.350*** (1.762)	-0.16363** (0.0777)	-0.8183*** (0.1912)
Controls	Yes	Yes	Yes	Yes
(rho-Heckman)		0.4312** (0.2117)		0.7647*** (0.26177)
F (Wald)	123.25	748.68	127.71	910.9
Adj R^2	0.76		0.76	
Hekcmans' correctios	No	Yes	No	Yes
Level of Analysis	M-C	M-C	M-C	M-C

, ** and * correspond to p-value of 0.01, 0.05 and 0.10 respectively; robust standard deviation on brackets. For Heckmans' model we do not have R^2*

Fig. 3 Economies of scale

asset turnover (proxy for idle capacity), price premium (quality distance), percentage of SB in the category and amount of NBs in the category (level of competition).

4.3 Relationship Between Manufacturers and Retailers

To test the first part of our hypothesis 2, we constructed two variables: Price Distance (Pdis) and Brand Quantity Distance (Qdis). We separated firms into segments of low, medium and high prices because low prices brands will horizontally compete more with generic and me-too SBs (Fig. 4). The negative coefficient of SB's presence suggests that NBs that belongs to SB suppliers are cheaper than other NBs (column 1). However, results change when we consider all retailers together (column 2). Then, retailers are discriminating in favor of their SB suppliers because they deviate from global price category. After that, we evaluate using Qdis as dependent variable and the coefficient remains negative and significant. Results become stronger when we consider medium segment firms. Therefore, results support our H2a.

Moreover, we found that when a dual firm produces a SB for a retailer, it is more probable that its NB(s) will be present there than on other retailers (column 1 and 2 of Fig. 5). Then, we restricted the analysis only to dual-brand firms and results still holds. After that, we constructed a continuous variable instead of a dichotomous one: NB (product) frequency for each manufacturer-retailer relationship. Results are consistent with previous analysis (column 3 and 4) and statistically similar between brand and product frequency variables. Producing SBs for a retailer increases the frequency of NB's presence on that retailer. Hence, H2b is supported.

	Pdis	gPdis	Qdis	gQdis	Pdis	gPdis
Price Segment	Low	Low	Low	Low	Med	Med
	(1)	(2)	(3)	(4)	(5)	(6)
SB pres	-0.582*	-0.103	-0.178***	-0.037	-5.096***	3.473***
	0.353	0.205	0.049	0.263	0.940	0.593
Controls	Yes	Yes	Yes	Yes	Yes	Yes
(rho-Heckman)			0.988***		0.497***	-2.457***
			(0.303)		(0.112)	(0.463)
F (Wald)	3.75	23.39	20.37	65.21	152.82	349.52
Heckmans' correction	No	No	Yes	No	Yes	Yes
Adj R^2	0.14	0.48		0.34		
Level of Analysis	M-C-R	M-C-R	M-C-R	M-C-R	M-C-R	M-C-R

, and *** correspond to p-value of 0.01,0.05 and 0.10 respectively; robust standard deviation on brackets.*

Fig. 4 Relationship with the retailer: price/brands distance

	NB pres	NB pres	NB prod freq	NB brand freq	Dependency	Power Ratio
	(1)	(2)	(3)	(4)	(5)	(6)
SB pres	0.44***	1.880***	0.1087***	0.1096***	0.232***	0.8500***
	(0.1199)	(0.2057)	(0.0128)	(0.0130)	(0.0462)	(0.0977)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
(rho-Heckman)		-0.944***	-0.489***	-0.304***	0.210***	-1.223***
		(0.1931)	(0.0679)	(0.0768)	(0.051)	(0.193)
F (Wald)	285.62	648.73	674.27	367.92	226.84	544.14
Heckmans' correction	No	Yes	Yes	Yes	Yes	Yes
Level of Analysis	M-C-R	M-C-R	M-C-R	M-C-R	M-C-R	M-C-R
Firm'stype	Dua&NB	Dua&NB	Dua&NB	Dua&NB	Dua&NB	Dua&NB

, and *** correspond to p-value of 0.01,0.05 and 0.10 respectively; robust standard deviation on brackets.*

Fig. 5 Relationship with the retailer (NB frequency) and negotiation power balance

4.4 Power Balance

As expected, coefficients of NB frequency and dependency are positive: supplying a SB increases manufacturer's power as well as retailer's power (column 4 and 5). Furthermore, SB's presence affects power ratio positively (column 6). Then, the production of a SB increases the manufacturer's power more than retailer's power. Although retailers have more power than manufacturers—*Power Ratio* mean is 0.15—the relative power of manufacturers increases when they supply a SB. These results support our H3 and elucidate the power balance in favor of the manufacturers.

5 Discussion

In addition to produce their own brands, dual-brand firms also supply SBs for particular retailers. Why some well-known and leading Spanish firms were involved in SB production? The purpose of this study is to understand some economical and relational reasons behind this phenomenon. In the first case, we found that dual-brand firms obtain better economies of scales than firms that only produce NBs, suggesting that dual-branding allow firms to take advantage of higher production and costs reduction. In the second case, we obtained that the production of SBs improve manufacturer's NB frequency and price positioning. Then, we checked the negotiation power balance between manufacturers and retailers. Even though retailers have more power, the production of SBs increases manufacturers' power.

Empirical papers on production of SBs by NB manufacturers are rare. To the best of our knowledge, this is the first paper that approaches the problem measuring economies of scales, brand frequency and power balance. Moreover, the analysis based on a big portion of the market—six largest retailers—allow us to generalize results within Spain. Finally we avoided self-reported data because manufacturers' secretiveness about SB supplying could bias estimations.

Our results suggest that SB production can be a good strategy for NB manufacturers to maintain—or even increase—the presence in the distribution channel. Small and medium-sized firms compete against SBs for the same portion of market. Thus, producing a SB would help them to increase the total market share and also to maintain their NB's share. However, supplying a SB will depend on the positioning of own NB and on diversification strategy.

Retailers would introduce SBs to reduce the influence of manufacturers and to increase barging power (Berges-Sennou, Bontems, & Réquillart, 2003). Nonetheless, results suggest that they are probably giving unnecessary control to manufacturers. A better strategy would be to diversify and apply a multi-supplier policy. In fact, some of them are already making contracts with more than one producer to supply one SB.

This study presents some limitations. The transversal data on SB production preclude the analysis of dynamics. Longitudinal data will be needed to test causality. Moreover, we cannot assure that selected brands correspond to all manufacturers' brands. However, as the study focused on the biggest retailers, we assume that those chosen brands are the biggest ones in term of sales.

Future research could distinguish between economic, standard and premium SBs because each type could pursue different objectives. Also, we should construct a theoretical model to include cross-retailer competition, to allow multi-supplier strategy and to incorporate different SBs levels. It would help to analyze the sensibility of SB production.

Now, we can better understand some reasons why NB manufacturers engage in the production of SB: to achieve greater economies of scale and a better deal from retailers.

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Defensive Strategy Against a Private Label: Building Brand Equity

S. Chan Choi

Abstract We build a game-theoretic model of price competition between a national brand manufacturer and a retailer that also sells its private label. In particular, we examine brand-equity building as a strategy for the national brand manufacturer. We find that brand building should be the first line of defense instead of aggressively cutting the wholesale price. Not only the national brand but also the retailer can benefit from it, which can justify cost sharing of brand-building efforts with the retailer.

Keywords Private Label • Price Competition • Brand Equity • Channel Distribution

1 Introduction

In this paper, we are interested in understanding defensive strategies of a national brand manufacturer facing private label competition. To a national brand manufacturer, a retailer who sells the private label is both a channel partner and a competitor at the same time. However, this competitor also controls the retail price of the national brand, which gives the retailer a greater pricing power (Dhar & Hoch, 1997). Hence, it is important for the national brand to formulate a defensive strategy that is consistent with the retailer's interest. We focus on the national brand's equity-building strategy for their ability to attract the retailer cooperation, instead of competition. This is consistent with Steenkamp, Van Heerde, and Geyskens (2010) who suggested marketing activities to enhance consumer willingness to pay for the national brands.

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Previous studies in private label modeling include Rao (1991) who developed a model of private label competition in price and promotion and found that only the national brand tends to promote in price. The demand function was derived from a distribution of price premium in two market segments.[1] Narasimhan and Wilcox (1998) viewed private labels as the retailers' competitive weapon of gaining better terms of trade from the national brand manufacturer. As in Rao (1991), their demand function is derived by mixing distributions of reservation price and brand equity. We also employ a similar framework of mixing two distributions in deriving a demand function in this paper. Another line of private label modeling is to consider price competition within a distribution channel. Raju, Sethuraman, and Dhar (1995) proposed an analytical model of private label competition using a vertical channel assumption. In this paper, we combine these two model frameworks in representing the private label competition.

In the next section, we begin with building a general demand model in the context of national brand and private label competition using consumer distributions of reservation price and brand equity. Section 3 presents a profit maximization problem for the two products in competitive-cooperation. Brand-building marketing efforts are expressed in terms of a shift in the equity function distribution. Due to its analytical complexity, we rely on a numerical method to examine the effects of brand-equity on equilibrium quantities. We show that brand-building efforts are profitable to both parties, and are more likely to induce the retailer cooperation than retail price-cutting. The last section summarizes the paper and suggests future research directions.

2 A Model of Private Label Demand

The retailer in our private label model plays a major role by choosing its price (p_p) as well as the retail margin (m_n) for the national brand. The national brand manufacturer determines his wholesale price (w_n) but does not have a direct control over its retail price (p_n). We assume that the private label manufacturer is an order taker without any significant marketing activities, and supplies the product at a contract price to the retailer (c_p). This assumption is reasonable since in most cases private label orders are processed through private label brokers whose role is to match the retailers with the manufacturers. A broker can choose a manufacturer that can supply a specified product at the lowest transfer price. This scenario is similar to the common retailer model with two manufacturers (Choi, 1991) except that only one manufacturer is active in our game scenario.

We first derive the primary demand function for the national brand. Assume that all prices are normalized within the interval [0,1]. Let $f(p)$ the p.d.f. of consumer

[1] The price premium and market segments are equivalent to "brand equity" and "reservation price" respectively in this paper.

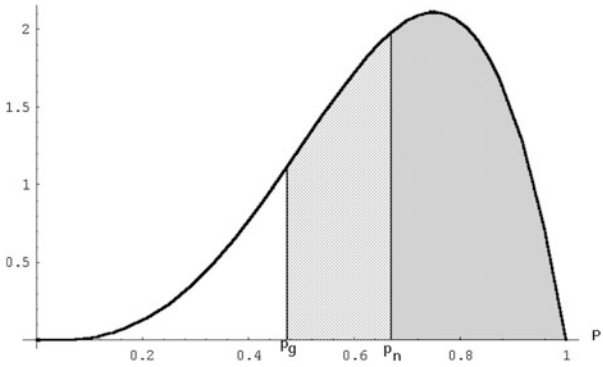

Fig. 1 A possible reservation price distribution

reservation prices defined over the domain of $p \in [0,1]$ (see Fig. 1). When there is only national brand at price $p = p_n$, only those consumers whose reservation prices are greater than p_n will purchase the product. But when a private label is also available at a lower price p_p, consumers whose reservation prices are below p_p would still not buy either product. However, consumers located between p_p and p_n, who could not afford the national brand, now can buy the private label.

On the other hand, those customers whose reservation prices exceed p_n now have a choice. They can continue purchasing the national brand or switch to the private label depending on their willingness to pay for the perceived brand name. This brand premium will be different across individuals (Rao, 1991), and they will switch to the private label when the price difference is "right." We use the term "brand equity" to refer to the minimum price difference at which a consumer switches to a private label. This is the same concept as the one used in Narasimhan and Wilcox (1998), and will be used interchangeably with Raju, Srinivasan, and Lal's (1990) definition of brand loyalty—"the minimum difference between the prices of the two competing brands necessary to induce the loyal consumers of one brand to switch to the competing brand." This is equivalent to the price premium over private label (Steenkamp et al., 2010).

Let random variable δ denote individual-level brand equity, and $h(\delta)$ its p.d.f.[2] Then among the consumers whose reservation prices exceed p_n, those with higher brand equity than the actual price difference (i.e., $\delta \geq d = (p_n - p_p)$) will still choose the national brand, and the rest will switch to the private label.

Therefore, the demand function for the national brand can be derived

[2] Conceptually, this distribution is dependent on a person's reservation price: i.e., a consumer with a higher reservation price is expected to place a higher premium for a national brand. For tractability, however, we assume that h is independent from f. Relaxing this assumption is left for future research.

$$D_n(p_n \cdot p_p) = \int_{p_n}^{1} f(x)dx \int_{p_n - p_p}^{1} h(\delta)d\delta$$

Similarly, the demand for the private label can be derived as

$$D_p(p_n \cdot p_p) = \int_{p_p}^{p_n} f(x)dx + \int_{p_n}^{1} f(x)dx \int_{0}^{p_n - p_p} h(\delta)d\delta$$

The retail price for the national brand has two components: $p_n = w_n + m_n$. The first term represents extra primary demand generated by the entry of the generic product. The second term represents the part of the original demand of the national brand that is taken away by the private label.

3 Modeling Brand Building with the Beta Distribution

In this section, we employ a very flexible distribution in order to build a model for the manufacturer's brand-building effort as a defensive strategy. In our context, increasing brand equity can be represented by a shift in the distribution of individual brand equity such that fewer consumers would switch to the private label for a given price difference. In the literature, several theoretical distributions have been used to model reservation prices. In Kohli and Mahajan's (1991) analysis, reservation prices are distributed as idiosyncratic normal distributions with different parameters across consumers. Moorthy (1988) assumed that consumer reservation prices are uniformly distributed. In this paper, we employ a beta distribution for its flexibility of fitting various shapes including a bimodal distribution for two distinct market segments (e.g., Blattberg & Wisniewski, 1989). With two parameters α and β, the beta distribution is defined by two parameters $\alpha > 0$, $\beta > 0$ within a domain $0 < x < 1$. Denote (α_1, β_1) and (α_2, β_2) the parameters for the reservation price (f) and brand equity (h) distributions respectively. Figure 2 shows a special case of bi-modal segments.[3] The brand equity distribution is likely to be associated with the reservation price distribution. For tractability, however, we assume these two distributions are assumed independent from each other in this paper as in many other studies.

Instead of engaging in a losing battle of price-cutting, the national brand manufacturer can focus on various marketing activities in order to increase its brand equity. Since retailer cooperation is a key factor in a successful defensive

[3] For the numerical simulation, we have used a small convenience sample survey administered to an MBA class asking individual willingness to pay for a branded acetaminophen and a minimum price difference before moving to a store brand equivalent. The following parameter values were estimated: $\alpha_1 = 4.04$, $\beta_1 = 1.68$, $\alpha_2 = 0.58$, $\beta_2 = 0.60$. Figures 1 and 2 respectively shows the corresponding distributions.

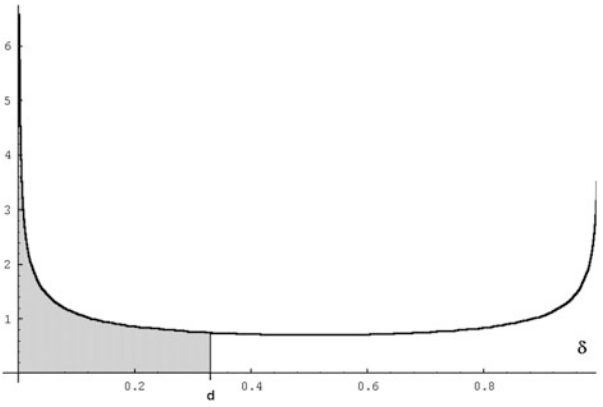

Fig. 2 A possible brand equity distribution

strategy, we want to examine whether higher brand equity benefits the retailer who carries a private label. It is out of scope of the current paper to examine market reaction functions of brand equity. Instead, we assume that such an activity shifts the brand equity distribution to the right: i.e., more consumers become brand loyal. Following Raju et al. (1990) and Rao (1991), we classify the consumers into brand-loyal and non-loyal segments. The middle value of parameter $\delta = 0.5$ was used as the segmentation criteria. In our model, this shift can be represented by various values of α_2 in the brand equity distribution. Increasing the value of α_2 reduces the price-sensitive (i.e., less brand-loyal) segment. We let the value of α_2 vary from 0.58 (the current value) to 1.58. At $\alpha_2 > 1.08$, the distribution becomes unimodal.

The resulting equilibrium solutions reveal the following properties:

$$\frac{\partial p_n^*}{\partial \alpha_2} \sim 0, \frac{\partial p_p^*}{\partial \alpha_2} < 0, \frac{\partial \Pi^{M^*}}{\partial \alpha_2} > 0, \frac{\partial \Pi^{R^*}}{\partial \alpha_2} > 0.$$

That is, as more consumers become brand loyal, the national brand's retail price initially decreases in brand loyalty but eventually increases. As expected, the manufacturer always benefits with the increased brand loyalty. The private label's price decreases as expected, but regardless the retailer also benefits from the national brand's increased equity. The retailer benefits more from national brand's equity increases than it loses from the private label's sales.

Observation 1 *The national brand's wholesale price increases in brand loyalty, whereas its retail margin decreases.*

Observation 2 *All channel members benefit with increased brand loyalty to the national brand.*

With these observations, we state the following testable propositions on brand-building efforts by the manufacturer:

Proposition 1 *A brand-building effort by the national brand manufacturer will find a cooperative reaction by the retailer.*

Proposition 2 *With a brand-building effort by the national brand, the retailer has less incentive to push his own private label due to smaller profit margin.*

Note that these results were derived without considering other positive impacts of increased brand equity such as generating more store traffic and increased primary demand. Even without these factors, equity building appears to be a win-win strategy for all channel members. However, the cost effectiveness of such marketing effort also needs to be considered before making such decisions.

4 Conclusion

Private labels have rapidly become a major force in retail marketing during the past decade. When taken as a single brand, they are the number one, two, or three best sellers in many product categories. Moreover, their market shares are rapidly increasing, and they pose great threats to the national brand manufacturers. Severe erosion of their market shares and profits discourages product development and innovation. This, in turn, will reduce future profit potential, and threaten the very survival of the national brands.

Rao (1991) found that a national brand's best reaction in price to a private label is to choose a regular price and then to promote according to a certain probability distribution. On the other hand, conventional wisdom indicates that the manufacturer's best reaction would be to cut his wholesale price in the hope to lower its retail price. On the contrary, its retail price may even end up increasing if the retailer pushes its private label. The retailer has an incentive to increase the national brand's retail price in order to make room for his own brand. Moreover, a wholesale price cut tends to decrease the retailer's margin. Thus, a national brand manufacturer is unlikely to find retailer cooperation when cutting its wholesale price. This implies that if the national brand manufacturer relies only on price competition as a defensive strategy, a substantial wholesale price cut is necessary. Even so, the retail price may barely decrease.

On the other hand, we show that a manufacturer who focuses more on building brand equity by various marketing efforts can expect a full cooperation from the retailer. This is because the retailer also benefits from the increased brand equity of the national brand: i.e., the retailer's total profit increases, although his profit from the private label decreases. As a result, the retailer has a less incentive to push aggressively his private label at the expense of the national brand.[4] This implies that brand building should be the first line of defense instead of aggressively cutting the wholesale price. The benefit to the retailer could even justify cost sharing of brand-building efforts with the retailer.

[4] To keep the model manageable, we do not consider marketing expenses for increasing brand equity, which is one of the limitations of this study.

Among the limitations of our study is that, with the beta distribution assumption, analytical solutions are difficult to obtain due to the complexity of the resulting demand functions. However, we believe that the results from the simplest uniform distribution are qualitatively same as those from the more flexible beta distribution. The latter distribution, however, can provide additional information related with brand-building efforts by the national brand manufacturer. Another caveat is that our model includes only price decisions: other factors such as product differentiation, quality level, and other implicit relationships among channel members are not considered.

Our model also does not cover other factors such as market and economic conditions, level of competition from other national brands. Further studies are needed to build more comprehensive models of competition between national brands and private labels. Extending from the simple game structure developed in this paper, we will be able to study more complex competitive scenarios. One immediate area to extend the current study is to include retailer-manufacturer coordination in advertising and promotion in order to examine the extent to which national brand manufacturers can influence the retailer's decision. In addition, other possible manufacturer strategies to defend the market share, such as product differentiation and quantity discount, could be examined in more advanced models.

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All Hail the Brand! Why Brand Gravitas *Really* Does Matter

Justin Beneke and Emma Trappler

Abstract This study examines the influence of supermarket brand name on the perceived quality of its private label merchandise. The research design employed an experimental approach to assess whether brand presence had a material effect on perceived quality of the merchandise. In the experiment, both products were rated equally at the outset in unsighted conditions, however ratings diverged when brand name was introduced. Here, the high-end private label brand was scored considerably better than in its unsighted condition, whilst the low-end brand suffered a marginal decline in rating. Overall, the study points to the brand name as being a supremely powerful extrinsic cue, and hinting at the fact that within emerging markets, such as South Africa, mainstream private labels still have some way to go in acquiring trust and respect amongst consumers.

Keywords Private Label Brand • Perception • Quality • Experiment • Retail • South Africa

1 Introduction

Numerous studies in the scholarly literature (e.g. Baker, Borin, Grewal, & Krishnan, 1998; Bowles & Pronko, 1948; Breneiser & Allen, 2011; Hilgenkamp & Shanteau, 2010; Kaswell, 2007; Rubio, Oubiña, & Villaseñor, 2014) have considered the effect of the brand on perceived quality of the merchandise. Such studies have sought answers to the age-old question "*what is the influence of the label on the expected quality of the product?*" or, in marketing phraseology, "*is brand name really used as a leading indicator to discern the perceived quality of merchandise?*"

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This paper probes the issue by exploring whether this phenomenon holds true for private label brands in an emerging market context. Private label brands are brands that are owned by specific retail chains and sold exclusive through their own network of stores. Hence, the retailer has full control of the intellectual property and manufacturing process (Kumar & Steenkamp, 2007). Private label brands have struggled to gain traction in certain marketplaces, such as South Africa, due to their quality being uncertain, as well as consumers' lack of knowledge and experience in using these brands (Beneke, 2010; Walker, 2006).

In order to achieve the above, this study sets out to consider whether consumers can discern the inherent differences in quality between competing products without the benefit of the brand name to provide guidance. Conversely, with full sight of the brand name, is this situation materially different?

2 Conceptual Overview

2.1 The Perceived Quality of Merchandise

Perception may be defined as the subjective process by which individuals select, organise and interpret stimuli into a coherent picture (Joubert & Poalses, 2012). In a branding context, perceived quality is a powerful construct, cited among the most "important non-sensory factors affecting consumers' choice decisions" (Ares, Gimenez, Gambaro, & Varela, 2010). Numerous scholars, including Méndez, Oubiña, and Rubio (2011), Chowdhury and Andaleeb (2007), Cronin, Brady, and Hult (2000) and Aaker & Keller (1990), have drawn attention to perceived quality as a crucial variable in the product selection process.

Confirming these results, in a study conducted by Baltas and Argouslidis (2007), respondents were asked to indicate the most important aspect in the decision process, with perceived quality being given the highest priority. Other studies have found perceived quality to be strongly related to brand loyalty (Beneke, 2010; Jacoby, Olson, & Haddock, 1971; Nies & Natter, 2012), brand image (Aaker & Biel, 1993; Diallo, 2012; Semeijn, Van Riel, & Ambrosini, 2004), as well as perceived value and purchase intent (Baker et al., 1998; Beneke, Flynn, Greig, & Mukaiwa, 2013; Sweeney, Soutar, & Johnson, 1999). Regardless of real, objective quality, consumer decisions are ultimately based on their perceptions (Joubert & Poalses, 2012).

2.2 Brand Name as a Leading Indicator of Perceived Quality

Consumers use a variety of cues in order to evaluate quality alternatives (Baker et al., 1998; Olsen, Menichelli, Meyer, & Naes, 2011; Ramberg, Bowman, & Jones, 2011; Richardson, Jain, & Dick, 1996; Teas & Agarwal, 2000). Jacoby, Olson, and

Haddock (1971) refer to extrinsic cues as those that are external to the physical product and intrinsic cues, such as taste or ingredients, which are internal and not immediately apparent. Similarly, Richardson et al. (1996) refer to extrinsic cues as indirect factors and intrinsic cues as direct factors.

There is widespread consensus that it is typically the extrinsic cues that are more influential, as intrinsic cues are generally more difficult to evaluate (Collins-Dodd & Lindley, 2003). This effect is amplified when considering food products, as accessing intrinsic cues typically necessitates consumption of the product and therefore cannot be adequately evaluated by the consumer at the point of purchase.

A brand name serves as a trigger to populate a consumer's mind with preconceived ideas, often setting expectations and recalling important information (Lee & Lou, 2011; Rubio et al., 2014). Joubert and Poalses (2012) contend that a strong brand can serve to reduce risk perception and foster customer loyalty. A successful supermarket brand name can convey an image of consistent food quality, good service, fresh ingredients and a pleasant environment (Lee & Lou, 2011), as well as facilitate future product developments (Hilgenkamp & Shanteau, 2010). Furthermore, it can command a premium, as customers feel they are not simply purchasing a product, but an assurance of good quality (Kohli, Harich, & Leuthesser, 2005).

Numerous studies have experimented with different product categories and confirmed that brand name does indeed have a significant influence on perceived quality (Baker et al., 1998; Brucks, Zeithaml, & Naylor, 2000; Dawar & Parker, 1994; Dodds, Monroe, & Grewal, 1991; Jacoby et al., 1971; Rigaux-Bricmont, 1982; Rubio et al., 2014; Vahie & Paswan, 2006; Zielke & Dobbelstein, 2007). This was emphasised in a study by Bonham (1995), in which sighted and unsighted sampling of branded and private label confectionery revealed a preference for the branded version despite zero taste difference. Underscoring this, Rubio et al. (2014) found a negative effect of the inference brand awareness-brand quality relationship on the perceived performance of private labels, with quality conscious consumers being highly susceptible to this. Thus, retailers have a vested interest in learning about this effect on their private label brands and mitigating any potential damage in this respect.

De Wulf, Oderkerken-Schroder, Goedertier, and Van Ossel (2005) conducted sighted versus unsighted sampling to investigate the extent to which brand associations are stronger than taste preferences. Orange juice was set as the product category, with respondents sampling Minute Maid (the market leader) and four other, private label, brands. Results revealed that when respondents were unaware of the brands being sampled, Minute Maid was the least preferred juice, and a private label the most preferred. When respondents tasted Minute Maid with its true identity visible, they experienced an immediate inclination to favour it. This suggests that once aware of the brand, bias in introduced into the assessment of product quality.

In another such test, Breneiser and Allen (2011) tested whether the presence of a strong brand affected taste preference judgments. Taking three brands of cola, one national brand and two private label brands, they conducted sighted versus

unsighted experiments to record taste preference ratings. In a sighted environment, the national brand (Coca-Cola) was voted the clear favourite, with the two private label brands holding considerably weaker positions. Yet in unsighted conditions, no difference was recorded. Only once brand name was revealed did the ratings diverge.

Ramberg et al. (2011) went a step further, deliberately attempting to confuse participants by swopping labels. Results revealed that when respondents tasted the higher-end branded soda, labelled correctly (i.e. congruent condition), a mean rating of 4.18 was assigned. When respondents tasted the same higher-end branded soda but packaged as a private label (i.e. incongruent condition), their taste ratings of the very same product declined to 3.18. Conversely, when respondents tasted the lower-end soda packaged as originally packaged (i.e. congruent condition), their ratings were 3.25. However, when respondents tasted the same soda under a branded label (i.e. incongruent condition), their ratings increased to 4.05. These results reveal a strong brand preference that overshadows the pure intrinsic qualities of the merchandise.

Based on the insights extracted from the experiments highlighted above, the following four hypotheses are presented for empirical testing in this study:

Hypothesis 1: When participants are presented with two different brands within the same product category, in an unsighted environment, these will be rated as having no significant taste difference.

Hypothesis 2: When participants are then presented with two different brands within the same product category, in a fully sighted environment, their ratings will diverge.

Hypothesis 3: The product from the higher-end brand will have higher ratings in the sighted environment than in the unsighted environment.

Hypothesis 4: The product from the lower-end brand will have lower ratings in the sighted condition than in the unsighted environment.

3 Methodology

3.1 Research Design

The methodology for this study assumes the form of an experiment design, aimed towards ascertaining whether brand name alters the perceived quality of merchandise in sighted and unsighted conditions.

The product category chosen was that of orange juice as fruit juices retail particularly well under a private label and typically occupy a category share of over 50 % (Steenkamp & Dekimpe, 1997), outperforming other general private label food products by a factor of two (Van Ossel & Versteylen, 2002). Furthermore, orange juice was selected as fits the definition of an ‘experience’ product—one that can only be assessed by means of consuming it (Batra & Sinha, 2000).

3.2 Data Collection

Respondents were chosen on the basis of willingness to participate in the study, as well as their availability. No prior product knowledge or experience was required. Ultimately, a sample size of 160 participants was obtained, consistent with that used in similar studies (Breneiser & Allen, 2011; Ramberg et al., 2011).

A research instrument in the form of a questionnaire was developed to collect perceptions from respondents and monitor their cognitive processes when the state of variables was shifted in the experiment. Sections A and B, respectively, examined their taste ratings of the product when brand name was withheld (unsighted condition) and when brand name was visible (sighted condition). By measuring variations in ratings between the two conditions, reliable insights could be obtained concerning the influence of brand name as an extrinsic cue on quality perception.

3.3 Experiment Procedure

The experiment was conducted through a multitude of sessions containing five to ten participants per group. Two cups of orange juice were presented: 'Brand A' was written on the one cup and 'Brand B' on the other. Participants were then requested to complete the first component of the questionnaire—a question asking them to rate the quality of 'Brand A' and 'Brand B' on a seven-point semantic differential scale with 1 being 'good taste' and 7 being 'bad taste' (Rigaux-Bricmont, 1982). The two cups were then removed and the group was requested to complete a series of questions pertaining to the conceptual model, but not directly connected to the experiment. This provided them with a short reprieve and an opportunity to clear their minds of the findings from the first phase of the experiment. They were then asked to sample two (supposedly) different orange juices, one cup being labelled 'Woolworths' and the other 'Pick n Pay'. In reality, they were presented with the same two samples of orange juice. As in the first instance, participants were required to rate each on the seven-point semantic differential scale provided.

3.4 Statistical Analysis of Data

Hypotheses one and two were tested with paired sample t-tests (two tailed). These considered whether a difference in ratings existed between the brands, both in a sighted and unsighted capacity.

Hypotheses three and four were tested with paired sample t-tests (one-tailed). These aimed to assess whether the higher-end brand will experience higher ratings when the brand is exposed and, conversely, whether the lower-end brand will experience lower ratings when the brand is in full view.

4 Results

Prior to the statistical analysis of the data, the dataset was checked for normality using the Kolmogorov-Smirnov test, as well as subjected to skewness and kurtosis examination. The data was found to adhere to standards of normality, implying that parametric tests were appropriate for use.

The hypotheses relating to the outcome of the experiment are tested below.

Hypothesis 1: *When participants are presented with two different brands within the same product category, in an unsighted environment, these will be rated as having no significant taste difference*.

H_0: In unsighted conditions, the ratings of both brands are scored equally

H_1: In unsighted conditions, a difference in ratings is observed between the brands

The mean ratings for the higher- and lower-end brands were 4.02 and 4.00, respectively. We failed to reject the null hypothesis at a 5 % level of significance (p-value = 0.949) and concluded that no difference in ratings was evident. Hypothesis one is therefore **supported**.

Hypothesis 2: *When participants are then presented with two different brands within the same product category, in a fully sighted environment, their ratings will diverge*.

H_0: In fully sighted conditions, the ratings of both brands are scored equally

H_1: In fully sighted conditions, a difference in ratings is observed between the brands

After exposure of the brand, the higher-end brand score was recorded as 3.02 (a shift of 1.0 units) and the lower-end brand score was recorded as 4.37 (a shift of 0.37 units). As in Hypothesis 1, the null hypothesis was rejected at a 5 % level of significance (p-value = 0.000) and it was concluded that there is indeed a perceived difference between the brands. Thus, hypothesis two is also **supported**.

Hypothesis 3: The higher-end brand will have higher ratings in the sighted environment than in the unsighted environment.

H_0: Ratings for the higher-end brand will not change between sighted and unsighted conditions

H_1: Ratings for the higher-end brand will improve when the brand is exposed

A mean of 3.02 was recorded in unsighted conditions and 4.02 in sighted conditions. To this end, the null hypothesis was rejected at the 5 % level of significance (p-value = 0.002) and it is concluded that the higher-end brand did indeed receive higher ratings once the brand was exposed. Hypothesis three is therefore **supported**.

Hypothesis 4: The lower-end brand will have lower ratings in the sighted condition than in the unsighted environment.

H_0: Ratings for the lower-end brand will not change between sighted and unsighted conditions

H_1: Rating for the lower-end brand will deteriorate when the brand is exposed

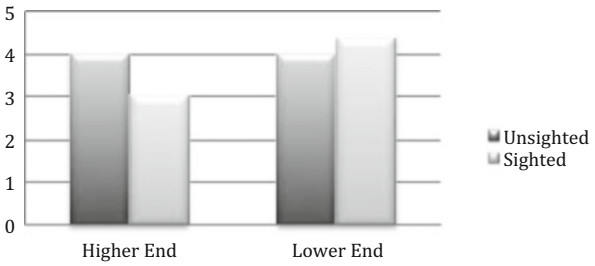

Fig. 1 Results of experiment conducted

A mean of 4.00 was recorded in unsighted conditions and 4.37 in sighted conditions. To this end, the null hypothesis was also rejected at the 5 % level of significance (p-value = 0.015) and it was concluded that the lower-end brand did indeed receive lower ratings once the brand was exposed. Hypothesis four is, too, **supported**.

The respective ratings are illustrated in Fig. 1 above.

5 Discussion

The experiment within this study compared perceived quality ratings for the higher-end and lower-end brand in a sighted and unsighted environment.

All results pertaining to the experiment validated the hypothesised assertions and were in line with previous literature (e.g. Bonham, 1995; Breneiser & Allen, 2011; De Wulf et al., 2005). In the unsighted condition, with brand name withheld, the average rating of the higher-end and lower-end brand was 4.02 and 4.00 respectively. These were recorded at close to the midpoint on the seven point differential scale, indicating an ambivalent response. Interestingly, both were rated very similarly, therefore indicating that intrinsically they were perceived to be on par.

When respondents tasted sighted samples of the same orange juices, the average rating for the higher-end and lower-end brand was 3.02 and 4.37, respectively. This indicates that when brand name was revealed to participants, ratings diverged substantially. The t-tests quantify this phenomena, indicating that no significant difference existed between the two (at the 5 % significance level) in an unsighted environment, yet a significant different in perceived quality surfaced as soon as brand name was introduced into the proceedings.

Furthermore, comparing the average rating of the higher end brand—4.02 in the unsighted condition to 3.02 in the sighted condition—there was a significant increase in perceived quality (at the 5 % level) when respondents were made aware of the brand name. Likewise, the opposite effect came into existence when the lower-end brand name was revealed, with the rating changing from 4.00 to 4.37.

This, once again, was recorded to be a significant decrease in perceived quality (at the 5 % level).

6 Conclusion and Managerial Implications

This study underscores the importance of creating, and managing, powerful private label brands. In an emerging market, consumers have been found to exhibit high levels of brand loyalty, often being unable to afford taking the financial risk of trusting a relatively unknown brand that has the potential for failure. The results reveal that the mind is more powerful than the taste buds. In this respect, as the brand name was introduced, ratings diverged in favour of the higher-end brand and to the detriment of the lower-end brand. There appears to be a symbiotic relationship between brand name and perceived quality, perpetuated by a 'placebo effect', resulting in consumers' expectations driving their perceptions of quality. Owing to this effect, it is advisable for retailers to invest both in product quality and levels of brand awareness, trust and prestige. Whilst some may see advertising as 'wasted expenditure' in building private label brands, reinforcing marketing communications and brand messaging may just be the key to maximising sales. It would appear that the old adage remains stubbornly true: Perception = Reality.

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Spanish Food Private Labels Divergent Positioning and Common Drivers

Rafael Marañón and María Puelles

Abstract Over the last decade, the positioning of the different Spanish Food Private labels has evolved differently. Although the economic recession has emphasized the concern of consumers with price, the big driver to Private Labels Purchase during the 1970s and 1980s, the divergence in positioning still remains. However, beyond the divergent positioning of each brand, common drivers to PL purchase can still be found.

Keywords Private labels • Positioning • Proneness to purchase • Store brands • Loyalty

1 Introduction

Private labels (henceforth PL) have experienced a considerable marketing breakthrough in many countries throughout the world, including Spain (Puelles Pérez & Puelles Gallo, 2008). It is hard to find other cases of such marketing success and growth.

Typically, the vast majority of the academic research published has focused on PL as a whole, approaching them as if they were one and the same brand, and establishing their features and analysing the consumer's behaviour towards them as a single, rather than different brands, each one with a different positioning.

The purpose of this paper is twofold: on the one hand, to assess the evolution in the positioning of selected food PL in Spain, determining whether these brands have evolved homogeneously, under the same positioning attributes, or whether each one has evolved differently, to a distinctive positioning as compared to other PL. On the other hand, to explore whether, despite divergence in their positioning,

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there are common positioning features to be found for these PL that would enable a model capable of explaining purchase proneness of PL while allowing a level of predictive power.

The academic literature review suggests two research approaches: one that aims to identify objectively measurable parameters—such as quality or price, and another that, assuming the impossibility of isolating these parameters from the unpredictable nature of human reasoning and behaviour, focuses on them as perceived factors, such as quality perception, price perception, etc (Ailawadi & Keller, 2004; Wicks & Roethlein, 2009; Zeithaml, 1988). In this second approach, positioning becomes crucial in PL analysis. Experiential factors receive specific attention as potential modifiers of the consumer perception of quality and price of the products and the stores. So do risks, considered as background factors potentially determinant in the purchase behaviour, but which stay neutral when they are mildly or simply not perceived by consumers. The unknown actual influence of the unconscious aspects of human behaviour on product purchase (Fitzsimons et al., 2002) is considered a limitation of this subject's research, while opening up, at the same time, an opportunity for new, future research.

The inconclusive approach from objective parameters show the suitability of a positioning approach to the research of PL, based on consumers' perception of those factors that the academic literature has identified as the most relevant. This approach is the one that we will be following in this paper.

2 Hypotheses

The literature revision undertaken leads us to a theory: the divergence in the food PL positioning. There is a certain consensus that PL initially developed based on having a lower price than equivalent National Brands (henceforth, NB). We can expect now that other attributes have also been added to the consumers mind set explaining their proneness to buy PL. In fact, some authors have given evidence that quality/price relation is the most relevant factor in the purchase decision (Collins-Dodd & Lindley, 2003).

H1: Food PL in Spain have evolved from a positioning common to all PL, based on price, to a positioning based on differentiated attributes for each PL besides price itself.

The revision also offers the vision of a background in which the extended use of the marketing mix tools by the managers of PL, the generalized overall satisfaction with the global offer of the PL available in the market and a certain disconnection of consumers from the real intrinsic quality determinants of the different products, has enhanced the perceived quality in PL as a conclusive positioning feature for the PL. With this background, a divergent positioning for the different PL should arise, quality being perceived as a relevant factor for, at least, some of them.

H2: The perceived quality of PL has improved in the last few years to the point that a number of consumers consider quality perception and other quality related attributes as the main driver to purchase their selected PL.

Even if a positioning differentiation between PL were to occur, the strong incidence of the World Financial Crisis in Spain since 2008 should introduce a change in this tendency, by making price once more a recurring key factor.

H3: The recession has prompted a new twist in the food PL positioning, in which the primeval price factor will recover relevance vs. other factors that have become important in PL positioning over the last 10 years.

A question arises after this reasoning: if the different PL are progressively taking a different positioning –as often pursued by their managers (Morton & Zettelmeyer, 2004), are there still factors that can explain proneness to purchasing PL in general as it happened with the price factor when PL initially entered the market? While price still remains a key factor for many food categories and quality seems to have increased in importance, other factors such as purchase experience, the perception of PL being as good as NB (and even manufactured by the same producers), the consumers' perception of being loyal to the same shopping outlet and, of course, the product's taste itself, should be factors able to model the purchase proneness of PL as a whole, notwithstanding their individual positioning.

H4: Proneness to PL purchasing will not be attributable to only the price factor, but also quality should become an essential driver, pushing the price factor more to the background as a factor determining PL purchasing.

3 Methodology

Based on the Research data from the survey conducted every year by the PL Research Group of Universidad Complutense, that has been very kindly offered to us, we have been able to use the following instruments of analysis (Fig. 1).

The PL involved in this analysis has been selected by choosing those whose owner stores account for some 80 % market share (value) of food products in 2010.

The positioning maps have been developed with homogeneous attributes, although the 2009 and, particularly, the 2012 version have seen other attributes added that were not yet available in the survey carried out in 2001–2002. The comparison between the 2001–2002 and the 2009 periods positioning supplies information about the evolution of the different brands positioning in time. The comparison between 2009 and 2012 will show the influence of the recession on the previously described evolution on the PL positioning—recessions are proved to have a positive and permanent influence on PL market share (Lamey, Deleersnyder, Steenkamp, & Dekimpe, 2012). Finally, a fourth perceptual map will be displayed showing the PL positioning once the attribute "satisfies my price concern" has been discarded.

Hypoth.	*Research Data*	*Instrument*	*Output*
H1, H2, H3	Survey 2001-2002	Corbi analysis - Spad 5	Positioning map 2001-2002
	Survey 2009	Corbi analysis - Spad 5	Positioning map 2009
	Survey 2012	Corbi analysis - Spad 5	Positioning maps 2012
H4	Survey 2012	Linear Regression model – Eviews	Linear Regression Model

Fig. 1 Methodology applied to each proposed hypothesis

As for H4, the regression model is based on the following equation:

$$habitocomp = \beta_0 + \beta_1\, percepcal_i + \beta_2\, percepprec_i + \beta_3\, tanbuenasmfab_i + \beta_4\, compromasaa_i + \beta_5\, notsabor_i + \beta_6\, expercomp_i + \beta_7\, fidelidad_i + \varepsilon_i$$

20 categories were tested to evaluate the proneness to PL purchasing, measured as purchase habit (*habitocomp*) including milk and dairy products, olive oil, coffee, chocolate, sliced bread, biscuits, canned fish and vegetables, sodas, wine, frozen meals, etc.

The variables analysed in this model were gathered using Likert scales that were standardized on a range of 1–10, covering: price perception vs. NB (*percepprec*), quality perception vs. NB (*percepcal*), general perception of PL as being as good as NB (*tanbuenasmfab*), Satisfaction level experienced while purchasing in the most frequented shopping outlet (expercomp), Proneness to shop in the same store (*fidelidad*), Self-conscious tendency to increase PL purchase vs. previous year (*compromasaa*) and taste perception of the PL regularly purchased (*notsabor*).

4 Results

4.1 Positioning Maps

The 2001–2002 Positioning map (Fig. 2) shows how the different attributes aggregate closely together for the majority of the brands, while most of them do so close to the barycentre, showing low differentiation between them.

While price and quality are relevant variables, the price related attributes attract the vast majority of the brands tested, whereas the quality factor does not attract any of them, suggesting that the brands tested do not seem to have a clear quality perception by consumers.

The 2009 Positioning map (Fig. 3) shows how the different brands have evolved differentially from others, gathering around specific attributes. Three different perceptual territories, Quality (1), Price (2) and Purchase experience (3), emerge, with different brands positioned in each of them.

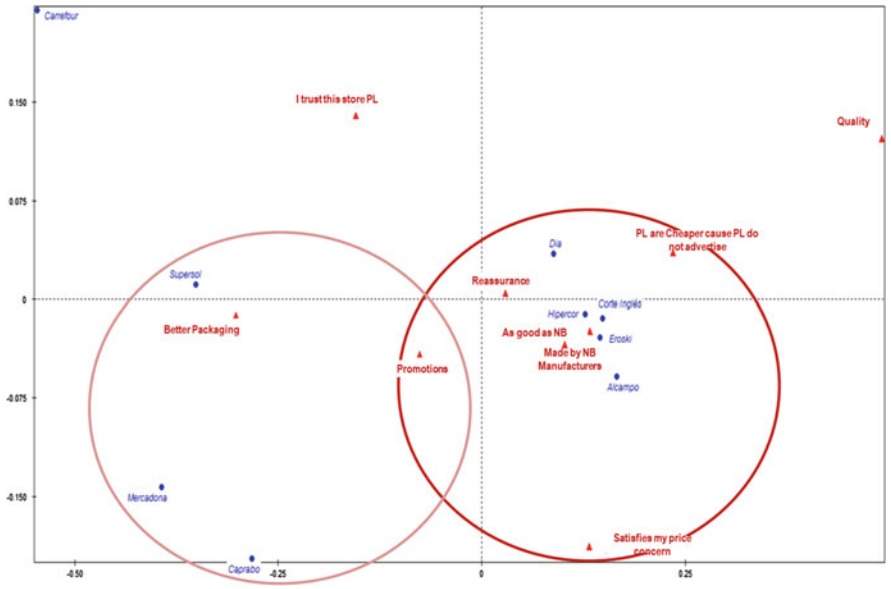

Fig. 2 Positioning map 2001–2002

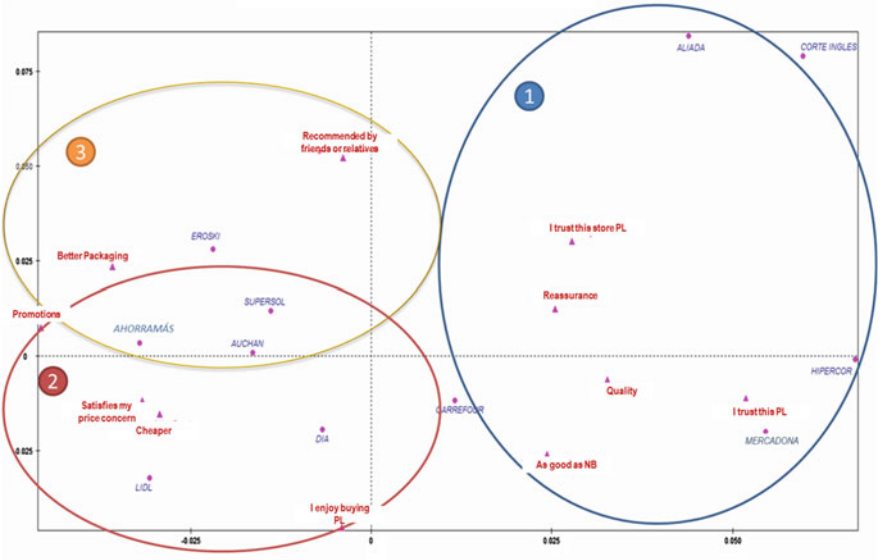

Fig. 3 Positioning map 2009

Quality perception remains a relevant attribute, defining a perceptual territory (number one in Fig. 3), but now some brands aggregate around this attribute, as opposed to what happened in 2001-2002. This evolution gives support to our

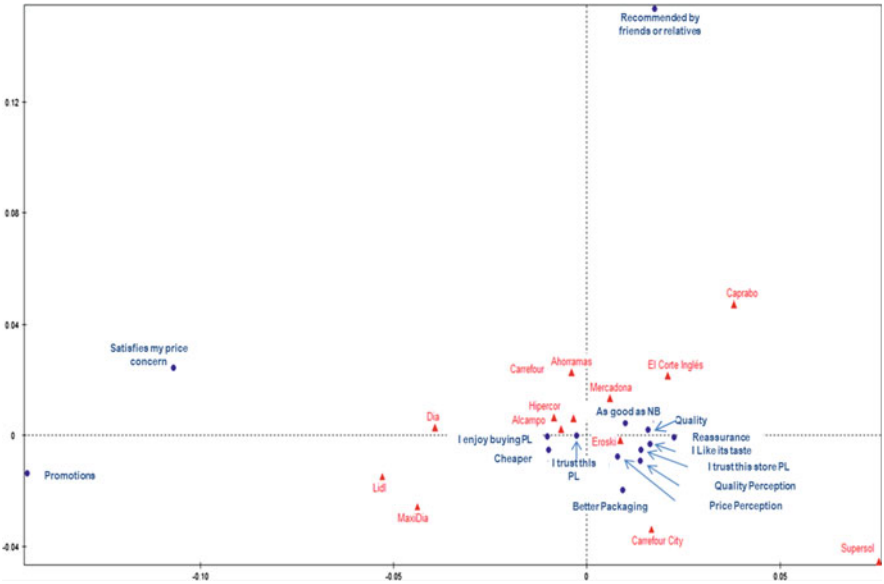

Fig. 4 Positioning map 2012 (in 2009 factors)

Hypothesis 1, whereas the salience acquired by the quality factor over the ten years span between the two maps is strong evidence supporting our Hypothesis 2, and is coherent with the actual improvement of objective quality features in observed PL (De Wulf, Odekerken-Schröder, Goedertier, & Van-Ossel, 2005).

The 2012 positioning map (Fig. 4) shows again an aggregation of factors and brands close together and to the barycentre. Once more the satisfaction of the price concern factor and the promotions of the stores (price related) are key factors in the consumers' mind set, which can be interpreted as a logical consequence of the severe recession, thus reinforcing our Hypothesis 3: price, in the context of crisis, regains importance for consumers.

However, if the "satisfies my price concern" factor is withdrawn from the analysis while other factors such as purchase experience or even price and quality perception are included, then the positioning map shows again differentiation between the surveyed PL. As shown in Fig. 5, four different perceptual territories can be identified: Shopping Experience (1), Packaging (2), Quality (3), and Price (4).

This, we can conclude, suggests that despite the price factor acquiring salience in the recessional context, if we transcend this factor, others will position PL differently, supporting once more our hypothesis H1 and H2.

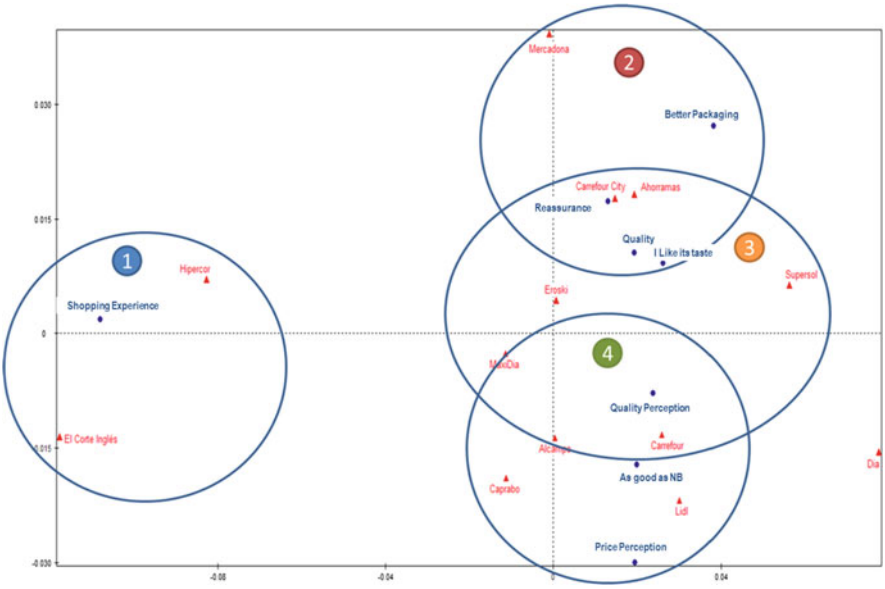

Fig. 5 Positioning map 2012 excluding the *Price Concern* factor

4.2 Model

After the corroboration of the first three hypothesis, a key question remains: given the dispersion of attributes for each PL, is there any set of factors that can be still considered relevant to explain, as a whole, the proneness to purchase PL or, to go even further, which have power to predict their purchase? Or has the positioning of each PL become so different from the rest of them that no common factors can concur in a model with enough predictive power to explain proneness to purchase whatever PL? Therefore, having identified differential attributes that explain divergence in PL positioning, would it be possible to identify common factors to explain PL purchase proneness being PL considered as a homogeneous category? The proposed model (Original Model in Fig. 6) shows a considerable capacity to explain PL purchase proneness and to predict PL purchase. *Quality Perception* (percepcal) stands out as the factor with the highest elasticity, followed closely by *Price Perception* (percepprec). But other factors such as *as good as National Brands* (tanbuenasmfab) or even *Taste* (notsabor) also show a considerable elasticity, and both of them are closely related to quality. The good experience with PL in the past (compromasaa), resulting in a tendency to increased purchase of PL, proves to be another relevant factor. However, Purchase Experience (expercomp) and Loyalty to the store (fidelidad) show low statistical significance, and have been discarded to produce a model only with statistically significant variables run under a White heterocedasticity test (Robust Estimate Model in Fig. 6).

	Original Model				Robust Estimate Model			
	Model	*Quoeficient*	*t Statistic*	*F Statistic*	***Model***	*Quoeficient*	*t Statistic*	*F Statistic*
R^2	***0,219***				***0,218***			
R^2 Adjusted	***0,215***				***0,215***			
F Statistic	***49,83***				***69,31***			
Constant		-22,39	-7,57	0,00		-22,70	-7,72	0,00
percepcal		1,67	5,03	0,00		1,63	4,09	0,00
percepprec		1,39	5,50	0,00		1,40	5,05	0,00
tanbuenasmfab		1,18	5,51	0,00		1,18	5,34	0,00
compro masaa		1,33	7,29	0,00		1,34	7,25	0,00
notsabor		1,02	4,51	0,00		0,98	3,81	0,00
expercomp		-0,24	-1,49	0,14				
fidelidad		0,20	0,97	0,33				

Fig. 6 Model results

Since quality perception, together with other quality-related attributes such as the perception of PL to be as good as NB or the rating on their taste, show considerable elasticity to the proneness to purchasing (measured as purchase habit of PL), we can consider our H4 as corroborated.

Altogether, our main theory stating the divergence in the food PL positioning remains unchallenged.

5 Managerial Implications

The results suggest a number of considerations for the industry.

For manufacturers of both PL and NB it is highly advisable a return to the marketing principles, adding value to the product through powerful consumer insights to enhance the perception of the differential advantages of the products and brands in their consumers, though not reducing the prices, this being a strategy which still has a clear association to PL positioning. Manufacturers should establish a clear strategy and determine whether to produce/not produce PL., in either case supporting their decision with clear strategic reasons.

For PL managers, in their concurrence with NB, the increased use of a balanced marketing mix seems to have resulted in excellent performance for their PL, while providing each brand with differentiated positioning traits. This is a path that they should continue to follow. Furthermore, all the marketing mix elements regarding the improvement of quality perception should be strongly presented as a strategic priority, since increasing the quality perception and improving the taste of their PL products should turn into increased proneness to purchase their PL. It is predictable that PL managers will find their biggest warfare ground in the other PL, towards which they have a new differentiating factor, namely the purchase experience. The pioneering stores that operate in this direction are likely to acquire salience and awareness and to attain considerable success.

6 Limitations

This research is limited to the Madrid area. A wider geographical area should be considered in future research. Considering the different PL as a whole instead of as individual different brands is a limitation derived from the questionnaires used.

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Part III
Consumer Behaviour

The Role of the Store Brands in the Creation of Consumer Loyalty and Trust in the Retailer Within the Context of Consumer Product Distribution

Natalia Rubio Benito, Nieves Villaseñor Román, and Maria Jesús Yagüe Guillén

Abstract Within the current economic context, store brands play an important role in differentiation strategies based on assortment and positioning in terms of distributor prices. To begin with, this study identifies three determining aspects of retail loyalty and trust: satisfaction with price levels, the perceived image of the assortment and loyalty to the store brands (SB). Secondly, this study will propose a theoretical relational model among the aforementioned aspects. Our research shows how satisfaction with the price levels is the most important antecedent for a retailer to achieve customer loyalty while the perceived image of the assortment exercises a more significant influence in the creation of trust. Faithfulness to the store brands is built, to a greater extent, upon the satisfaction with price rather than perceived image of the assortment, while its effect on loyalty to the retailer chain is moderated and its effect on trust is not very significant. These results have important implications for management.

Keywords Store brands • Loyalty to the store brand • Loyalty to the retailer • Trust in the retailer

1 Introduction

The economic recession in Europe, and more specifically in Spain, has aided in intensifying in the use of store brands. The favorable consequences that store brands have for distributors motivate greater study of this matter. For example, there is empiric evidence that loyalty to store brands increase the brand equity of the establishment marketing it (Bîgné, Borredá, & Miquel, 2013), and the positive attitude towards store brands expands within the scope of store brands with

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different positions within the establishment (Palmeira & Thomas, 2011) as well as among the various product categories (Erdem & Chang, 2012). Among the favorable consequences of store brand presence, retailer loyalty is noteworthy, which has also been studied in depth (González-Benito & Martos-Partal, 2012). However, studying the effect of store brands on retailer trust has been approached to a lesser degree, despite being an extremely relevant variable within the framework of relationship marketing. Therefore, this current study, together the retailer loyalty, incorporates trust in retailer as a variable to be explained. Moreover, in addition to loyalty to store brands, two variables are integrated to explain the characteristics of the retailer offer: assortment and price level.

The objective of this current work is to develop an explicative model for customer loyalty and trust towards the commercial chain based on the perception of assortment and the price levels that the distributor offers, as well as the attitude towards store brands. This objective represents an advance in retail strategy research and its consequences to supply practical implications for distributors.

2 Theoretic Framework and Proposed Hypothesis

This study proposes a model that explains the creation of trust and loyalty towards the retailer. Trust is defined as belief in retailer reliability (technical competence) and in intentionality (honesty and benevolence). Loyalty is defined as the tendency of a consumer to be loyal to a commercial chain. Although trust has been used as an antecedent for loyalty (Sirdeshmukh & Singh, 2002), for the present paper we consider that both variables are correlated and build different dimensions of the consumer's affective state towards the organization, being able to be constructed simultaneously as a result of the strategies developed by the retailers.

Within the context of this study, three relevant background aspects are taken into consideration when it comes to building loyalty and trust: price levels, product assortment and the store brands' strategy. First of all, the establishment's price level for the products offered improves the attitude towards store brands. This increases loyalty towards these brands, as customers who are faithful to the store brands are characterized by being more aware of value (Beristain & Zorrilla, 2011). Moreover, in the case of frequently purchased products, satisfaction with the various aspects of the products sold, such as price levels, are particularly relevant to attain loyalty to the commercial chain (Sirohi, Mclaughiin, & Wittink, 1998) and build trust (Chiou & Droge, 2006; Sirdeshmukh & Singh, 2002). Based on these arguments, the following hypothesis is proposed:

H1a: Satisfaction with the price levels exercises a positive and direct effect on loyalty towards the store brands.

H1b: Satisfaction with the price levels exercises a positive and direct effect on loyalty towards the retailer.

H1c: Satisfaction with the price levels exercises a positive and direct effect on trust in the retailer.

Secondly, assortment, in terms of image, refers to the quality and available of products sold by the retailer. Consumers base themselves on extrinsic attributes, such as the image of retailer's selection, in order to shape their perceptions about store brands (Beristain & Zorrilla, 2011; Diallo, 2012). Therefore, a positive image of a retailer's assortment helps to improve the attitude of the clients towards the retailer's own brands, taking into consideration that store brands are considered as a brand extension of a retailer's brand portfolio (Collins-Dodd & Lindley, 2003). Thus, the following hypotheses have been established.

H2a: The perceived image of assortment has a direct and positive effect on loyalty to the store brands.

As in the case of prices, the image of the products sold strengthens loyalty towards a retailer (Sirohi et al., 1998) and increases trust (Chiou & Droge, 2006; Sirdeshmukh & Singh, 2002). Based on this, the following hypotheses have been established:

H2b: The perceived image of the assortment has a direct and positive effect on loyalty towards the retailer.

H2c: The perceived image of the assortment has a direct and positive effect on trust in the retailer.

We consider loyalty towards store brands as a consumer's tendency to be loyal to store brands, something that is being demonstrated with the intention to purchase store brands as a first choice. Although there exist works defending the loyalty to the retailer favors attitude and loyalty towards the commercialized store brands (De Wulf et al., 2005), another research stream, the present paper among them, indicates a relationship in the opposite direction (Bîgné et al., 2013; Collins-Dodd & Lindley, 2003; González-Benito & Martos-Partal, 2012). Therefore, we propose:

H3: Loyalty to store brands exercises a direct and positive effect on the loyalty towards the retailer.

One might think that loyalty towards store brands implies greater consumer knowledge about these bands. This greater knowledge increases the perceived knowledge of these brands and reduces the perceived risk (González, Diaz, & Trespalacios, 2006), while at the same time increases consumer trust in these brands (Guerrero, Colomer, & Guardia, 2000). Trust in store brands is one of the factors that contribute to increasing trust in the retailer (Guenzi, Johnson, & Castaldo, 2009). These arguments lead us to present the following hypothesis:

H4: Loyalty to store brands has a direct and positive effect on the trust in the retailer.

Figure 1 shows the theoretical model for this research.

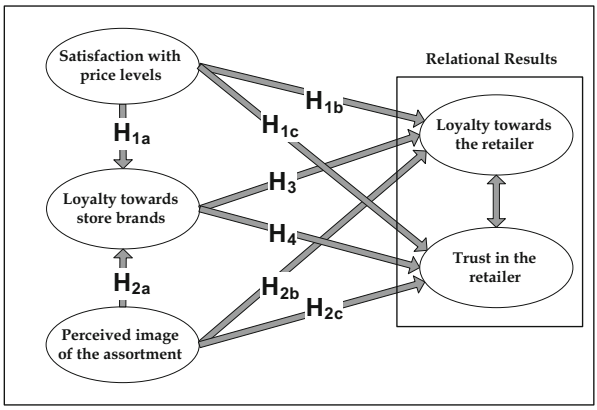

Fig. 1 Theoretical model

3 Methodology

To verify the proposed model and hypotheses, an empiric study was carried out. The study is based upon information compiled from those who are responsible for purchasing household consumer products.

The items used to measure the concepts proposed stem from the adaptation of previously used and validated scales found in the academic literature. Specifically, to measure the perceived image of the assortment, the items used were taken from the work by Calvo-Porral, Martinez-Fernandez, Juanatey-Boga, and Levy (2013), Diallo (2012) and Dabholkar (1996). Satisfaction with the price levels was measured using three items adapted from Anselmsson and Johansson (2009), while loyalty towards store brands was measured by adapting the items established in the work by Yoo, Donthu and Lee (2000). Lastly, for trust in the chain, the scale by Sirdeshmukh and Singh (2002) was adapted; for attitudinal loyalty towards the chain, the items from the work by Zeithaml, Berry and Parasuraman (1996) were adapted. All of the variables were measured with an 11-point Likert scale, from 0 (totally disagree) to 10 (totally agree). Table 1 describes the variables used with the corresponding items.

4 Results

4.1 Measurement Model

First of all, the quality of the measurement scales was verified ($X2/df = 1.96$; CFI = 0.990; AGFI = 0.959; RMSEA = 0.037). Table 1 shows the reliability and validity results.

Table 1 Reliability and validity analysis of the measurement scales

			Reliability		Validity	
Variables	Li	Ei	Cronbach's Alpha	Composite reliability (CR)	Average variance extracted (AVE)	Convergent validity
Perceived image of the assortment						
v1: The retailer always has available the variety and brands I need	0.84	0.28				t = 23.88***
v2: The retailer offers high quality packaged goods	0.64	0.51	0.82	0.84	0.65	t = 17.30***
v3: The retailer offers the variety and brands I need	0.86	0.26				
Intentions of loyalty to store brands						
V4: Considered to be a consumer who is loyal to the store brands	0.87	0.24				
V5: It is the first option in the shopping cart	0.90	0.19	0.90	0.90	0.75	t = 30.42***
V6: Consumers recommend store brands to friends and/or relatives	0.82	0.33				t = 26.92***
Satisfaction with price level						
V7: The retailer has a generally satisfactory price level	0.84	0.29				
V8: The general price level shows no abusive increases over time	0.73	0.47	0.85	0.86	0.67	t = 21.16***
V9: Fills the shopping cart at a reasonable price	0.87	0.24				t = 25.45***
Trust in the retailer						
v10: The chain has not disappointed the consumers	0.84	0.29				t = 29.33***
v11: The chain is honest	0.94	0.12	0.91	0.91	0.78	t = 35.06***
v12: The consumers trust in the chain	0.87	0.24				
Intention of loyalty towards the retailer						
V13: If I had to purchase large amounts of the products I buy, I would buy them at this chain	0.81	0.34				
V14: Should I decide to spend more money on my shopping, I would do so at this chain store	0.82	0.33	0.85	0.84	0.64	t = 19.10***

(continued)

Table 1 (continued)

			Reliability		Validity	
Variables	Li	Ei	Cronbach's Alpha	Composite reliability (CR)	Average variance extracted (AVE)	Convergent validity
v15: No doubt, I would fill my next shopping cart at an establishment of this chain	0.76	0.42				t = 15.56***

The discriminate validity was verified
Significance level: ***p < 0.01

4.2 Causal Relationship Model

The adjustment obtained for the model in Fig. 1 was satisfactory ($X2 = 149.85$; d. f = 74; $X2/df = 2.03$; CFI = 0.989; NFI = 0.978; IFI = 0.989; GFI = 0.974; AGFI = 0.957; RMSEA = 0.037) and it confirms all of the hypotheses proposed. Table 2 shows the parameters obtained.

Finally, it is good to note that the proportion of explained variance for the various dependent constructs was reasonable. Specifically, the explained variance for loyalty to the chain was $R^2 = 0.50$ and the explained variance for trust in the chain was $R^2 = 0.42$.

5 Conclusions and Recommendations

The results obtained in this research have allowed us to substantiate the hypotheses proposed and in this sense, confirm the correct functioning of the model proposed. It is important to note that loyalty and trust in retailers could increase thanks to the backgrounds research. However, these backgrounds influence the dependent variables studied with varied intensity. In other words, to generate chain loyalty, satisfaction with the price levels is an essential mechanism, followed by perceived image of the assortment and lastly, the loyalty to store brands. Nevertheless, when the pretension is to increase trust in the chain, the perceived image of the assortment is the most important factor, followed by satisfaction with the price level and to a lesser degree, loyalty to store brands.

Of the results obtained for the modeling proposed, important strategic implications can be established for retailers. First of all, within the current economic context, retailers must consolidate their positions by establishing competitive price levels because the perception of customer prices determines their loyalty and contributes to generating trust in the chain.

Furthermore, for retailers to boost customer trust, they must pay special attention to aspects linked to quality and diversity of product assortment. These aspects include sufficient presence of brands, greater emphasis on building a positive and

Table 2 Estimate of the relationship model

Relationships for the models	Standardized coefficient	t-valor
H1a: Satisfaction with price level → Loyalty towards store brands	0.32	7.08***
H1b: Satisfaction with price level → Loyalty to the retailer	0.38	8.68***
H1c: Satisfaction with price level → Trust in the retailer	0.32	7.80***
H2a: Perceived image of the assortment → Loyalty towards store brands	0.10	2.31**
H2b: Perceived image of the assortment → Loyalty towards the retailer	0.28	6.69***
H2c: Perceived image of the assortment → Trust in the retailer	0.38	8.99***
H3: Loyalty towards store brands → Loyalty towards the retailer	0.29	7.75***
H4: Loyalty towards store brands → Trust in the retailer	0.16	4.37***

**$p < 0.05$; ***$p < 0.01$

strong image of the brands they manage, and the correct presentation of products in the establishment, among other aspects. Lastly, by caring for the image of their assortment, distributors increase loyalty towards their store brands, thus differentiating them from their competitors, and achieving loyalty and trust. But, in the present economic context, loyalty towards store brands is sustained by attractive prices more than by the image of the assortment.

This study has its limits, which could be taken into account for future research. It would be convenient to consider other countries, other sectors and even differences between customer groups. On the other hand, it would be interesting to investigate other possible consequences of retail strategies, as well as considering other antecedents that help provide a more complete explanation of loyalty and trust in retailers.

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Consumer Preferences for National Brands and Private Labels: Do Business Cycles Matter?

Eugene Jones

Abstract Over 150 categories of consumer package goods, both national brands and private labels, are sold in U.S. supermarkets and this paper examines changes in market shares for these goods for one supermarket chain. This chain operates in most states but data used in Case Study 1 of this research covers 140 supermarkets across three states. These data are available for 2011–2013 and results show market share gains for private labels within 62 categories. The data period used has been one of economic growth for the U.S. and therefore market share gains for private labels cannot be attributed to declining disposable income. Rather, market share growth for private labels is most likely due to shifting consumer preferences. A second data set is used for Case Study 2 of this research and these data come from the same supermarket chain. Consumer preferences for breakfast cereals and coffee are analyzed and these data show significant growth of private labels among all consumers, but this growth is especially pronounced for lower-income consumers. These expressed preferences support the premise that lower-income consumers have higher price-sensitivity and higher propensities for purchasing private labels.

Keywords Consumer package goods • National brands • Private labels • Lower income • Higher income • Price sensitivity

1 Introduction

Private labels or store brands have gained a larger presence in the market baskets of consumers over several decades and researchers have offered various reasons for this growth (ACNielsen, 2003; Deloitte & Touche, 2003; Kumar & Steenkamp, 2006; Lamey, Deleersnyder, Dekimpe, & Steenkamp, 2007; Lamey, Deleersnyder,

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Steenkamp, & Dekimpe, 2012). An obvious reason for rational consumers to prefer private labels (PLs) over national brands (NBs) is that PLs are generally priced 25 % to 30 % lower (Kumar & Steenkamp, 2006); yet, both real and perceived quality differences between the two product classes can serve to offset price differences. Several authors have offered reasons for the growth of PLs: (1) reductions in new product innovations, advertising expenditures and promotions by national brand manufacturers; (2) increased concentration within the retail industry; (3) retailers' expansion of their private label programs; (4) improved quality of PLs; (5) a reallocation of advertising budgets by brand manufacturers; and (6) increased opportunities for private label sales because of lower disposable income for many consumers, especially during economic contractions (Lamey et al., 2012; ACNielsen, 2003; Deloitte & Touche, 2003). Indeed lower disposable income not only offers opportunities for growth of PLs, but it is a factor that leads lower-income consumers to make larger purchases of PLs (Huang, Jones, Hahn, & Leone, 2010). Plus, retailers seek to take advantage of every opportunity to expand store brands because increased market shares yield higher profit margins (Ailawadi & Harlam, 2004), enhance store loyalty (Ailawadi, Pauels, & Steenkamp, 2008), and motivate manufacturers to offer retailers better deals (Meza & Sudhir, 2010). Further, price differentials between PLs and NBs provide incentives for lower-income consumers to purchase larger shares of PLs because the marginal utility of each dollar is higher for them (Berry, Levinsohn, & Pakes, 1995). Simply stated, a price increase for any good is likely to have its greatest impact on the purchasing behavior of individuals who start out with the least amount of income (Aguiar & Hurst, 2007). As an economy reaches peaks of business cycles, consumers' level of price-sensitivity is diminished but many of them continue to purchase PLs because these peaks encourage inertia and a tendency for consumers to maintain behavior established during contractions (Gijsenberg et al. 2010).

The primary objective of this paper is to examine market share changes for consumer package goods (CPGs) for 2011–2013, with particular focus on the purchasing behavior of higher- and lower-income consumers. Data used for this research come from a single retailer but this research is best described as two case studies. Case Study 1 uses 153 categories of CPGs sold by the retailer, whereas Case Study 2 focuses on changes in market shares for breakfast cereals and coffee within four stores across a narrow geographic area. Although Case Study 1 uses data that are comparable to that used by Lamey et al. (2012), Case Study 2 examines the purchasing behavior of higher- and lower-income shoppers over a business cycle. To my knowledge, this is the first study to employ this approach. Three Midwestern states in the U.S. are represented in Case Study 1 and the period of this study has been one of relative growth. This comprehensive set of package goods is expected to shed insights on consumer purchases of PLs and NBs. Both product sales and quantity movements are available for PLs; for NBs, just product sales. These sales and quantity measures are used to assess preferences for NBs and PLs.

Case Study 2 uses scanner data to assess market share changes of NBs and PLs for two CPGs categories: coffee and breakfast cereals. These data are available for 2006–2011, covering the 2007–2009 business recessions. These data are limited to

the Columbus, Ohio, area and they are expected to shed insights on consumer behavior during the 2007–2009 recession. Specifically, these data allow for an examination of consumer behavior for PLs and NBs before, during, and after the recession. Census data for 2010 are available for specific geographic locations and these data are used to identify four supermarkets that can be used to compare and contrast the purchasing behavior of higher- and lower-income consumers. A key objective of this study is to answer the question as to whether lower-income consumers are more inclined to purchase PLs.

2 Literature Review

Most comprehensive surveys of consumer packaged goods (CPGs) have shown considerable growth for PLs across the United States and most European countries (Lamey et al., 2012; ACNielsen, 2003, 2005, 2010). CPGs have been the focus of interrelationships among PLs and NBs because they are necessary goods that consumers do not forego during periods of economic contractions and expansions (Shama, 1981). In 2003, PLs accounted for 15 % of U.S. CPGs; by 2010, this share had increased to 17 %. Additionally, PLs in the U.S. grew faster than NBs during each year of 1998–2008 (Steenkamp, van Heerde, & Geyskens, 2010). Findings show that PLs have realized growth during periods of economic stagnation, while NBs have rebounded during periods of expansion (Bowman, Minehart, & Rabin, 1999; Lamey et al., 2007). The National Bureau of Economic Research has confirmed that periods of U.S. expansions generally last longer than periods of contractions and this has led some authors to conclude that NBs regain all losses to PLs (Ward et al. 2002). Other authors have concluded that market share losses of NBs are never fully recovered because of factors such as asymmetric consumer behavior and changes in consumers' quality perceptions from experiencing PLs (Bowman et al., 1999; Kumar & Steenkamp, 2006; Lamey et al., 2012).

Consumer packaged goods of PLs have been priced 25 % to 30 % lower than NBs and this difference has proven attractive for price-conscious shoppers (Kumar & Steenkamp, 2006). From a cost perspective, NBs have advantages over PLs in that they are marketed nationally and realize economies of scale in production and advertising (Hoch, 1996). As regional products, PLs have higher production costs and fewer scale economies from advertising. Steenkamp et al. (2010) report that PLs may not suffer production disadvantages because most consumers realize that these products are produced by manufacturers, not retailers. Additionally, researchers have argued that brand manufactures lose many of their advertising advantages during periods of contractions because they shift funds from advertising to sales promotion (Hoch, Alan, & Park, 2002; Hoch & Banerji, 1993; Lamey et al., 2012). As consumers experience PLs during periods of contractions, they realize the quality gap between NBs and PLs is smaller than their initial perception and this makes them more price-conscious and more willing to continue their purchases of PLs (Steenkamp, 1989; Kumar & Steenkamp, 2006).

Although economic contractions stimulate purchases of PLs by reducing disposable income and thereby motivating consumers to become more price-conscious, researchers have concluded that these products are still purchased in large quantities even during peaks of economic cycles because consumers attempt to maximize utility for each dollar of expenditure (Berry et al., 1995; Jones, 2011; Lamey et al., 2012). For a large number of CPGs, lower-income consumers have demonstrated a propensity to purchase larger shares of PLs than higher-income consumers (Jones, 2010, 2011). Other researchers have found education and age to be important factors in explaining consumer purchases of PLs (Bouhlal & Capps, 2012). Researchers have concluded that manufacturers of NBs can mitigate the effects of income and various socioeconomic factors by expanding consumers' perception of the quality gap between NBs and PLs. Factors identified to expand this gap include product innovation, distinctive packaging, advertising, and an elevation of the difficulty associated with product manufacturing (Lamey et al., 2012; Steenkamp et al., 2010). Although consumers trade down to PLs in some categories of CPGs, they may simultaneously trade up in other CPGs (Silverstein & Fiske 2003). In short, a true picture of private label purchases requires an examination of all CPGs. Fortunately, this study captures every category of CPGs sold in Midwestern supermarkets.

3 Relevant Socioeconomic Data

Retail sales of CPGs for the retailer providing data for this study averaged $1.82 billion across three U.S. states during 2011–2013. National brands accounted for 69 % of this total. States accounting for these sales are part of the larger U.S. and therefore relevant income data for each state is compared to that for the U.S. (data not shown). Although available CPGs data are limited to 2011–2013, median household incomes are available for longer periods and these data show a decline of household income for 2006–2011. The base year of 2006 is relevant because it provides a point of reference for Case Study 2. That is, data used for breakfast cereals and coffee in Case Study 2 covers 2006–2011. As a point of emphasis, the U.S. economy collapsed in December 2007 and it continued its contraction through June 2009. This period of contraction is relevant for this study because it provides an opportunity to assess the changing mix of NBs and PLs in consumers' market baskets.

Table 1 provides 2010 census data for four geographic areas within the Columbus, Ohio, area. Within the center of each geographic area is a supermarket that serves shoppers within a 3-mile radius.[1] As shown, two of the stores are from higher-income areas and two are from lower-income areas. This is evident by

[1] This statement is not meant to suggest that shopping is limited to residents within this radius. Rather, this radius provides the dominant share of shoppers for a given store.

Table 1 Relevant socioeconomic data

	Population[a]	Median household income	% of population over 65	% of population in poverty	% of population col grads
Suburban stores					
Store 1	51,047	93,198	7.33	4.22	57.79
Store 2	32,737	78,086	10.02	4.89	47.70
Average		86,309	8.38	4.58	52.75
Inner-city stores					
Store 3	38,148	36,538	8.95	30.63	59.95
Store 4	18,569	35,275	12.81	23.78	17.61
Average		35,918	10.21	27.64	38.78

Census Tract Data for Ohio Counties, U.S. Bureau of Census, 2010
[a]Note that all variables are weighted by population values

factors such as median household income and level of poverty. Educational attainments are somewhat misleading for residents around Store 3 because this geographic area includes the Ohio State University. Many of these college graduates are undoubtedly pursuing higher degrees and therefore earning limited incomes. In short, low correlation between education and income for Store 3 is explained by its geographic location.

4 Statistical Results for Consumer Package Goods

Among CPGs, PLs enjoyed considerable growth in dollar sales, product movement and market share. These data represent just one supermarket chain but this chain is one of the largest in the U.S. For this chain, private labels control more than 50 % of the market for 26 categories of CPGs. These 26 categories cut across a wide array of goods but PLs are particularly strong among canned goods, dairy products, paper-products, and frozen goods. Because of space limitations, data are not shown for the 153 CPGs but these goods are segmented into 15 broad categories and PLs constitute 65 % of dairy products sales. PLs gained market share in 62 categories, achieved dollar growth in 77, and quantity growth in 64. By comparison, NBs gained market share in 73 categories, lost market share in 62, and achieved dollar growth in 92. Overall, NBs have a market share in excess of 50 % for 103 categories but realized market share gains in just 73. With PLs gaining market share during a period of growth for the U.S. economy, it seems unreasonable to attribute this growth to declining disposable income. Instead, this growth provides support for the argument advanced by researchers that many consumers trade down to PLs during valleys in business cycles but they continue to purchase these products during peaks of business cycles because they meet their quality expectations (Lamey et al., 2012; The Wall Street Journal, 1993). For this supermarket chain,

PLs hold a 30.9 % market share across the three states, a share that is much higher than the US average of 17 % (ACNielsen, 2010).

5 Statistical Results for Breakfast Cereals and Coffee

Data for breakfast cereals and coffee are collected from stores within specific geographic areas and these data allow for testing the premise that income plays a major role in the purchases of PLs and NBs. While collected data are not specific to individual shoppers, researchers have confirmed that most US supermarkets are patronized by residents who live within a 3-mile radius of a given store. Thus, median household income has been used to segment stores that serve higher- and lower-income shoppers. Data for breakfast cereals are available for 2006–2011; for coffee, these data are available for 2009–2011.

Focusing first on breakfast cereals for the two higher-income stores, Fig. 1 shows that private label shares increased during 2006–2011. Also shown in this figure are increases in PLs shares over the 2007–2009 recessions. As the economy rebounded in 2010 and national brand manufacturers lowered prices (prices not shown), sales and shares of NBs increased, while those for PLs decreased. By 2011, brand manufacturers had increased cereal prices and this led to an overall decrease in cereal sales, but an increase in the market share of PLs. A similar pattern is observed for market shares of breakfast cereals in the lower-income stores, although data problems exist for Store 3.[2] Despite these data problems, it is apparent that lower-income shoppers purchase a larger share of PLs breakfast cereals, relative to higher-income shoppers (Fig. 2). Indeed z-tests of mean differences for Stores 1 and 2 versus Stores 3 and 4 reject the null hypothesis of equal means for all years, except 2011. This failure to reject is undoubtedly related to Store 1 being an outlier in 2011. Retail prices in these two lower-income stores are identical to those described earlier, as the chain uses common pricing for stores within a given zone. Purchase patterns for the two income groups are consistent with the notion that lower-income consumers maximize their utility by purchasing larger quantities of lower-priced goods.

Data for coffee represents the period immediately following the 2007–2009 recession and these data show increases in the market shares of coffee for both higher- and lower-income shoppers, saved for the data problems of Store 3 (Figs. 3 and 4). These changes support previous research findings that part of the switch to private labels during a recession is permanent (Hoch & Banerji, 1993; Lamey et al., 2007; Lamey et al., 2012). Further, additional increases in market shares for private label coffee beyond the recessionary period suggest that perceived quality gaps between national brands and private labels have likely narrowed. As revealed for

[2] Data problems for this store became obvious when a separate study for coffee showed no sales of Starbucks coffee, the third largest brand, for 2010 and 2011.

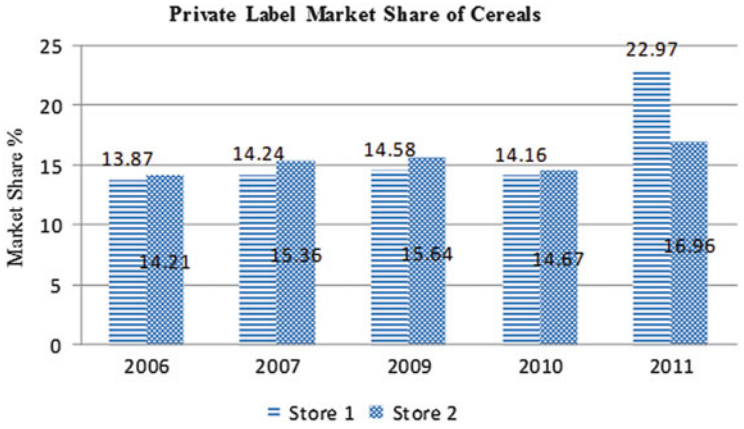

Fig. 1 Market shares of private label cereals in higher-income stores

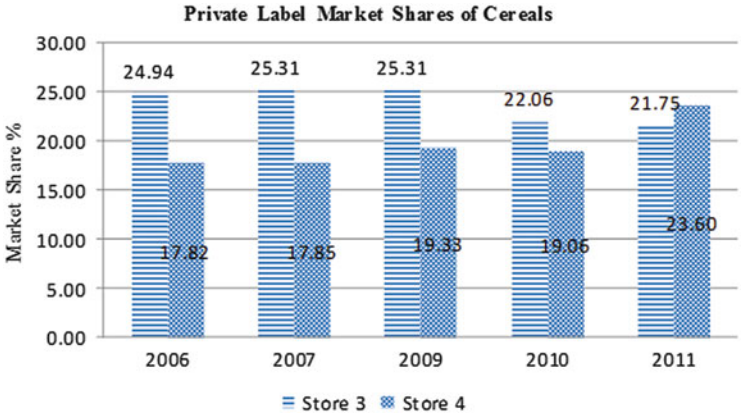

Fig. 2 Market shares of private label cereals in lower-income stores

breakfast cereals, lower-income consumers also purchase larger shares of private label coffee than higher-income consumers. As evidence, z-tests of mean differences for shoppers of Stores 1 and 2 versus shoppers of Stores 3 and 4 reject the null hypothesis of equal means for each year. With each dollar of additional income representing different levels of marginal utility for higher- and lower-income consumers, one would expect lower-income consumers to express greater price-sensitivity for product purchases. In short, higher prices for NBs make the purchase of PLs a utility-maximizing choice for consumers, especially lower-income ones.

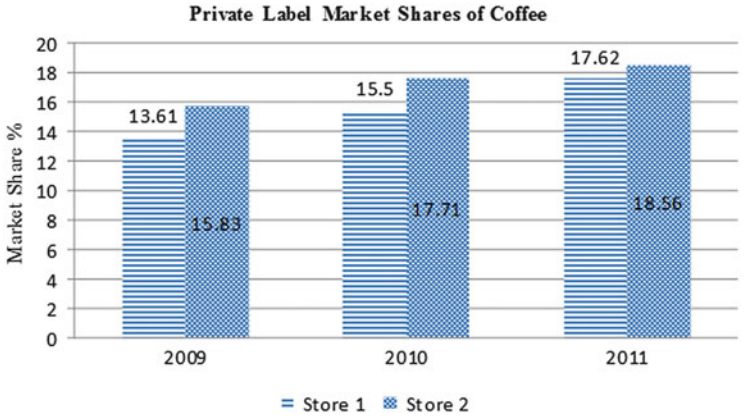

Fig. 3 Market shares of private label coffee in higher-income stores

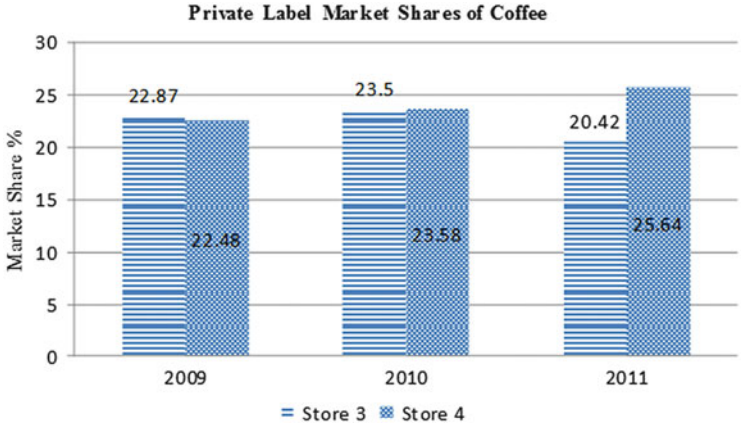

Fig. 4 Market shares of private label coffee in lower-income stores

6 Discussion

Although Case Study 1 shows market share gains for PLs in 62 categories of package goods, overall market share gains for these products were a modest .52 percentage points. This modest increase, however, is a significant part of large increases in overall sales. Over 2011–2013, sales of PLs increased more than $5.8 million, from an initial base of $562.7 million. With an eroding middle class in the U.S. and PLs having strong appeal to lower-income consumers, economics would suggest continued growth of PLs (Huang et al., 2010; Schwartz, 2014). Further, if the arguments advanced by researchers that brand manufacturers respond to market share losses by reducing expenditures for their most effective weapons against PLs,

advertising and product innovations, then these products should gain additional advantage and possibly accelerate their growth in the near future.

A second data set, Case Study 2, shows lower-income consumers to have higher propensities for purchasing PL coffee than higher-income consumers. This revealed behavior suggests opportunities for retailers to expand sales of PLs by using various marketing strategies that target lower-income consumers. One suggested strategy is price promotion, since lower-income consumers are known to be more price-sensitive. Indeed researchers argue that brand manufacturers turn to price promotion when their sales are eroding, but this only serve to exacerbate long-turn declines (Hoch & Banerji, 1993). Several empirical studies have confirmed that lower-income consumers have higher price-sensitivities for breakfast cereals and coffee and these same products are quite responsive to price promotion (Jones, 2014, 2011; Jin et al., 2010).

The title of this paper raises the question as to whether business cycles matter. Both sales and market share changes for breakfast cereals would answer this question in the affirmative. Breakfast cereal sales fell drastically from 2007 to 2009 for all four stores. Indeed they fell from an average of $360,250 per store in 2007 to $165,587 in 2009. As the recession ended in 2009, sales bounced back in 2010 to an average of $362,360 per store. Further, consistent with the expected impacts of a recession, market shares of PL cereals increased from 2007 to 2009, and then fell slightly in 2010, as the economy rebounded. When the rebound proved to be slower than economic predictions, PLs regained their momentum and showed significant increases from 2010 to 2011. Further, market shares of private label coffee exhibited the same pattern of growth as shown for breakfast cereals. In short, these results show quite clearly that business cycles matter and the speed of recovery can influence consumers' expectations and purchase decisions.

7 Summary and Conclusions

Consumer package goods are necessary products for most consumers and therefore purchased quantities of these products show limited fluctuations over business cycles. What does change, particularly during periods of economic contractions, is disposable income and consumers' price-sensitivity. Case Study 1 examined 153 categories of CPGs for 2011–2013 and the results show market share gains for many PLs. These gains are significant because NBs' dominance among CPGs (market share in excess of 50 %) exceeded that of PLs by a ratio of 4 to 1. They suggest that many consumers who traded down to PLs during the 2007–2009 recessions found them to be quality products and continued to purchase them after the recession ended. Indeed the data suggest that these consumers may have accelerated their purchases of PLs.

Case Study 2 used a subset of CPGs to explore consumer purchase behavior over different time periods: 2006–2011 for breakfast cereals and 2009–2011 for coffee. These data are more revealing in that they are linked to supermarkets within specific

geographic areas. Two of the supermarkets are located in higher-income areas, and two in lower-income areas. The analyses showed that all consumers increased their purchases of PL cereals over the stated time period, but consumers within lower-income areas showed higher propensities to purchase PL cereals. This finding supports the economic premise that lower-income consumers are more price-sensitive and they maximize their utility by purchasing larger shares of lower-priced goods. Despite the availability of lower-priced PL cereals, consumers greatly reduced their purchases of cereals from 2007 to 2009, the height of the recession. This suggests that consumers reallocated their disposable income to products deemed more of a necessity than cereals. From 2010 to 2011, cereal sales rebounded and market shares of PLs increased sharply.

Market shares of PL coffee increased during 2009–2011 for all consumers, just as discussed for breakfast cereals. Further, purchased shares of PL coffee are much larger for lower-income shoppers than for higher-income ones. A relevant conclusion from this study is that business cycles do matter. The troughs of these cycles provide incentives for consumers to experiment with lower-priced, PLs. Such experience seems to close the perceived quality gap between the brands and the realized cost savings provide motivations for consumers to continue their purchases of PLs. If brand manufacturers wish to maintain their market shares, these findings suggest that they must become proactive in marketing the benefits of national brands over store brands. These firms could perhaps compete more effectively by reducing the price gap between NBs and PLs during periods of economic contractions, as this would tamper brand switching.

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Drivers of Store Brand Choice Over National Brands in Times of Crisis: Effect of Marketing Variables and Socio-Demographics

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Abstract This paper investigates the effect of marketing variables and consumer personal characteristics on store brand choice over national brands in times of crisis in the French context. We developed a binary choice model to assess consumer choice of store brands instead of national brand products. The analyses are based on a large panel data with stratified samples of about 4,500 households (N = 80,732). Results show that marketing variables and consumer characteristics affect significantly store brand choice. However, while crisis intensity moderates the relationships between marketing policy variables and store brand choice, it does not affect overall the way consumer characteristics influence store brand choice over national brand. Furthermore, the product categories investigated are not affected similarly, highlighting the diversity of consumer strategies developed to cope with economic crisis. These findings present theoretical implications for marketing research and managerial orientations for retailers and manufacturers.

Keywords Store brands • National brand • Marketing mix • Socio-demographics • Product category • Crisis intensity

1 Introduction

The strategic role of store brands (SBs) has been emphasized in prior studies on Europe (Lamey, Deleersnyder, Dekimpe, & Steenkamp, 2007; Martos-Partal & González-Benito, 2011) and in France (Ataman, Mela, & van Heerde, 2007; Diallo,

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Chandon, Cliquet, & Philippe, 2013; Jara & Cliquet, 2012). However, since 2009, store brand market shares in grocery on the decrease in France. According to Kantar Worldpanel, the percentage of store brand market share increased from 38.5 in 2008 to 39.5 % in 2009. Some researchers attribute this growth to the economic crisis.[1] Other researchers showed that during the shock, consumers switched to store brands and decreased their consumption expenditures (Kaytaz & Gul, 2014). In such a changing environment, the following issues appear to play a relevant role from a retailer perspective:

1. What key marketing factors influence store brand choice over national brand during economic slowdown and economic depression?
2. Do demographic characteristics influence store brand choice in times of crisis?
3. Do these effects differ by product category?

A better understanding of these issues can help identifying appropriate marketing strategies, thereby optimizing resources. It may also help national brand managers who face increased store brand competition, especially in terms of innovation.

Previous research on store brand drivers focused on marketing mix variables (Ngobo, 2011), store image (Beristain & Zorrilla, 2011; Diallo et al., 2013), retailer factors (Dhar & Hoch, 1997), consumer characteristics (Richardson, Jain, & Dick, 1996), perceived risk (González-Benito & Martos-Partal, 2012; Liljander, Polsa, & van Riel, 2009). These studies do not however point out the moderating role of economic crisis intensity. Our study examines the impact of marketing variables (e.g., price, quantity, and advertising) on store brand choice over national brands in times of crisis. Our research aims to understand consumer and retailer adjustments in times of crisis. By doing so, we complete previous studies on the relationship between the business cycle and store brand purchase (Hoch & Banerji, 1993; Lamey et al., 2007).

Whereas prior research has yielded important insights about store performance, to the best to our knowledge, the moderating effects of crisis intensity on the relationship between consumer personal factors and store brand choice have not yet been examined. Our research contributes to understand the effect of consumer personal characteristics (socio-demographics) when crisis hits. In addition, prior research did not clearly define the role of product category in times of crisis. We suggest a clarification of the role of product categories in times of crisis by analyzing four product categories, in an attempt to extend and complete previous studies (e.g., Wedel & Zhang, 2004).

Our paper is structured as follows: we first examine previous studies on store brand purchase behavior and develops our hypotheses. We then present the research methodology. Next, we examine the results. Finally, discuss the implications of the findings and suggest avenues for further research.

[1] Catherine Heurtebise: Baromètre Symphony/IRI: see: http://www.e-marketing.fr/Thematique/Tendances-1000/Consommation-10000/Breves/Barometre-Symphony-IRI-les-MDD-toujours-en-stagnation-51710.htm

2 Theoretical Framework

2.1 Research Background

The central tenet of this research is that marketing elements, socio-demographics and times of crisis play a role in store brand choice over national brands. There are numerous studies that model the utility function of the consumer as a function of marketing variables (e.g. feature) and find that these actions affect the utility and thus, the brand choice (Guadagni & Little, 1983). Erdem, Zhao, & Valenzuela (2004) examined consumer choice behavior with regard to store brands in the United States, the United Kingdom, and Spain. They found that consumer preferences for quality and price explain consumers' store-brand choices. Previous research has also suggested that store brand choice can be linked to demographic profiles (Dhar & Hoch, 1997). For example, Ngobo and Jean (2012) showed that the rate of organic store brands increases according to the presence of a working female. However, these studies do not consider some key aspects of consumer consumption. By including the construct of crisis intensity, it becomes possible to understand relevant marketing actions that influence consumer behavior in difficult economic situation. Hampson and McGoldrick (2013) review several studies showing that consumer's shopping attitudes and behaviors are sensitive to recession. These behaviors may reflect consumer consciousness, especially in terms of price (Lichtenstein, Ridgway, & Netemeyer, 1993). Sinha and Batra (1999) showed that store brands are an excellent alternative for price conscious consumers. In line with Kaytaz and Gul (2014), the economic crisis is summed up to play a role in the relationship between marketing and socio-demographics elements and store brand choice.

2.2 Hypothesis Summary

We developed research hypothesis based on a comprehensive review of previous studies on store brands/national brands (Erdem et al., 2004; Ngobo & Jean, 2012; PLMA, 2009; Sinha & Batra, 1999) and on the business cycle in relation to marketing variables (Hampson & McGoldrick, 2013; Kaytaz & Gul, 2014; Lamey et al., 2007). Specifically, Kaytaz and Gul (2014) found that during the shock, consumers decreased consumption expenditures and switched to cheaper goods. We expect that the interaction between times of crisis (high/low) and both a marketing policy variable and a sociodemographic characteristic leads to greater effects depending on the brand than if each variable is considered alone. Hence, our main moderating hypothesis is that this effect will be more positive (or less negative) for the store brand than for the national brand. In addition, although any hypothesis related to product category is developed, the effect of this variable is

Table 1 Summary of research hypotheses

Marketing variables	Expected effect on store brand choice over national brands	Examples of references
Product price	Negative	Hoch and Banerji (1993), Dhar and Hoch (1997), Ferguson (2014)
Quantity purchased	Positive	
Brand feature	Negative	Zhang (2006), Lamey et al. (2007)
Brand display	Negative	
Socio-demographics factors		
Age	Positive	Dhar and Hoch (1997), Hoch and Banerji (1993), Ngobo (2011)
Profession (High/Low)	Negative	
Income	Negative	
Family size	Positive	
Moderation of crisis intensity		
Interaction between times of crisis (Low/high) and marketing policy variables	Positive or negative based on main effects' directions	Hoch and Banerji (1993), Lamey et al. (2007), Gramley (2008), Kaytaz and Gul (2014), Claeys and Cauberghe (2014)
Interaction between times of crisis (Low/high) and socio-demographic factors	Positive or negative based on main effects' directions	

assessed following prior studies in other contexts (Wedel & Zhang, 2004). Table 1 summarizes our research hypotheses.

3 Methodology

3.1 Data Description and Sample

We use purchase records from MarketingScan's Behavior Scan panels (a GFK & Mediametrie Company) in Angers (France). Angers (152,337 inhabitants) is the 17th largest French city. Panels represent stratified samples of about 4,500 households. Consistently to the research purposes, we selected two time periods: a slowdown period, but no crisis officially (January 1–June 30, 2008) and a crisis period (January 1–June 30, 2009) in France based on official figures from INSEE (French national statistical department). We therefore compared a period of low crisis intensity to a period of high crisis intensity in France. Hence, each period of time covers 26 weeks. Overall, we analyzed N = 80,732 observations across four product categories.

3.2 Model Specification and Variables

We consider that household h ($h = 1,\ldots, H$) buying in category c ($c = 1,\ldots, C$), in store s ($s = 1,\ldots, S$), and in week t ($t = 1,\ldots, T$) chooses between two types of products denoted k, where $k = 1$ for store brands and 0 for national brand products. A product choice by household h for category c, in store s and in week t ($hkcst$) is described by a binary choice model:

$$\omega hbcst = \begin{cases} 1 & if > 0 \\ & , \\ 0 & \text{Otherwise} \end{cases}$$

We included marketing policy variables (product price, number of products purchased, brand display and brand feature) and consumer personal characteristics (age, profession, income and family size) in the model. The variables are operationalized based on previous research (see Bonfrer & Chintagunta, 2004; Dhar & Hoch, 1997; Ngobo, 2011).

4 Analysis and Results

4.1 Main Effects and Interaction

In this section, we present the results of the regression model for choice of store brands over national brands in times of crisis. In Table 2, the results for the total sample (pooled data) are presented. In terms of goodness of fit, the model was able to classify correctly 75.3 % of the observations with respect to their chosen brand. Besides, the Nagelkerke R^2 (0.41) value indicated that the independent variables explain a substantial amount of variance in the dependent variable. Finally, the log-likelihood test, $-2 \log \lambda = 72177.21$ is significant at the 0.001 level. Consequently, we can consider that the binary regression model has a good fit to the data.

The results show that product price affects negatively store brand choice while quantity of products purchased has a positive effect on it. Brand display and brand feature have also negative effects on store brand choice, meaning that manufacturers should focus on advertising during economic crisis. The effects of consumer personal characteristics are also significant. While age, profession and income affect negatively store brand choice, family size is found to influence positively store brand choice over national brands. We also assessed the moderating role of crisis intensity on the investigated relationships. Our results indicate two main trends. On the one hand, crisis intensity affects the relationships between marketing policy variables and store brand choice. On the other hand, crisis intensity does not affect the relationships between socio-demographic variables and store brands

Table 2 Effects of marketing variables and socio-demographic factors (N = 80,732 with $N_{Crisis\ low}$ = 43,474 and $N_{Crisis\ high}$ = 37,258)

Independent variables	Main effects model				Model with interaction effects			
Marketing variables	β	SE	Wald	Sig.	β	SE	Wald	Sig.
Intercept	3.475	.088	1,565.413	.000	3.414	.088	1,492.163	.000
Product price	−2.041	.018	12,916	.000	−2.134	.027	6,441.882	.000
Quantity of products	1.563	.029	2,819	.000	1.834	.044	1,729.721	.000
Brand display	−1.335	.040	1,104	.000	−1.389	.052	712.013	.000
Brand feature	−1.149	.050	524	.000	−1.230	.062	395.693	.000
Crisis × Product price					.165	.034	23.245	.000
Crisis × Quantity of products					−.495	.058	73.316	.000
Crisis × Brand display					.154	.069	5.069	.024
Crisis × Brand feature					.214	.078	7.443	.006
Socio-demographics variables	β	SE	Wald	Sig.	β	SE	Wald	Sig.
Age	−.058	.004	247	.000	−.058	.005	119.757	.000
Profession	−.115	.022	27	.000	−.072	.032	4.994	.025
Income	−.019	.005	12	.000	−.017	.008	4.984	.026
Family size	.017	.005	10	.001	.027	.008	12.819	.000
Crisis × Age		.000	.007	.001	.981			
Crisis × Profession		−.078	.043	3.255	.071			
Crisis × Income		−.004	.010	.120	.729			
Crisis × Family size		−.018	.010	3.092	.079			

choice over national brand. These results are discussed in the Section "Discussion and Implications".

4.2 Effects Across Product Categories

As several prior studies emphasized the role of product category on brand choice (e.g., Wedel & Zhang, 2004), we assessed the investigated relationships in four main product categories: toothpaste (N = 15,813), shower gel (N = 15,345), dry pasta (36,470) and shampoo (N = 13,104). These consumer packaged goods were chosen because of their more necessary nature, even in times of crisis. We obtain a good model fit for each product category. For instance, Nagelkerke R^2 values ranged from 0.21 to 0.63 while −2 log λ values are all significant at the 0.001 level. Results indicated that all variables have a significant effect on store brand choice in the category dry pasta. In the category toothpaste, only brand feature and consumer age did not affect significantly store brand choice. In the category shower gel, only consumer profession and income did not influence store brand choice over national brand. Finally, in the category shampoo, no socio-demographic variable affects store brand choice while all marketing variables influence store brand choice over national brands. We discuss these results in the next section.

5 Discussion and Implications

5.1 Theoretical and Managerial Implications

This research highlights three main theoretical contributions. First, it underlines the role of marketing policy variables and socio-demographic factors on store brand purchase over national brand in times of crisis. These results are in line with previous studies indicating the greater importance of store brands when crisis strikes consumers (Hoch & Banerji, 1993). Consequently, consumers and retailers make adjustments in times of crisis to cope with limited resources. Our study shows that point of sale advertising (brand display and brand feature) is a key variable that affects negatively store brand choice in times of crisis. This finding confirms prior studies on store brand and the business cycle adopting a long-term orientation (Lamey et al., 2007). The effect of socio-demographic variables on store brand choice was also analyzed by Ngobo and Jean (2012) who reported similar effects. Second, this paper is the first to analyze the moderating role of crisis intensity on the relationships between marketing variables and consumer characteristics and store brand choice over national brands. By emphasizing the differences on the moderating effect of crisis intensity depending on the nature of the variables, this research extends previous studies on the business cycle (Hoch & Banerji, 1993; Lamey et al., 2007), and adds a new understanding of consumer behavior towards brands in times of crisis. Third, this paper also underlined the role of product category in times of crisis. We show that dry pasta category seems to be less affected by crisis than other product categories, indicating different consumer adjustments to face financial constraints in hard economic situations. In this respect, this research extends previous studies on product category (Wedel & Zhang, 2004), and helps to better understand how specific product categories are affected when crisis hits.

Several managerial implications can also be derived from these findings. First, marketers should be aware that when crisis strikes consumers, they are likely to make adjustments based on both marketing variables (brand display, brand feature, product price and quantity purchased) and their personal characteristics (age, profession, income, family size). Consequently, retailer strategies during times of crisis should be diversified in order to meet the need of diverse consumers. For manufacturers, it is clear from this research that they should strengthen their promotions strategies (brand display) and advertising (brand feature) to counter store brand market share rise in times of crisis. Consequently, they should not engage a price war against store brands (Van Heerde, Gijsbrechts, & Pauwels, 2008). Second, as crisis intensity has different moderation effects depending on the nature of the variables, retailers should adjust consistently their management during times of crisis. For instance, the focus should be laid on marketing variables as they are found to be sensitive to crisis intensity. Third, as product categories are differently affected in terms of store brand choice over national brands, they should be managed differently in a period of crisis. For instance, products such dry pasta

should be especially taken care of as they are affected by both marketing variables and consumers characteristics.

5.2 Limitations and Future Research Studies

Our research has some limitations and these provide suggestions for future research. First, our analysis has concerned one test market in France. Many countries of the world, especially developed countries also faced slowdown and economic depression. Therefore, generalizability can be enhanced, replicating this study with more countries, including different types of consumers, and other cultures. Culture differences may moderate the effect of marketing variables on store brand choice. Second, our model tested only a few marketing factors. Additional research should incorporate more marketing actions such as advertising. Advertising researchers found that repetitive advertising schedules increase the probability for a brand to be included in the consideration set and then the probability of its being chosen. Third, because store brand policies differ across stores and chains, future research needs to account for the heterogeneity of the retail chain format. Despite these limitations, our research contributes to a better understanding of the drivers of store brand choice in times of crisis.

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Do Men and Women Differ When Purchasing Private Label Goods?

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Abstract In the context of shopping goods, this paper analyzes the key variables in men and women when they have to face private label purchase decision: attitude towards private label, value consciousness, brand consciousness, involvement with the product and private label purchase intention. The moderating role of gender in the relationship between those variables is also analyzed. On a sample of 433 individuals, and considering two different shopping goods, results showed differences between men and women in all the variables, except in the value consciousness. Furthermore, due to a multigroup analysis technique, we found more differences between the variables affecting PL purchase intention. According to our results, buyer's gender consideration may introduce some nuances in the design and development of marketing strategies for shopping goods with private label.

Keywords Private label • Gender • Shopping goods • Value consciousness • Brand consciousness • Involvement

1 Introduction

There are three main reasons related to the current socio-economic environment that have led us to propose the present research. First of all, the household composition has changed, but so has the role of its members in purchase decisions. Although "traditional" household remains the norm today, the number of single parent and single person households at European level shows an increasing trend (as an example, see INE, 2013). Additionally, socioeconomic development and democratization have favored the spread of egalitarianism values (Schwartz, 2006). In developed countries, role distinctions between men and women have diminished,

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resulting in more complex and vague roles (Sidin, Zawawi, Vee, Busu, & Hamzah, 2004). On the other hand, the financial crisis has forced individuals to adapt their shopping basket to the new scenario; in the particular case of Spain, people buy more private label (PL) products and they even go to several establishments in order to benefit from their best deals (Nielsen, 2009). According to Gooner and Nadler (2012), we may assume that an individual is more likely to try PL in a recession. Therefore, their satisfaction after purchase could result in consumers being less likely to buy national brands again in consequent periods of buoyancy. Finally, retailers have extended their PL to new categories. Although acceptance of the PL in convenience goods is clear, acceptance of PL in shopping goods is not so obvious, since there are still scarce studies on PL in shopping goods. Consumer's PL purchase behavior is different from shopping goods behavior, since the latter has a greater involvement and a higher perceived risk associated to it. Value consciousness, brand consciousness, attitude towards PL and level of involvement with the product to be bought are important internal variables that can make the difference between buying PL or national brands.

In this context, the aim of this paper is to analyze the influence and relationship among these variables—traditionally studied for convenience goods—when they come to PL shopping goods purchase intention. Additionally, two research questions complete the paper: analyzing whether there are significant differences between men and women considering those variables (RQ1) as much as the relationship among them (RQ2).

2 Literature Review: Hypotheses and Research Questions

2.1 Antecedents of Private Label Purchase Intention: Hypotheses

PL in convenience goods is widely known and accepted (PLMA, 2013). A large number of academic studies has been developed, and variables such as value consciousness, brand consciousness, attitude toward PL and involvement with the product have been identified as antecedents of PL purchase intention (Ailawadi, Neslin, & Gedenk, 2001; Batra & Sinha, 2000; Steenkamp, Van Heerde, & Geyskens, 2010); as for PL shopping goods, those are the variables analyzed in this study, since they are key aspects when buyers face buying national brands instead of PL.

Attitude Towards Private Labels in General (APL) The relationship between attitude and behavior is well known; in the case of PLs in convenience goods, APL is the most important variable due to its positive influence on PL purchase decision (Zielke & Dobbelstein, 2007). Along this line, it is suggested that:

Hypothesis 1: APL has a positive influence on the purchase intention of PL shopping goods.

Value Consciousness (VC) It refers to the consumer's assessment of the product quality in relation to the price he pays for it (Lichtenstein, Ridgway, & Netemeyer, 1993). In shopping goods, with a higher perceived risk, the individual may give more importance to the value obtained and the price of the manufacturer's brand if he/she considers it unfair (Batra & Sinha, 2000). These situations can improve consumers' attitude toward PL and increase the probability of purchasing PLs. Thus:

Hypothesis 2: VC has a positive influence on PL general attitude.
Hypothesis 3: VC has a positive influence on purchase intention of PL shopping goods.

Brand Consciousness (BC) It is the consumer's willingness to buy the product whose brand manufacturer is the most known, the most expensive, the most advertised, and the best seller (Sproles & Kendall, 1986). In shopping goods, brand becomes relevant as it gives information about the product and the provider itself (Laroche, Nepomuceno, & Richard, 2010). In convenience goods, BC acts as a barrier to purchase PLs, especially when the perceived quality is low (Walsh & Mitchel, 2010). Therefore:

Hypothesis 4: BC has a negative effect on the PL general attitude.
Hypothesis 5: BC has a negative effect on the purchase intention of PL shopping goods.

Involvement with the Product (IN) It is the extent to which a consumer is committed to various elements of the consumption process (Broderick & Mueller, 1999). It plays a role in shaping individuals' attitudes and behavior and also in how they make decisions (Kinley, Conrad, & Brown, 2000). There is a consensus that the consumer's degree of involvement in purchasing shopping goods is higher than in convenience goods (Zaichkowsky, 1994). Although research in convenience goods suggests a negative relationship between involvement and PL purchase, results are not conclusive. Considering that the presence of PL in shopping goods is quite recent, we can remark that higher involved individuals will trust traditional national brands more than PL. Therefore:

Hypothesis 6: IN has a negative effect on the purchase intention of PL shopping goods.

2.2 *Gender as a Moderator Variable of Private Label Purchase Intention's Antecedents and Their Relationships: Research Question*

Considering real practice, in which gender is used as a segmenting variable for some product categories such as perfumes or yogurts—and as a variable to consider in brand advertising—to trigger brand identification, we can conclude that gender may also play a key role in the PL consumer decision process. The literature indicates that gender differences are evident both in purchasing decisions and in more general decisions (Wood, 1998). Compared to women, men are more interested in ICT-related products (Mitchel & Walsh, 2004), they are also less involved with national brands they perceive lower risk in the purchase, they consider the functional value of their possessions they have greater brand consciousness and they have a lower willingness to pay high prices for them (Mitchel & Walsh, 2004). Although in the context of PL, it is possible to find studies in which gender has been estimated (e.g., Burton, Lichtenstein, Netemeyer, & Garretson, 1998), its role has not been relevant, since the sample units used in most researches were the usual convenience goods' buyers, i.e., the housewife. Considering the aforementioned new social context, we propose the following research questions:

RQ1: Analyzing whether there are significant differences between men and women regarding (RQ1a) attitude towards PL in general, (RQ1b) value consciousness, (RQ1c) brand consciousness, (RQ1d) involvement with the product and (RQ1e) purchase intention of PL in shopping goods.

RQ2: Analyzing whether there are significant differences between men and women in the hypotheses aforementioned.

3 Methodology

Data collection was made through an exploratory descriptive population-based survey of people between 20 and 70 year old living in three European cities. It produced a sample of 433 valid questionnaires (218 from men and 214 from women). All variables were measured on 7-point Likert scales and were obtained from the literature (see Table 1). Psychometric properties of scales were assessed, considering the traditional criteria proposed by literature.

The selected product categories focused on the PL purchase decision were plasma televisions (TV) and washing machines (WM). Both products are different shopping goods in which it is possible to find a wide range of PLs: while a WM plays a utilitarian role at home, fundamentally linked to housework and therefore, traditionally to women, a TV is more hedonistic, more tied to technology, and perhaps less connected to a particular gender.

Table 1 Mean and t values for main variables according to gender

				Television		Washing machine	
Variable	Men	Women	Variable	Men	Women	Men	Women
Attitude towards PL in general (Burton et al., 1998)	3.73	3.93					
	T value: −2.161**						
Value consciousness (Lichtenstein et al., 1993)	5.43	5.57	Involvement with product (Zaichkowsky, 1994)	4.98	4.55	5.21	5.68
	T value: -1.335^{ns}			T value: 3.734***		T value: −4.063***	
Brand consciousness (Sproles & Kendall, 1986)	3.74	3.52	Purchase intention of PL (Dodds, Monroe, & Grewal, 1991)	3.53	3.94	4.09	4.22
	T value: 1.779*			T value: −2.274**		T value: -0.747^{ns}	

ns non significant; *$p < .10$; **$p < .05$; ***$p < .01$

4 Results

Related to RQ1 (Table 1) men, compared to women, have a significantly lower attitude towards PL (RQ1a), they also have a greater brand awareness (RQ1c), they are significantly more involved with the TV product and less involved than women with the washing machine (RQ1d), and their intention to buy a TV with PL is significantly lower than women's (RQ1e). For value consciousness, gender does not show significant differences (RQ1b).

As for the RQ2, we have estimated the proposed theoretical model, which has been applied to each product. We have considered the whole sample, testing the hypotheses related to the antecedents of the intention to purchase PL shopping goods. After that, in order to analyze the gender moderating effect on antecedents of PL purchase intention, a multigroup analysis (MGA) was conducted. The sample was divided into two groups of individuals according to their gender. Figure 1 shows all relevant results.

4.1 Results of the Structural Model for the Product PLASMA TV

Global Analysis Only four of the six hypotheses have proved to be significant. Neither the level of involvement with the TV nor the individual's Value Consciousness significantly and directly influences his/her intention to buy this PL product category (H3 and H6).

Hip	Structural relationship	Television				Washing Machine			
		Total sample	G1: Men	G2: Women	Dif. χ^2	Total sample	G1: Men	G2: Women	Dif. χ^2
		Stand. loading (*t* value)	Stand. loading (*t* value)	Stand. Loading (*t* value)		Stand. loading (*t* value)	Stand. loading (*t* value)	Stand. loading (*t* value)	
H1	PL General Attitude ⇨ PL Purchase intention	0.413 (7.65)***	0.506 (7.51)***	0.303 (3.71)***	0.36 ns	0.289 (4.66)***	0.247 (2.89)***	0.387 (4.83)***	3.03*
H2	Value C. ⇨PL General Attitude	0.214 (4.11)***	0.187 (2.41)**	0.240 (3.48)***	0.02 ns	0.219 (4.19)***	0.189 (2.44)**	0.245 (3.48)***	0.01 ns
H3	Value C.⇨ PL Purchase intention	-0.035 (-0.68) ns	-0.004 (-0.05) ns	-0.054 (-0.75) ns	0.21 ns	0.109 (1.95) ns	0.247 (3.32)***	-0.018 (-0.23) ns	6.23**
H4	Brand C.⇨ PL General Attitude	-0.263 (-4.05)***	-0.272 (-2.95)***	-0.224 (-2.54)***	0.93 ns	-0.284 (-4.42)***	-0.290 (-3.32)***	-0.250 (-2.84)***	0.90 ns
H5	Brand C.⇨ PL Purchase intention of	-0.187 (-3.36)***	-0.130 (-1.78) ns	-0.229 (-2.62)***	0.51 ns	-0.226 (-4.04)***	-0.199 (-2.67)***	-0.190 (-2.44)**	0.05 ns
H6	Involvement ⇨ PL Purchase intention	0.025 (0.44) ns	-0.086 (-1.13) ns	0.166 (2.01)**	3.12*	-0.154 (-3.22)***	-0.175 (-2.70)***	-0.128 (-1.93) ns	0.41 ns

		BBNFI	BBNNFI	CFI	IFI	RMSEA
Television	**TOTAL SAMPLE GOODNESS OF FIT:** S-B χ^2 (221)=730.05 (p=0.00)	0.862	0.884	0.899	0.899	0.074
	MULTIGROUP GOODNESS OF FIT: S-B χ^2 (442)=974.41 (p=0.00)	0.824	0.879	0.894	0.894	0.075
		BBNFI	**BBNNFI**	**CFI**	**IFI**	**RMSEA**
Washing machine	**TOTAL SAMPLE GOODNESS OF FIT:** S-B χ^2 (180)=318.43 (p=0.00)	0.929	0.962	0.968	0.968	0.042
	MULTIGROUP GOODNESS OF FIT: S-B χ^2 (360)=512.25 (p=0.00)	0.892	0.959	0.965	0.965	0.045

ns = non significant; * = p< .10; ** = p<.05; *** = p< .01

Fig. 1 Global and multi-group analysis: the moderating effect of gender

Multi-group Analysis There is no significant difference in the proposed relationships between men and women, with the exception of one relationship (H6). Although involvement with a TV does not determine the intention to buy a PL one when the buyer is a man, it is possible to find a weak influence when the buyer is a woman, since the level of involvement has a positive influence. Contrary to the direction posited by H6, when gender is considered, the more involved women are with a TV, the greater their intention is to buy a PL TV plasma.

4.2 Results of the Structural Model for the Product Washing Machine

Global Analysis All proposed relationships except one of them (H3) were significant and determinant for the intention to buy a PL washing machine.

Multi-group Analysis The general relationships previously discussed remain the same for men and women, except for two variables in which significant differences were found. On one hand, data suggest that PL Attitude has a significantly higher positive influence on purchase intention of PL in the case of women (H1). On the other hand, Value Consciousness does not influence the intention to buy a PL washing machine (H3) in the case of a woman, but it does in the case of a man: the higher Value Consciousness of male subjects, the higher intention to buy a PL washing machine.

5 Conclusions: Limitations and Future Research

Gender is one of the most common segmentation criteria used by marketers and it is quite easy to implement. In consumer behavior arena, little research has been dedicated to analyze gender differences. The present study supports the idea that men and women differ in their way of being and buying, as other studies have done (e.g. Chang, 2007; Massar & Buunk, 2013). With regard to PL (the key variable in this study) results show that women have a better attitude towards it than men and, also, that they have lower brand awareness. All this together will favor a higher consideration of purchasing PL in the case of women.

On the other hand, from the general relationships analyzed, several main conclusions can be drawn. First, PL is no longer just a cheap option, since the individual Value Consciousness is not generally a direct determinant of the purchase intention of PL shopping goods—although it plays an important role in the generation of a positive PL Attitude. Second, PL positioning in general is different from that of the manufacturer's, since a higher Brand Consciousness plays against the purchase intention of PLs. Finally, as it has been repeatedly pointed out, a good PL Attitude is a key factor to encourage the PL purchase intention. Considering these findings, managers of PL shopping goods should continue promoting PL as an alternative to the manufacturer's brand. In this way, PL brands would be positioned at the same level in terms of performance and value for money, instead of being ranked just as low price brands. In addition to these conclusions, and as a consequence of the performed multi-group analysis, we can state that not all variables play the same role in the purchase intention of PL shopping goods, since the link of a product with its potential buyer may help to establish nuances according to his/her gender.

This conclusion leads to the need to continue investigating in the study of PL when considering shopping goods. And the types of products that are analyzed must set safeguards in the generalization of the results, since they may encourage different effects that depend on the purchase decision-making of shopping goods. So, retailers should properly focus on the selling process of PL shopping goods considering the gender of the buyer.

The main limitations of this study come from the sample, since the multi-group analysis involved the use of subsamples of a limited size. Apart from extending the sample, we suggest to consider two main points in future research: (a) focusing on other categories of shopping goods in order to find a greater generalization of the conclusions, and (b) considering different usage scenarios (purchase intention when shopping goods are for the primary residence or for a second house).

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Consumers' Preferences for Various Private Label and National Brand Food Products at Different Retailers in Potchefstroom, South Africa

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Abstract Theoretically, private labels should benefit lower income consumers by saving them money. South Africa is an emerging country with high unemployment rates where consumers could benefit from purchasing value for money private labels. Although the market share of private labels has risen in this country, it has not achieved the success of global counterparts. This study investigated the relationship between demographic variables and consumers' brand preferences for selected food products in retailer outlets with differing target markets in a South African context. A mall intercept, interviewer-administered questionnaire was used to collect data ($n = 620$) in an urban area at prominent supermarkets selling both private labels and national brands. Education level and home language were the most significant demographic characteristics associated with brand preference. In product categories where the product is not visually recognizable when served, private labels seem to be more acceptable. Consumers, who have to purchase private label products due to financial constraints, are more prone to prefer a product where they are able to identify the contents. Brand preference seems to be product, region and retailer specific and related to specific demographic variables.

Keywords Brand preference • Food products • National brand • Private label • Retail outlets • South Africa

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1 Introduction and Background

The type of information that consumers most frequently use when making purchase decisions is brand name and price (Hoyer & MacInnis, 2008:215). In an emerging country such as South Africa, where there is a high unemployment rate, consumers might benefit from the lower prices of private label products. Although South Africa was ranked eighth in ACNielsen's top ten fastest growing private label markets based on value sales (ACNielsen, 2003) and emerging markets saw the fastest growth of private brands in 2005 with a 6 % share of sales in these markets (ACNielsen, 2005), national brands are preferred over private brands in emerging markets such as South Africa (Beneke, 2010; Wyma et al., 2012).

Despite the rise in the market share of private labels in South Africa (ACNielsen, 2003), these brands have not achieved the successes of their global counterparts (Beneke, 2010; Wyma et al., 2012), but although it is expected that lower income consumers purchase private labels and South Africa have a large population of lower income consumers, for most retailers the higher Living Standards Measures (LSM)[1] categories, especially LSM 6–10 tend to purchase these brands. This might be explained by lower income groups in South Africa, frequently not having access to large retail outlets where private labels are available. These consumers rather shop at local "spaza shops" (informal convenience shop), which charges higher prices due to their location and since they are not able to benefit from larger economies as in the case of supermarkets (Beneke, 2010). Furthermore, illiterate consumers are not able to interpret the language used on labelling (Wyma et al., 2012), and at a "spaza shop" the consumer asks for a product and have to be satisfied with whichever brand is available. However, this study focuses on retailers who sell both private labels and national brands, where consumers are in the position to make a choice between various brands and therefore exclude "spaza shops".

The major retailer outlets selling both private label and national brand food products in South Africa include Checkers, Shoprite, Pick n Pay and Spar (Joseph, 1996). Although these retailers sell private labels, their private label strategies and target markets differ.

The aim of this study was to explore and describe consumers' preferences for private label food products in Potchefstroom in an exploratory study as an example of the situation in a South African context as a developing country. The objectives were firstly to determine whether there is a difference between the preferences of consumers supporting different retailers with regard to private label and national

[1] Living standards measure (LSM) is the most widely used marketing research tool in South Africa. It involves a classification of the population into ten LSM groups: 10 being the highest. It categorises households according to their living standards using selected criteria such as degree of urbanisation and ownership of major appliances (SAARF, 2009). Respondents therefore had to indicate which of the listed items they owned and were then classified into one of the ten LSM categories.

brand food products. Secondly, to determine whether there is a difference between the preferences of consumers from different income groups with regard to private label and national brand food products. Thirdly, to determine whether there is a difference between the preferences of consumers from different education levels with regard to private label and national brand food products.

2 Methods

A quantitative approach, namely a survey that implemented a structured interviewer-administrated questionnaire was used to collect data in Potchefstroom. This method was used to prevent illiterate consumers, who are unable to read and write from being excluded from the sample (Rousseau, 2007:29). It is not possible to recruit a representative sample of the total population of an area with retailer intercept surveys, since each retailer has its own target market characteristics (Zikmund & Babin, 2010:213). However, research conducted in retail outlets is viewed as representative of the demographics of its immediate location (Aaker, Kumar & Day, 2007:396) since retailers generally draw customers from their immediate surroundings. The study reflected consumers' preferences at a specific point in time.

2.1 Measuring Instrument

The questionnaire comprised three questions with subdivisions. The first question on food preference was adapted from a questionnaire designed by Coe (1971). However, one question containing psychographic statements from Ailawadi, Neslin, and Gedenk (2001) was omitted for the purpose of this investigation, since the reliability determined by Cronbach Alphas was not acceptable when determined for the separate retailers. Demographic characteristics were determined by validated questions for South Africa from Hardy (2008). The questionnaire was pre-tested to determine the appropriateness of the questionnaire in the context of the study and to adapt it if necessary in terms of wording, use of concepts, understandability and time (Jin & Suh, 2005). The food products in the brand preference question from Coe (1971) were replaced by 25 products for which ACNielsen (2003) found a high value share in the private brand market and which represented private labels and national brands. Respondents were asked whether they had purchased one of the listed products and then had to indicate which brand they preferred (Coe, 1971). Demographic variables included age, gender, education level, employment status (Ailawadi et al., 2001), marital and family status (Baltas & Papastathopoulou, 2003), home language and living standard measure (LSM).

2.2 Study Environment and Population

Data were obtained using a retail outlet intercept method. Due to limited sources, questionnaires were handed out to a conveniently recruited sample in Potchefstroom which is situated in the North West province in South Africa. Performing the research in Potchefstroom seemed ideal based on the location of the North-West University in terms of the shopping area which limits travel costs whilst also providing opportunity to enlist competent field workers. This was an exploratory study, since similar studies have not been performed in South Africa before. While findings cannot be generalized to the whole South African population, the sample size (n = 620) and inclusion of consumers across all socio-economic levels, warrant the use of findings useful evidence in terms of better positioning of private labels.

The sample was meant to provide responses representative of grocery purchasers of the specific retail outlets rather than the population of Potchefstroom in general. Four well established prominent retail outlets, within a radius of 2 km from each other were included in this study. Retailers were chosen to minimize sample response bias as their typologies represent different socio-economic strata (Veloutsou, Gioulistanis, & Moutinho, 2004). Their vicinity allowed access to any of these retailers that consumers preferred or if they wished to obtain specific private label products. These retailers are also found in most cities and towns in South Africa and most consumers are familiar with them. All these retailers sell both private label and national brand products and their private label strategies and target markets differ. The mall intercept survey sampling method was regarded appropriate for this study, since the target population was primarily food purchasers. Permission was obtained from the management of the various retail outlets to approach respondents. By using a screening question, primary food purchasers were chosen to ensure they are familiar with grocery shopping (Ailawadi et al., 2001), while exit interviews ensured that respondents were customers of the specific chosen retail outlet (Whelan & Davies, 2006) and had purchased food items. Respondents were approached, irrespective of age, gender and racial group as long as they were able to speak English, Afrikaans or Setswana for communication purposes and was at least 18 years old to allow for informed consent as a major (South Africa, 2006).

2.3 Data Analysis

Descriptive statistics were used to determine the demographical and preference characteristics of the respondents. Thereafter cross-tabulations were done with the demographic and preference questions to determine the association between demographics and brand preference. Bi-plots were used to further demonstrate associations where large effect sizes were found. All statistical analyses were performed using the SPSS program package (SPSS Inc, 2013).

2.4 Validity and Reliability

The preliminary questionnaire was given to experts in the field, a pre-test and a thorough literature review was done to ensure content validity (Zikmund & Babin, 2010:334). Reliability was obtained using established measures which have proven reliability in previous research such as the preference question from Coe (1971) and ensuring the reliability of research workers by training them before they entered the field and by pre testing the questionnaire to minimise possible difficulties (Babbie, 2007: 146).

3 Results and Discussion

3.1 Demographic Characteristics of the Sample

The majority of respondents at all four retailers were females, except that at three of the retailers, there were between 19 and 29 % males, while at the fourth retailer (retailer A), the distribution was almost equal with 48 % males. This might be since grocery shopping is still mainly done by females (Cheng, Chen, Lin, & Wang, 2007). At retailer A 29 % of respondents were between the ages of 30–39. The majority of respondents at retailer B were between 30–59 years of age (58 %), with slightly less respondents in the other age groups. Respondents at retailer C were mostly (59 %) between 20–39 years of age. At retailer D most respondents (46 %) were between the ages of 20–29, while the number of respondents in each age group decreases with age for the other age groups.

The majority of respondents at retailers A, B and D had an education level of Grade 12 or higher, while respondents at retailer C were less educated with little high school or at the most grade 12. Almost 60 % of respondents at retailer A and retailer B were Afrikaans speaking, while more than 40 % was Setswana speaking. More than 50 % of respondents at retailer C were Setswana speaking, while between 18–20 % spoke either Afrikaans or Nguni. At retailer D an equal amount (42 % each) respondents were Afrikaans or Setswana speaking.

At all four retailers, the majority of respondents were employed full time (A = 54 %; B = 48 %; C = 36 %; D = 52 %). Retailer A (4 %), B (3 %) and D (4 %) only had a few unemployed consumers, while 25 % of respondents from retailer C were unemployed. Retailer B (35 %) seemed to have more respondents who are housewives or retired than the other retailers (A = 22 %, C = 20 %, D = 24 %). The vast majority of respondents at retailers A (62 %) and B (57 %) were married with single (A = 29 % and B = 23 %) people second. However retailer C (52 %), had more single people and there were little difference between the number of single (44 %) and married (50 %) respondents at retailer D.

As seen in Fig. 1, the majority of respondents at retailer A (71 %), B (77 %) and D (69 %) were in LSM groups 7–10 and these retailers also had the smallest group

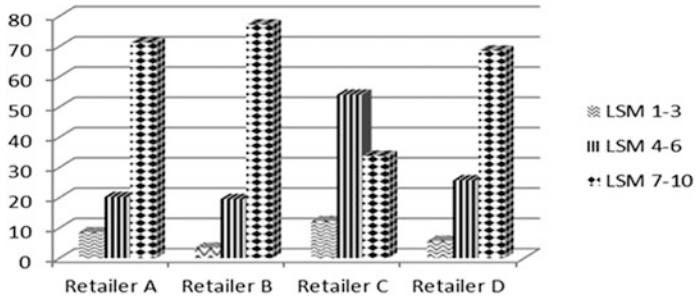

Fig. 1 LSM distribution of respondents at different retail outlets

of respondents in LSM groups 1–3 (9 %, 3 % and 6 %). Retailer C had the most respondents in LSM group 4–6 and although still a small number, the group in LSM groups 1–3 was the largest of all the retailers. The LSM distribution of respondents was in line with the target markets of the respective retailers (Greeff, 2009a, 2009b; Harrilall, 2007; Howell, 2009; Wright, 2009).

3.2 Brand Preferences Per Retailers

Respondents had to indicate from a list of 25 products, which are available as private label and national brand products, which of the products they actually purchase and of those, which brand they prefer to purchase. From the more luxurious products, such as frozen seafood, savory crackers, butter and sweet biscuits were purchased by less than 50 % of respondents from each retailer, possibly, since they are not basic food items and tend to be expensive. For most of the products, national brands were preferred over private label products at all four retailers, except for cooking oil, where private label was the preferred brand at all the retailers. However, the preferences of respondents from retailer C differed slightly to those from the other retailers. The majority of these respondents preferred private label dry pasta over national brand dry pasta. Furthermore the popularity of private label and national brand tea and jam was equal at retailer C, while national brands of these products were popular at the other retailers. These products represent products where the brand is not recognizable during use and physical characteristics such as taste and texture is not distinguishable, because the products is mixed with other products (Wyma et al., 2012).

3.3 Demographics and Brand Preferences Between Different Retailers

The possible association between demographic characteristics and brand preferences at the different retailers was determined by calculating phi coefficients. There were 39 large effect sizes (phi ≈ 0.50, Cohen, 1988:222), which indicate practical significance, of which 22 were between education and brand preference at a specific retailer, 10 was for home language, which was used as an indication for cultural issues such as language (and failure to interpret product information) and one each for gender, LSM and marital status. Associations between education and brand preferences were previously confirmed in research where consumers with a higher education seemed to be more prone to purchase private labels (Baltas & Argouslidis, 2007), since they see it as good value for money. Furthermore educated consumers may be better able to interpret label information to conclude that there is not much difference between the brands (Richardson, Jain, & Dick, 1996). Associations between language and brand preference have also been found by previous literature, with specific reference to cultural (Richardson et al., 1996), regional (Veloutsou et al., 2004) and ethnic group differences (Omar, Hirst, & Blankson, 2004).

The bi-plots resulted from correspondence analysis, illustrated that if a demographic factor is clustered close to a product brand preference, a stronger association exists between them and the closer together the symbols are, the stronger the association (Bartholomew, Steele, Moustaki, & Galbraith, 2002: 91). Due to limited space, only a few associations will be discussed.

Respondents at retailer C with primary education preferred private label canned and frozen vegetables, while consumers with secondary education preferred national brand vegetables. Respondents from retailer C tended to be in lower LSM groups than the other retailers, and therefore had a lower income and might just not be able to afford the more expensive national brands. This also confirms the findings of Beneke (2010), who found that consumers, who purchase private label products at retailer C, do so out of necessity rather than preference. The brand will also not be recognizable during use.

Respondents with a tertiary education preferred national brand mayonnaise at retailer A. Respondents with primary education preferred private label mayonnaise at retailer C and those with a secondary education preferred national brand. Respondents from retailer A were in higher LSM groups than respondents from retailer C. Mayonnaise is a product of which the brand may be recognized when it is served as a condiment which might explain why higher educated consumers who are expected to be in a higher LSM group, might prefer the national brands.

Home language seemed to be associated with frozen poultry preferences at retailer D. Setswana speaking respondents preferred national brand, while English and Nguni preferred private label and Afrikaans speaking respondents did not have any preference. Chicken is a relatively inexpensive source of meat which is quite often consumed by Setswana consumers (Viljoen, Botha, & Boonzaaier, 2005).

These consumers might prefer the national brand since they do not want to take the risk of making a mistake with an untrusted brand (Beneke, 2010).

4 Conclusion

This study was conducted in a specific geographic area in South Africa. Respondents from numerous socio-economic levels could be recruited at the various retailer outlets. The setting of the retailers was in close proximity from each other, which enabled respondents to choose a specific retailer according to their preference without much difficulty. Even though the findings cannot be generalized to a larger South African population, the sample size ($n = 620$) and the inclusion of respondents from all socio-economic levels make the findings useful in positioning private label products, which could benefit vulnerable consumer groups.

The focus of this study was to determine if brand preference could be linked to demographic variables when specific products are used. The merged data from the different stores, indicated only one large effect size between soup powder and home language (Wyma et al., 2012), but when associations were determined for each retail outlet separately, several large effects sizes were found between demographic characteristics and brand preference. This indicates that research should not only be product specific, but also retailer outlet specific.

At the three supermarkets where the target markets were from higher LSM groups, cooking oil was the only product where the private label was the most popular brand. At these retailers, the private label alternative of products of which the brand will not be recognizable when served seemed to be the most acceptable. These respondents probably associate cheaper prices with lower quality and did not want to use private labels if others will be able to recognize their preference.

Concerning the retailer which targets consumers in lower LSM groups, respondents preferred a wider variety of private label food products. This might attributed to consumers who do their shopping there having to buy the cheaper private label out of necessity rather than choice (Beneke, 2010). None of the private label products have pictorial representation on the packaging, which makes it difficult for lower educated consumers to know what the contents of a package are. However, some of the more popular private label products have a part where the contents can be seen through the package, which makes it easier to identify the product contents. The content of less popular private label products is more difficult to identify, since the packaging of all the private label products look the same and product content can only be identified by the name of the product printed on the packaging. Manufacturers in similar context as the present study should thus provide a pictorial representation of the product content, especially in markets where illiterate consumers are well represented, to increase sale of private label products. If consumers with lower education levels are able to see the content of the package or even a picture of the content on the package in cases where the first option is not practical, they might benefit by purchasing more private label products

at cheaper prices. The retailer might in turn benefit, by selling more private label products and by increasing store loyalty. When consumers are store loyal and loyal to the private label of a retailer even private label share of product categories where the product is popular to a specific cultural group such as chicken to Setswana speaking respondents and where consumers do not want to take the risk of making a mistake by buying a cheaper private label, may increase.

Although private label sales have increased in South Africa, this study suggests that national brands are still the preferred brand for the majority of food products. However, if the characteristics of the consumer are studied together with their preferences for different food products in specific retailers, manufacturers may be able to produce private label products which are more acceptable to consumers. Consumers may benefit by saving on these value-for-money products and retailers will benefit, by consumers becoming more store loyal and the possibility of earning higher profits as well as attracting consumers currently supporting other retailers' private label products.

Private labels from retailer C seemed to be more acceptable to less educated lower income consumers. Further investigation is necessary to better understand why this retailers' private label is more successful and specific product characteristics should also be investigated.

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Effects of Social Influence on Satisfaction with PL Brands in Thailand

Randall Shannon

Abstract Food retailers have been expanding rapidly in Asian countries, yet may face unexpected problems with consumer acceptance due to cultural differences. Collectivist culture and extended families imply it is likely there are more people in the shopping group, and the importance of face and status may lead to higher social risk in regards to buying private label (PL) brands. This study finds that social risk has a negative effect on satisfaction, while PL familiarity has a positive effect, and to a lesser degree perceived quality variation and price consciousness.

Keywords Private label • Asia • Consumer behavior • Social influence • Satisfaction • Culture

1 Introduction

As populations continue to age and marketing expansion opportunities dwindle, many firms look to emerging markets. Asia has numerous emerging markets of potential interest, especially Southeast Asia, with a number of countries having large and young populations.

With a population of roughly 70 million, about half being under 35, Thailand has seen an increasingly wide range of retailers enter the market in the last three decades. In terms of food retailers, foreign firms mostly began entering the market in the 1980s, with numbers rapidly increasing in the 1990s; though a number of firms exited the market as well (Seiyu, Daimaru, Sogo, Auchan, Printemps, Delhaize, Royal Ahold, Carrefour and Makro). For summaries of the expansion and evolution of modern trade food retailing in Thailand, see (Shannon & Mandhachitara, 2005; Shannon, 2009; Kongarchapatara & Shannon, 2014).

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The expansion of modern trade retailing brought new formats, which grew rapidly, such as convenience stores (Thailand is currently the second largest market in terms of the number of 7-Elevens, with more than 8,000 stores, though they only launched in 1989) and hypermarkets (Thailand is currently Tesco's third largest market, after entering in 1997). In addition to new store formats, retailers also introduced private label brands. While reports sometimes have listed Thailand as being among the fastest growing markets in the world for PL, these are misleading, as the growth moved from 0 to roughly 1 % over a period of more than 10 years. It seems more a case of retailers expanding their SKUs and pushing PL rather than widespread acceptance of PL by consumers, although there does seem to be uptake by the HoReCa market.

Hyman, Kopf, and Lee (2010) and then Gooner and Nadler (2012) undertook a comprehensive literature review of PL, showing a rapid increase of PL literature in recent years, yet they call for more research at the consumer level, particularly as relates to social benefits and potential cultural differences. Most of the existing research has been conducted in countries in which PLs are highly developed, which also tend to be Western markets (Steenkamp, Van Heerde, & Geyskens, 2010).

2 Asian Culture and Private Label Brands

Emerging markets tend to largely be comprised of lower income consumers. This would seem to create favourable conditions for private label brands, as low income seems to increase price consciousness (Lichtenstein, Ridgeway, & Netemeyer, 1993; Raju, Sethuraman, & Dhar, 1995; Batra & Sinha, 2000) and those with lower income might buy PL to stretch their budgets (Sethuraman & Cole, 1999). Additionally, Asians tend to have extended families, and larger households seem more prone to buy PL brands (Richardson, Dick, & Jain, 1996), at least in the West. However, Asians place a high degree of importance of face and status, which often coincides with public consumption and the use of well-known branded products. According to Levy and Weitz (2012), customers measure the value of their spending or shopping by comparing the benefits they gain and the costs they need to pay for. Social risk is likely to be of higher concern in collectivist Asian countries, where face and status are important (Dunn, Murphy, & Skelly, 1986; Schutte & Ciarlante, 1998; Wong & Ahuvia, 1998), which is likely to decrease interest in PL brands (De Mooij & Hofstede, 2002). Richardson, Dick, and Jain (1994) argued that familiarity with store brands, extrinsic cues usage in product evaluation, perceived quality variation, perceived risk, and perceived value for money, income and family size were the important factors influencing private labels purchases. However, larger households have been found to correlate to larger shopping group size (Shannon & Mandhachitara, 2005), which could increase social risk.

The majority of literature related to PL usage has been conducted in Western cultures. Cross-cultural research found that compared to North Americans, Thais are less time pressured, have more trust in branded products, are more likely to

utilize extrinsic cues to infer quality, enjoy shopping as a social activity, tend to spend more time and shop with more people (Shannon & Mandhachitara, 2005; Mandhachitara, Shannon, & Hadjicharalambous, 2007; Shannon & Mandhachitara, 2008). A number of factors that would tend to negatively affect acceptance of private label brands in Asia. Lower prices of PL brands may lead to price signalling and other extrinsic cues (Dick, Jain, & Richardson, 1996), implying lower quality, and me-too, look-alike packaging also may tend to reinforce perceptions of low quality. Thus far, the Thai market seems to be mirroring the evolutionary approach of private labels suggested by Laaksonen and Reynolds (1994), Wileman and Jary (1997) and Burt (2000), in that the majority of the private label brands are cheap mimic brands, offering similar packaging and lower prices, but also tend to be of low quality, while a minority are offering comparable quality products and merely a handful of premium private labels can be found. Thus far, few retailers in Thailand seem to understand or escape from the cycle of PL brands being perceived as low quality imitations. Rather than focus on what drives purchases of PL, this paper explores social risk, as it is expected that consumers may have negative feelings about buying PL in terms of what others might think of them and it's influence on satisfaction, as several researchers have suggested that satisfaction with PL positively correlates to repeat purchase (Ailawadi, Pauwels, & Steenkamp, 2008; Binninger, 2008). Consumers must first be motivated enough to try PL brands, but satisfaction is likely to affect their repurchase intention and consumer advocacy.

3 Hypotheses

This study utilized several constructs adapted from Richardson et al. (1996).

Many studies have reported that when perceived quality variation is high, purchase of private labels tends to be lower. Therefore, it is hypothesized that:

H1: Those saying perceived quality variation is low are likely to score higher on satisfaction with PL brands.
H2: Those who agree that PL brands offer good value for money are expected to score higher on satisfaction with PL brands.
H3: Those scoring high on PL familiarity are expected to score higher on satisfaction with PL brands.
H4: Those scoring high on value consciousness are expected to score higher on satisfaction with PL brands.

However, due to the potential social risk and stigma that may be attached to buying PL brands, it is hypothesized that H5: those agreeing that buying PL carries social risk are expected to have lower satisfaction with PL brands.

4 Methodology and Results

The questionnaire for this study was developed in English based on constructs published from previous research, then translated into Thai and back translated by several independent bi-lingual individuals—an academic, a professional translator, and a professional market researcher, to obtain meaning equivalence (Brislin, 1976; Craig & Douglas, 2006). Five or seven-point Likert scales were uniformly adapted to six-point scales, to reduce problems with a high proportion of neutral responses due to courtesy bias among Asian respondents (Ayer, 1970; Zhao & Culpepper, 1997). After a pilot test, random convenience sampling was utilized, and face-to-face interviews were conducted in Bangkok until a sample of 228 was obtained. Sample size was determined based on the requirements of the statistical techniques to be utilized, such as factor analysis and multiple regression (Hair, Black, Babin, & Anderson, 2009). After checking data for normalcy and errors, data analysis was run using SPSS 22. Exploratory factor analysis was run to check for cross-loadings, Cronbach's alpha scores for the constructs were between .6 and .7, shown in Table 1, which are considered acceptable (Cronbach, 1951).

To test the five hypotheses, multiple regression was run against the dependent variable, degree of satisfaction with buying PL. The overall model was significant (.000), with an adjusted r^2 of .258. However, value consciousness was insignificant (.398), thus was removed from the model and H4 was not supported. However, hypotheses 1–3 and 5 were supported, as shown in Table 2. After removing value consciousness, the overall model was significant (.000) with an adjusted r^2 of .267.

5 Conclusions

One potential limitation of this study is that by talking to users of private label, familiarity with private label is likely to be high, and users often say good things about the brands they use. PL familiarity would likely make perceived quality variation more accurate, as compared to if non-users were asked their perceptions. Then again, PL brands tend to face double jeopardy, as they have small market share and consumers tend to give lower scores in surveys (Ehrenberg, Goodhardt, & Barwise, 1990), meaning great caution should be taken when analysing and interpreting results. Perceived quality variation and price consciousness were weak predictors of satisfaction, yet value consciousness was insignificant, contradicting findings by Kara, Rojas-Méndez, Kucukemiroglu, and Harcar (2009) and Kwon, Lee, and Kwon (2008), although their focus was on purchase, not satisfaction. Perhaps it is a type of social desirability to not agree that one is value conscious (due to the importance of face and status) or is it that PL does not deliver enough value to derive satisfaction, due to low quality? One contribution of this research was to test some of the findings from Western markets in an Asian context. The strength of PL familiarity supports work by Richardson et al. (1996).

Table 1 Constructs and alpha scores

Construct	Number of items	Cronbach's alpha
Price consciousness	6	0.760
PL familiarity	3	0.719
Perceived quality variation	2	0.676
Value consciousness	4	0.654
PL Social risk	3	0.638

Table 2 Multiple regression model, DV: satisfaction with PL

Construct	Standardized beta	Significance
PL familiarity	0.329	0.000
PL social risk	−0.305	0.000
Perceived quality variation	0.182	0.006
Price consciousness	0.151	0.023

Building upon findings by Dunn et al. (1986) and Erdem, Zhao, and Valenzuela (2004), it was found that consumers who feel buying private label is a social stigma feel less satisfied with their PL purchases. As value consciousness was not significant, the two variables were nearly equal (yet opposite) in their explanatory power. To overcome this potential barrier, retailers need to find ways to reduce the stigma that buying private label may carry, especially since this may be heightened in Thailand due to the collectivist society, social shopping, and the importance of face and status. In studying the Thai market for the past 20 years, retailers in Thailand appear to be following the evolutionary phases, and currently most PL brands are cheap imitations, often with lower quality. Some premium PL brands have been launched, but retailers have said uptake is very low. Corstjens and Lal (2000) stated that retailers should increase their commitment to PL and develop better products and better packaging and not just rely on cheap prices and good shelf space. There have been few advertisements or much attempt to educate consumers as to what the premise of PL brands is—thus consumers likely judge them using extrinsic cues.

Richardson et al. (1994) conclude that consumers perceive store brands with high quality as more important than store brands with low price. They assert that high quality of store brands represents the basis for a sustainable competitive advantage for retailers, while low-price (implying low-quality) or a value for money approach reflects a suboptimal strategy in attracting consumers (Richardson et al., 1994). Dhar and Hoch (1997) find that a premium product offering and a retailer's commitment to quality enhance the retailer's store brand performance in all categories. Furthermore, unique products or products with a superior quality enable retailers to sidestep price competition (Burt & Davis, 1999). Corstjens and Lal (2000) show that quality store brands are drivers for store profitability.

A further complication is that it is very common in Asian countries to find small pack sizes, which make national brands affordable and PL a less attractive alternative (Shannon, 2009). Add to this the lack of future orientation among some cultures, such as in Thailand, and the money saving benefit of PL loses much of its appeal. Perhaps retailers can also launch small sizes of PL offerings, which

would have the additional benefit of leading to potential trial, which then could lead to narrow the gap of perceived quality differences.

Future research might explore satisfaction in more detail, such as product performance and also PL packaging. Better quality packaging may both attract consumers and contribute to satisfaction, and may be a stepping stone to premium private label brands. Researchers might consider manipulating extrinsic cues, or even playing upon country of origin effects, if they want to explore additional variables that could link to premium branding, or explore whether these might help reduce the social stigma which many people associate with PL branded products. Advocacy might also be studied, in relation to perceptions of positive or negative social stigma.

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Part IV
Online Context

Research Framework for Social Media in the Context of Private Labels

Nawel Amrouche

Abstract Private labels evolved since their first appearance to reach nowadays a variety of concepts. However, not only the concepts have evolved but also the objectives of offering private labels, the strategic approaches and the processes used by retailers to make these brands successful. One of the strategic windows open for these brands is the use of social media due to their low costs, high reach, increasing Internet penetration, high adoption by the tech-savvy generation, and its viral effect that has been shown to be more effective than costly traditional communication tools. However, there is a dearth of academic studies tackling the use of social media specifically for private labels. So, we offer in this paper a research framework for future works on this subject by discussing three levels of analysis namely modeling, behavioral and strategy-based research.

Keywords Private labels • Research framework • Social media

1 Introduction

Following the popularity of Internet, social media expanded to gigantic levels. Many facts confirm the strategic importance to integrate social media into a business in this era. As summarized by Digital Insights (2013), around 1.15 billion users are on Facebook and 74 % of marketers believe that Facebook is crucial for their prospect-building strategy. Approximately 500 million users are on Twitter and 60 % of users access it from their mobile device. Close to 500 million users are on Google + and 40 % of marketers are using already this platform, while 70 % intend to learn about it and 67 % intend to grow its use. Around 238 million users are on LinkedIn and there are over 3 million company pages on that platform. Every

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month, there are more than 1 billion unique visitors on YouTube and 60 % of Internet users state that the use of social media incites them to share products.

From another side, the competition between national (NBs) and private brands (PLs) has reached advanced levels to the point that, in some instances, PLs' shares exceed NBs' ones. For instance, PLs' shares reached 53 % in Switzerland and 51 % in Spain (Nielson data for PLMA's 2013 Private Label Yearbook). At the beginning, PLs were niche brands focusing only on generic offerings, low quality, high margins and profitability due to limited marketing efforts. Then, they evolved into imitators providing me-too brands. Innovation, careful brand portfolio and category management are becoming the rule now for retailers by offering premiums, super-premiums or value innovators. Mullick-Kanwar (2013) and Kumar and Steenkamp (2007) offered a detailed analysis of PLs' evolution and we summarize the main ideas in Fig. 1. It is important to note that all PLs' concepts do exist nowadays and a clearer distinction between them has occurred during their evolution. Ailawadi and Harlam (2004) showed that PLs increase the bargaining power with NB's manufacturers due to retailers' total control over brands' assortment and positioning on the shelves (Morton & Zettelmeyer, 2004). However, retailers are turning now to more collaboration rather than negotiation between both channel members to reach a win-win performance level (Mullick-Kanwar, 2013). Ailawadi, Pauwels, and Steenkamp (2008) found that PLs could increase the store traffic and loyalty. Amrouche and Zaccour (2007) showed the importance of PLs' quality and its impact on shelf distribution between NBs and PLs. Amrouche and Yan (2012) showed the role of PLs' potential and quality to influence the decision of the NB's manufacturer to open an online store. Indeed, both channel members are searching for innovative and effective tools that could create clear differentiation between their brands. Selling the product online and using social media are by-products of the rising power of Internet and are currently being used and tested by both channel members. For instance, Procter & Gamble is testing the benefits of the f-commerce by launching six new Facebook stores as an e-learning lab which is part of the eStore initiative (Marsden, 2011). Sorescu, Frambach, Singh, Rangaswamy, and Bridges (2011) discussed six major ways of innovative retailing business models and suggested that social media could be used by retailers as an exchange media rather than as one way or two-way communication vehicle in order to increase the efficiency of their business model.

The use of social media for PLs is increasing. To illustrate, Wal-Mart acquired Kosmix (a social media technology provider) and launched @Walmartlabs in 2011 (Walmart News Archive, 2011). The study *Social Media & Store Brands* (Failla, 2010) performed a survey through PLMA and included retailers operating in more than 26,000 stores such as Walmart, Target, Kroger, Supervalu, Loblaws, Costco, and Walgreens. The study found that 20 % of participants have already a clear strategy and implementation plan for their social media while 50 % are in the process of preparing them. As a conclusion, the study insisted on the crucial role of social media in connecting the PL to consumers and creating loyalty. While the study covered different dimensions about social media for PLs (e.g., awareness,

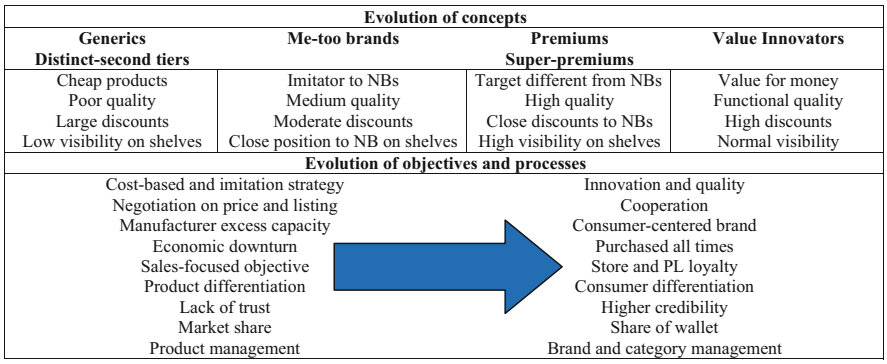

Fig. 1 Evolution of private labels

perceived value, corporate level use, strategies and practices), a thorough academic research tackling detailed questions is lacking.

This paper intends to provide a research framework and suggest directions for future studies related to social media's role for PLs. Three levels of research directions are proposed namely modeling approaches, behavioral methods and finally strategy-based studies.

2 Research Framework

We propose a framework that summarizes the main dimensions to consider while investigating the issue of social media impact on PLs. A general research framework of social media studies is proposed by Aral, Dellarocas, and Godes (2013), and we offer in this paper a framework idiosyncratic to PL context. Aral et al. (2013) grouped research by focusing the analysis on users or the whole society, applying it to specific platforms or intermediaries, and could be done at the firm or the industry level. They insisted also on distinguishing tactical from strategic social media activities.

Types of social media: different definitions were proposed in the literature. Sterne (2010) proposed six groups namely forums and message boards, reviews and opinion sites, social networks, blogging and micro-blogging, bookmarking and finally, media sharing. Kaplan and Haenlein (2012) added collaborative projects, virtual social worlds, and virtual game worlds. While studying the application of social media for PLs, researchers should first focus on the specificities and features of the platform then assess its role and influence on PLs' consumers.

Different concepts of PLs: as explained above, there are different concepts available from retailers. While some retailers focus on a specific concept (e.g., Ben & Jerry's company offers only super-premium products; H&M and IKEA offer only value-innovator brands), others sell more than one concept (e.g., Loblaws

offers *No name* as a generic brand and *President's Choice* as a premium brand; Carrefour offers *No.1* as a distinct-second tier brand and *Carrefour Agir* as a premium organic brand). The questions are then the following: is social media used the same for all types of PLs either within the same retailer's store or across many retailers offering different concepts? Do social media tools have the same impact on all types of PLs? Is social media used for different purposes across the PLs' concepts? How do social media characteristics (platform specificities) relate to the PL profiling (quality, price differential with NB, value, originality, objectives, segment specificity, store name or distinct name) to reach a certain performance level?

Impact of social media on PLs: two levels of impact should be assessed. From a tactical point of view, research should investigate to which point social media affects awareness and interest about PLs, and ultimately affects the purchase of these brands. Does social media have a single impact on consumers (e.g., awareness) or result in leveraging consumers to higher impact levels (e.g., purchase)? Also, studies should examine the influence on site traffic for retailers. From a strategic point of view, studies should analyze the impact of social media on PLs' loyalty versus store loyalty. Studies should also tackle the impact of social media on PL's perception and attitude of consumers toward PLs, as well as the emotional bond that could be created between consumers and the retailer's brand. Many questions related to engagement of consumers with social media for PLs remain also open. For instance, 1/ does social media for PLs convert simple visitors into advocates and influencers, 2/ does social media have a long-term effect on consumers (e.g., customer-lifetime value analysis) rather than just short-term effect (e.g., sales analysis), 3/ to which point social media for PLs could help in making product development processes more successful and effective by reducing the failure rate for retailers' brands, 4/ what is the hierarchy of effect of social media on PLs' consumers?, 5/ does social media help building brand equity for PLs?

Measurement of social media impact: one of the main challenges of businesses is the measurement of social media impact on their performance (e.g., Michaelidou, Siamagka, & Christodoulides, 2011; Hoffman & Fodor, 2010). Which metrics to use, what technique to use for analysis, what types of data and variables to include, what level of social media's use to analyze (e.g., just liking a Facebook post or engaging through comments and sharing) are all questions that apply when researchers would like to investigate the impact of social media on PLs' success.

Moderator variables: studies should take into account many variables that could moderate and influence indirectly the result of social media impact on PLs' success. These variables include for instance the gender, the product type, the retailer's format (e.g., discount stores, warehouse clubs, specialty retailers, and category killers), the social media competition between NBs and PLs, the interaction of social media with other marketing mix, the industry structure, etc.

Analysis level: future studies should tackle the issue of social media for PLs from different perspectives. Analysis should be performed at the consumer, store, category, and brand level. The studies could be longitudinal to assess the attitudinal shifts or cross-sectional to explore the social media effects and propose conjectures.

Competition at the retailer versus the manufacturer level should be also included. Moreover, the issue of dual channels could be an interesting topic where the manufacturer opens an online store and the retailer uses intensively social media to counter the threat of online store competition. The context of PLs produced by separate PL's manufacturers versus NB's manufacturers could also lead to different findings when it is combined with using social media for the retailer's brand and should be examined in the future. Indeed, from a manufacturer perspective, building scale by producing PLs induces many challenges (Gruver, Meacham, & Tager, 2011).

3 Directions for Future Research

We offer suggestions for future studies that could shed light on the role of social media for PLs. We group the research process into three perspectives: modeling, behavioral and strategy-based research.

3.1 Modeling Studies

Sethuraman (2009) offered a detailed review of many studies covering the topic of NB and PL competition and using modeling approaches. However, none of these studies has yet tackled the role of social media and included it as a decision variable or as a parameter affecting the channel members' strategies. To fill this gap in the literature, we propose the following suggestions:

- Using game-theory approach and considering the interaction between channel members, how do social media tools affect the demand function and how does it interact with other decision variables such as pricing? Does it have only a short-term impact or it could affect, and if so how, the goodwill stock of PLs through carryover effects? Does it have an impact on cross-price competition between NBs and PLs? How do social media tools for PLs play a role when the manufacturer offers his NB online? Is it a good counterstrategy for the retailer? Singh, Jain, and Kankanhalli (2011) proposed a game-theory model to study social media contributions.
- Evolutionary game-theory could be a very suitable approach to scrutinize the success of on-going adjusted social media strategy for PLs especially in case of an online crisis and the spreading of bad reputation about the retailer's brand.
- Using forecasting studies, researchers could build models that help retailers to predict the performance of social media for their brands. However, the issue here would be to determine which performance should be tracked (e.g., sales, equity, ROI, frequent visitors on the retailer's website, etc.), in which context these models are applicable (e.g., apply to all retailers' formats or only to specific

ones) and which metrics to include in these models (e.g., tweet, retweets, sharing videos, positive versus negative comments, etc.).
- Using optimization methods (linear or dynamic programming approaches and heuristics), future research should tackle the allocation of a retailer investment into different media mix (paid media such as advertising on TV and owned media such as forums on the retailer's website) and assess the success rate of social media for PLs compared to other integrated marketing communication tools.
- Based on Bayesian probability approaches, future studies could analyze the update of consumers' intention to purchase a PL triggered by the use of social media for PLs and more specifically the role of influencers to alter consumers' choices and their probability to switch from a NB to a PL.
- Another study worth considering is to explore the spillover effects that could result from using umbrella branding for PLs combined with social media. How does social media help improve the reputation of all PLs under the same name? The use of structural equation modeling could be of great benefit for this topic.

3.2 Strategy Studies

Different strategy questions remain open for retailers using social media to boost the success of their brands. We summarize below some directions of analysis:

- A big problem that could arise from the use of social media is to lose credibility due to negative comments and quick spreading of word-of-mouse. Hence, strategy-based research should analyze processes of online reputation management that retailers should follow in case of crisis for their PLs.
- Customer-lifetime value is an important concept in strategy management. Future studies should assess the role of social media in enhancing customer retention and customer acquisition for PLs. While it has been shown that customer acquisition costs are much higher than retention costs, the question is then: what would be the differential impact of social media tools for PLs in order to reduce these costs or to improve the retention of customers from switching to NBs?
- Mullick-Kanwar (2013) explained that retailers are moving toward customer-focused orientation strategy. To illustrate, Tesco sells cheap PLs based on the need of working class families rather than based on the manufacturer's offer. Besides, Tesco sells organic PLs tied to the needs of high-end consumers. Tesco Finest selects areas where it could add value such as premium cookie tins accompanied by carefully designed packaging and merchandising tools. The question is then: what is the role of social media for PLs to improve retailers' search for untapped needs and enhance their product development processes? Diffusion modeling could complement strategy theories to examine this issue.

- Strategy-based research should provide meta-analyses explaining the difference between tactical and strategic impact of social media for PLs. They should clarify the context and circumstances to have these impacts and differentiate its effect on store loyalty versus brand loyalty. Strategy models developed by practitioners could be used as a starting point (see http://www.socialmediamodels.net).
- It will be interesting to base the analysis on strategy theories to elucidate the role of social media to alter or nurture the positioning of PLs as leaders, challengers, followers or nichers in a specific category. Besides, structuralist or reconstructionist strategy-orientation could further enhance our understanding of retailers' strategic move and way of thinking.
- How does social media impact the whole value chain from suppliers to the end consumer and how to integrate social media into the variety of brand management approaches used by retailers for his own brand? These are other promising research paths that could be investigated using attribution theory. Another framework would be contagion theory as used by Rapp, Beitelspacher, Grewal, and Hughes (2013) to study the effect of social media at different levels of the distribution channel (supplier, retailer and consumer). The authors showed that social media usage has a positive impact on the brand and the retailer performance as well as on the loyalty to the retailer's store. They proved also empirically that a number of moderator factors enhance this contagion effect namely the channel members' brand reputation and the service ambidexterity but not the customer interaction frequency.
- Could social media be considered an effective sub-branding initiative to complement packaging design for PLs? Mullick-Kanwar (2013) explained that packaging is not enough to make the new retailers' branding approaches successful. Hence, we suggest investigating if and how social media could play a key role in branding assessment processes for PLs? Muzellec, Lynn, and Lambkin (2012) discussed virtual branding and proposed a typology of branding 2.0. The study could be used as a basis to understand the virtual PL's branding strategies.
- New hybrid forms are being implemented for PLs namely co-branding (e.g., French *Babybel* cheese brand of Bel Group is co-branding with the PL of Aldi *Be-light*), channel blurring (e.g., USA Pizza *Express* sells its pizzas also via Sainsbury's chain in the UK) and multiple availability (e.g., In Chile, D&S sells products of the US retailer Safeway; Indian Retailer K Raheja sells the UK Waitrose PL through its HyperCITY stores) as explained in Planet Retail Ltd (2012). It is worth investigating the viability and added value of these strategies as well as their success when combined with social media for PLs.

3.3 Behavioral Studies

Additional research questions require behavioral-based theories in order to shed light into the cognitive, affective and behavioral reaction of PLs' consumers when retailers integrate social media in their marketing efforts.

- Experiments could be used to manipulate the use of social media for PLs and to assess their effectiveness. For instance, studies could use different versions of videos for PLs on the retailer's website and analyze the reaction of website visitors (either PLs' consumers or NBs' ones) in terms of engagement, purchase of PLs, influence of other visitors, etc.
- Conjoint analysis (or other choice modeling approaches) could be used by listing scenarios where social media options are combined with other marketing variables and asking participants to order the scenarios based on their influence on participants' intention to purchase the PL.
- Sentiment-based analysis could illuminate the role of social media to affect consumers' brand association to PLs, their perception of PLs' value, and their attitude toward PLs as well as toward the retailer's store. More specifically, text mining analysis could examine and compare the effectiveness of owned media (e.g., community blog on the retailer's website) versus earned media (e.g., a PLs' consumer blog) to alter consumers' reactions (e.g., intention to purchase), interest and liking of PLs.
- Behavioral studies could use Maslow Hierarchy of needs theory and lifestyle analysis to link the use of social media for PLs to specific consumers' expectations and way of living. These studies could also explain the effect of social media on impulsive behavior toward PLs.
- Classical conditioning could also be used to shed light on the role of social media as a stimulus to incite a positive emotional attitude from PLs' consumers. Operant conditioning is a suitable theory to explain the role of influencers who are highly engaged through social media and get rewards for performing that task. The question, however, is if influencers impact only awareness or could drive actions from other consumers.
- Another promising study is to analyze the role of different vehicles (mobile versus computer) on the success of PLs through the use of social media. Technology Acceptance Model combined with environmental psychology and flow theory (Koufaris, 2002) will be a good fit to analyze this topic.
- Hofstede's cultural dimensions theory would be an appropriate basis for investigating the role of cultural differences across countries to alter the effectiveness of social media for PLs.
- Using eye-tracking methodologies combined with clinical observations borrowed from neuroscience could shed light on deeper understanding of the cognitive behavior of consumers while exposed to social media for PLs. At the virtual AMA event (2011), experts from leading companies insisted on the role of neuroscience as a complement for research and marketing initiatives.

- The use of emotion theories has received considerable attention recently (e.g., Bagozzi, Gopinath, & Nyer, 1999). These theories could play a significant role in clarifying the emotional bond that retailers could create for their brands through the use of social media tools. For instance, Wang, Baker, Wagner, and Wakefield (2007) analyzed the role of avatars in enhancing emotional connection between consumers and the online retailer's store, which affects their shopping value and increases patronage intentions.

4 Conclusion

In this paper, we list many PLs-related issues requiring investigation in academic research. Though a number of recent studies are tackling a variety of topics related to social media, none has yet investigated the role of these technologies in improving our understanding of their effects and benefits on PLs. We suggest many research questions that are still open and could be analyzed from different point of views and approaches. These works will add a strong value to the PL and NB competition field. Moreover, they will provide significant managerial implications for channel members at all levels of the distribution chain.

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Innovation in Brand Promotion: Reacting to the Economic Crisis with Digital Channels and Customer Insight

Cristina Ziliani and Marco Ieva

Abstract Despite increases in promotional pressure by manufacturers and retailers to counter the effects of the economic crisis, promotional effectiveness is decreasing. Brands are reacting by experimenting with innovation in promotion, enabled by new digital channels, customer insight derived from individual customer information and new intermediaries. We respond to a call for research on promotion innovation (Grewal et al., 2011) by analyzing the post crisis promotional scenario. We see it shaped by the convergence of three industries: loyalty, payments and apps. Players and solutions from these three areas are merging to make a blend of loyalty and price promotion available for brands to deliver over digital channels and in targeted ways. We discuss managerial implications and new research opportunities.

Keywords Economic crisis • Brand promotion • Promotional strategies • Digital channels • Customer insight

1 Introduction

To face the economic downturn, consumers have reduced their spending on national brands and on groceries altogether. Despite increases in promotional spending by manufacturers and retailers, promotional effectiveness is decreasing. Reduction of promotional spending is not possible for most players, as it would make them vulnerable to competition; but, many are experimenting with innovation in promotion, thanks to new digital channels, and customer insight gained from individual customer information and new intermediaries. We respond to a call for research on promotion innovation (Grewal et al., 2011) and to a managerial need by

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analyzing the post crisis promotional scenario. We see it shaped by the convergence of three industries—loyalty, payments and apps—driven by digital technology. Players and solutions from these three areas are merging to make a blend of loyalty and price promotion available for brands to deliver over digital channels and in targeted ways. We discuss managerial implications and new research opportunities.

2 Consequences of the Economic Crisis for Consumer Preferences

During the economic crisis, consumers have modified their shopping habits to face cost of living increases. 67 % of Europeans have modified their spending and large European economies such as Italy (86 %), Spain (82 %), GB (69 %) and France (68 %) show an even more dramatic change (Nielsen, 2013).

In the US and UK, where the economic crisis struck earlier than Eurozone countries, recovery is under way. But according to the American Pantry Study (Deloitte, 2013) 94 % of consumers will remain cautious and frugal, keeping their spending levels constant in spite of the improved economic outlook. The majority say they have learned how to be more resourceful and buy smarter. 77 % of Britons watch their expenses more carefully than prior to the crisis, have reduced the number of essential brands and have increased substitution with private labels (Aimia, 2013). Buyers of private labels do not feel that they are making a sacrifice, as these are considered to be perfectly satisfactory. Overall, less than 30 % of Britons and Americans plan to switch back to national labels.

In times of economic downturn, consumers typically reduce their grocery bill by: buying more private label products, shifting some spending to discount stores and buying on promotion. Over the past 2 years, however, shoppers have resorted to more drastic measures: reducing volumes and giving up certain purchases altogether are the two main saving strategies. 54 % of consumers have cut unnecessary purchases and 30 % are simply buying less (Nielsen Trade MIS, 2012). As a consequence, in late 2012 the growth of grocery products sales volume was negative for the first time in decades, and the slump persisted through 2013 (Nielsen Shopper Trends 2013).

These trends conflict with the steady growth of promotional pressure (defined as % incidence of sales on promotion on total grocery sales) over the past decade. In Italy, the figure rose from 20 % in 2004 to 26 % in 2011 (Nielsen in Lugli, 2012). Manufacturers and retailers are reacting to the sales drop by pushing promotional investment. The weekly/monthly flyer is the most important promotional communication medium in many countries in terms of marketing expenditure (Centonze, 2012). In 2000 it accounted for 40 % of the average retail marketing budget in Italy, and now accounts for 50 %, while in France it has reached 60 % and in the US 65 %. Twelve billion circulars were printed and distributed in Italy in 2011, and a similar amount in France and in Spain, for an investment of one billion EUR in each

country (Gázquez-Abad & Martínez-López, 2013). Frequency has increased: the average hypermarket produced 32 issues a year in 2005 against 49 in 2012.

Higher promotional investment however did not stop the slump in same-store sales, which registered −0.68 % in 2009, −0.72 % in 2010 and −0.9 % in 2011. The net worth drop in shopping basket value is shown by an index that was 100 in 2001 and 89.7 in 2011 (Nielsen in Lugli, 2012).

The vicious promotional circle of increasing investment and decreasing effectiveness is leading manufacturers and retailers to take action.

Our paper contributes to the debate on brand strategies in times of crisis by suggesting that solutions can be found in refining the approach to promotions by using information on customer base gathered through loyalty cards and new digital channels. We argue that the opportunities for retailers and manufacturers given by loyalty marketing and digital channels are still underexploited. The use of these opportunities, which can be facilitated by emerging players acting as promotional intermediaries, will impact brand success and channel relationships. Our analysis of best practices and a case study is intended as a stimulus in the direction of promotional innovation for management and to pursue new research opportunities for the academic community.

3 Methodology

Extensive desk research reviewed academic literature as well as marketing, sales and management journals in English, Italian, French and Spanish. A focus on digital strategies was developed by collecting primary data regarding 67 retail groups across 15 countries. The sample was drawn from the Deloitte Global Powers of Retailing 2012 listing to include major international retailers and was supplemented by national data sourced from Mintel (2012) and Planet Retail (2012). Secondary data on sample companies' promotional activities with a specific focus on flyers were collected from print and online sources, including retailer websites. Use of flyers, online version availability and features, flyer customisation options and more were recorded and analysed, as discussed in Sect. 4.2.

A second focus was on loyalty marketing activities: the loyalty practices of manufacturers and retailers from 2009 to today were analysed using industry information sources Colloquy and Loyalty Magazine and access to the databases of the Observatory on Loyalty Cards at the University of Parma, which monitors loyalty programs in 30 countries.

Last, but not least, a case study was developed on Doveconviene (a novel type of electronic intermediary that works as online flyer aggregator) thanks to a series of four interviews with the company CEO, documents provided by the company and secondary sources.

4 Promotional Innovation

Today, consumers are offered saving opportunities across several channels by a host of old and new players. Brand coupons for example are available from coupon websites, mobile location-based coupon services, group deals sites and group deal aggregators. At the same time, brands compete for customer loyalty by offering loyalty schemes and clubs, loyalty apps, subscription bases schemes, and branded currency wallets. The once separate domains of "price" and "loyalty" promotion (Fig. 1) are merging into hybrid strategies that make use of "the best of both worlds" to attract shoppers and make them stay. A case in point is that of virtual wallets such as Google Wallet where coupons, loyalty points, customer data and methods of payment coexist. The drivers of the new blurred promotional landscape are digital innovations in the areas of loyalty and payments, as discussed below.

4.1 Loyalty and Payments

The economic crisis has accelerated the 15-year shift of marketing attention towards customer retention, rather than acquisition (Ziliani, 2008).

Marketers are launching cards and clubs: today the average American family belongs to 22 loyalty programs and between 90 % and 70 % of consumers shop regularly with a loyalty card in most countries. Wallets are crowded everywhere, with 4 grocery cards regularly used in the UK, 3.4 in the US, 2.5 in Italy and 2 in India (Colloquy and Observatory on Loyalty Cards).

The increased price sensitivity of consumers in recession also means that the card is carried and shown at every possible occasion. In the US 39 % of consumers use a card regularly for grocery purchases, up from 28 % in 2010 (Deloitte, 2013), and 58 % use one on every single shopping trip, a 14 % point increase in 2 years. The figure is 64 % in the UK (Aimia, 2013). In Italy 90 % of families uses a card for grocery purchases (Nielsen, 2013). More intense use of the card allows for better tracking of behavior and thorough data collection at the individual level. This creates a basis for targeted promotional activities.

The search for customer loyalty is a common element to many marketing activities that we encountered in our analysis. Major national brands in the US and Europe have introduced subscription based services, brand loyalty promotions and programs, mobile loyalty and payment wallets also known as "branded currency". It is worth describing them briefly.

Subscription based e-commerce for physical goods. Subscriptions are lock-in loyalty activities where customers pay in advance for a repeated service over time. Subscription-based e-commerce gives companies regular income, a greater ability to upsell, and deeper relationships with customers, which also can create more customer loyalty. Customers benefit from typically lower costs and more efficient purchases. Today both retailers and non-perishable goods manufacturers promote

Loyalty	Price
Loyalty cards	Digital flyers
Brand loyalty program	Digital coupons
Coalition loyalty programs	Discounts for LP members
B2B loyalty programs	Promotional e-newsletter/e-mail
Loyalty apps	Retail web specials
E-gift platforms	Coupon websites
Digital rewards platforms	Mobile coupon services
Mobile payment wallets/branded currency	Flyer intermediaries
Subscription based services	Group deals websites
Loyalty wallets	Flash sales websites
	Deal aggregators

Fig. 1 The new promotional landscape

these services through their online presence. Target's Target Subscriptions service competes with Amazon's Subscribe and Save for baby products (Forbes, 2014). Minor brands such as Dollar Shave Club have launched nationwide following a subscription "club" business model that challenges established FMCG brands. Leading manufacturers such as Procter & Gamble and e-commerce pure players are cooperating to capture a share of the online market for non-perishable consumer goods. Amazon has invested in shipment corners inside P&G distribution centers in seven countries in order to speed up customer delivery, at the same time saving P&G delivery costs to Amazon's own centers.

Branded Currency. E-commerce has spurred the development of online payment methods: today 230 alternative online payment methods exist (Paypal being the best known case) and account for 10 % of total e-commerce payments worldwide (Worldpay). Brands are looking at the retention potential of new means of payments such as virtual wallets where money can be stored for later use on brand purchases. Starbucks loyalty program members and customers who have downloaded Starbucks' app make 5 million payments a week in the chain's stores accounting for 10 % of total turnover. Subway and Dunkin' Donuts have launched similar schemes.

Brand loyalty promotions. Consumer goods marketers who want to increase engagement with consumers are improving their direct-to-consumer initiatives (EIU 2012). During the crisis, such activities took center stage in brand communication strategies. P&G pioneered an approach to building customer loyalty by tying promotional benefits to repeat purchase of major brands in the portfolio. The "Your values" campaign rewarded shoppers who bought 30 EUR of P&G products with a 30 EUR voucher. This successful campaign was followed by the "Tangible help" individual brand campaigns based on communicating tangible cost saving advantages of P&G brands, and inviting consumers to connect with the brand online to obtain coupons, receive offers and subscribe to brand magazines (Promotion 2013).

The number of customers in the P&G database in Italy doubled following the TV launch of the loyalty promotion in 2013.

Digital reward platforms. These are online platforms that reward consumers for specific behaviors such as purchase of certain brands or visiting stores. Once the online version of a points-based repeat-purchase promotion, these platforms used to require consumers to enter product codes and were accessed by PC. Coke Rewards and Kellogg's Family Rewards count millions of customer records in their databases. Today, mobile devices have made digital reward programs much more convenient. The Ibotta app in the US and T-frutta in Italy for example allow consumers to take a picture of the till receipt showing the product on promotion: the amount saved by the brand-buying shopper is automatically credited to her account for later use or conversion into coupons. Apps are also bringing more convenience to the old promotional tools of gift cards, vouchers and coupons. Start-ups in this area abound and compete for consumer engagement and brand investment.

4.2 New Price Promotion Opportunities for Brands

At the same time as it is driving the loyalty transformation of the promotional landscape, digital is a powerful source of innovation in price promotion too. On one hand, digital is the enabler of new promotion types such as group deals and flash sales (Fig. 1) and on the other it is transforming traditional tools, such as coupons and flyers, by shifting them online and allowing for customization. Because they are an important component of brand marketing budgets we investigated how flyers are evolving in the new scenario.

Our analysis showed that online flyers are increasingly available to customers. Some digital flyers are simply html or pdf versions of the print format. Others, however, are "augmented" by digital features such as:

- search engine internal to flyer, to enable search by brand, category, and also percentage off product price
- product details with a click: nutritional values, traceability, ratings by other shoppers that can be shared via social plug-ins
- coupons associated with each product: these are printable or "save to loyalty"[1]
- save item to shopping list, for printing, sharing, e-mailing, saving on smartphone
- recipes in the form of videos, QR codes, links
- share flyer or single offer via text message or social plug-ins
- flyer apps for smartphone
- "shop through flyer", by connecting to e-commerce functionalities.

[1] Selecting the coupon online triggers a product flag in the database for automatic discount at till when customers present their loyalty cards.

Enhanced online flyers offer big advantages to manufacturers. Clicking on product images on the flyer, consumers receive product descriptions, recipes, shopper ratings, and click-through to brand websites. These opportunities can be exploited to increase impressions of the brand and to stimulate cross-selling into the brand portfolio. Online flyers also allow viewers the opportunity to write reviews of the products or provide feedback on promotion availability. Brands can thus monitor consumer preferences and out of stock situations complaints. As increasing numbers of people access flyers online, these will be enhanced with the digital features described above, that can modify the place flyers have occupied so far in the shopping process.

Shoppers increasingly take advantage of "flyer services", to access retail flyers. These electronic intermediaries (Bakos, 1997), group online flyers by retail sector and allow customers to compare price and offers across flyers in real time. A flyer service website, MyWebGrocer, reported a 230 % increase of page views in 2012 over the previous year. KaufDA, the leading flyer intermediary in Europe, is installed on 20 % of tablets and smartphones in Germany. In Italy Doveconviene relies on a certified monthly web audience of 2 million users to attract retail and brand investment.

These services support retailer and manufacturer promotional efforts in many ways. Depending on the level of retail investment, more visibility, delivery of previews, reminders of flyer and other communications can be pushed to the customer segments of choice.

It has been demonstrated (Nielsen, 2011) that aggregators give retailers access to non-loyal customers, a different audience from the retailer's own digital assets visitors. The flyer intermediary thus closes an insight gap, in that it traces behaviours of customers who are not in the loyalty card database.

By asking subscribers for additional personal information the aggregator gains valuable insight for targeting, such as demographics and shopping behaviour. Doveconviene for example discovered that users of digital flyers live in smaller towns where print circulars are less intensely distributed due to higher costs, and where distance to store is higher, making it worthwhile to choose the destination store based on information of available offers.

Last, but not least, aggregators produce metrics on flyer performance that were not available before such as: bounce back rate (% of customers leaving the flyer after seeing the first page); time spent with flyer; time spent in zoom mode; average number of page views; views by device; average times spent per page; number of page views per page; % of viewers who zoomed per page and *heatmaps* of zooms per page.

Retailers can use these metrics to counteract the decreasing effectiveness of flyers: choice of brands, categories, price rebate levels, visual elements can all be easily tested and adjusted online.

The metrics can also make the negotiation of feature advertising contributions with brand manufacturers more efficient. Brand presence in the flyer can be priced according to "quality" of flyer space, number of views ("reach" of the flyer), number of zooms ("interest in the product") etc..

Aggregators work for manufacturers as well, by providing a new opportunity for direct contact with consumers. Major brands have been quick to show their interest in flyer services: the "alert subscribers" database can be leveraged to channel communication on specific brands only to customers who have shown interest and who usually purchase in stores where the product is actually carried.

5 Implications for Management and Research

Innovation in promotion is a strategy to sustain sales in the post crisis economy. Brands can seize new opportunities offered by online channels, where loyalty marketing and price promotion merge. Specialists in the area of loyalty program management, payment platforms, apps and aggregator services are available for FMCG and retail companies willing to develop innovative activities.

We believe that just as loyalty program aggregators and specialists have helped to popularise the value of loyalty management in recent years (Ziliani, 2008), flyer aggregators will attract retailers and brands to a much needed change in flyer based promotion.

Four key areas for future research on the impact of promotion innovation emerge: promotion impact, marketing organisation, electronic intermediaries and competition.

Research on the effects of innovative brand promotions is needed. The impact of innovative promotions in terms of retention vs. acquisition, short-term vs. long-term profits, brand awareness, brand and store loyalty should be explored. When delivered through online channels, what are the effects of monetary and nonmonetary sales promotions? What the consequences when traditional and innovative promotions are integrated in the marketing plan?

Redistribution of marketing functions along the value chain, between manufacturers, retailers, promotional intermediaries and consumers is an area of research, linked to the changing face of the marketing organization.

Coupon portals, virtual wallets, digital loyalty programs platforms and other emerging promotional intermediaries alongside flyer aggregators should be explored. Their functions and business models are of interest, as well as their impact on brands from the perspective of shoppers, manufacturers and retailers.

Questions for future research in the area of competition include the following: What is the relationship between horizontal and vertical competition and the adoption of promotional innovation? How long will it take retailers and brand manufacturers before they fully exploit the new consumer insight gained from innovative promotional practices? What will the organizational drivers and obstacles be?

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Consumer Engagement in a Private Label Online Community

Francesca Negri

Abstract The Internet, and in particular Social Media, has changed the way consumers interact with brands, companies and with each other. Social platforms give users the possibility to create, share and review content with other consumers. Social media have attracted a great deal of analysis and research into buying motivation, consumption habits and consumer feedback. The aim of this study is to identify and dissect consumer attitudes by using online discussions about Private Labels. The study uses a practice theoretical method to analyse consumers' online conversations about the topic in an Italian Community, "*Io Leggo l'etichetta*" (I read the label), very active on Facebook. The label in fact provides information which enables customers to match the Private Label manufacturer with a National Brand manufacture. Practice theory is a cultural approach to studying consumption (Reckwitz, 2002) and is used as a framework to identify and discuss different practices.

Keywords Private label • Community • Social Networking Sites • Co-packer • FMCG • Italy

1 Introduction

New participatory web cultures have risen to prominence over the last 5 years and have now become "established parts of mainstream culture" (Beer & Burrows, 2010). An increasingly larger share of conversations as well as generation of content and information is enabled by the Internet (Kozinets, de Valck, Wojinicki, & Wilner, 2010). The new development, Web 2.0, today attracts many conversations about companies, brands and retailers. Private Label is one of the topics, and

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communities and groups are appearing around it along with National Brands. In the Italian market, in facts, there has been a slow and gradual improvement[1] over the past few years in perception of Private Label products (Grandi & Fornari, 2012). It is too early to say whether the fans active on Social Networking Sites (SNSs) are true fans or simply brand users who are willing to acknowledge some affiliation with a brand: as noted by Tuten and Solomon (2014) it is easy to like, follow, or become a fan. But in the case of Private Label there appears to be another phenomenon at work: customers seem to be more active, sharing information and experiences, sometimes with the aim to create a "wiki" of Private Labels co-packers. And this is the case of "*Io leggo l'etichetta*" community. Consumers actually work (Cova & Dalli, 2009): whether or not they are aware of being a new type of "workers", they do work. And when producing value in an Internet context, often consumers interact each other in a online community, or in Social Networking Sites rather than collaborative texts known as "wiki".

In a recent article, Närvänen, Saarijärvi, and Simanainen (2013) applied the framework of practice theory relating to online conversations, in which "consumers are seen neither as completely rational calculators (homo economicus) nor as blind puppets guided by social norms (homo sociologicus). Consumers are seen instead as participants in several different practices, where they actively integrate knowledge and resources to be able to enact the practice". Private Label shopping and using Social Media involve all these activities.

2 From "Working Consumers" to "Working Fans": The Next Step in a Facebook Community?

Literature depicts customers who, through their efforts, labour and passions add "cultural and affective value to market" (Cova & Dalli, 2009). The result is a more active and constructive customer. The new customer can control some elements of the retailing mix, like the Private Label value chain. From this point of view, customers work for themselves, with the aim to consume better. Online communities are a new social space for dialogue and sharing information and in a "divergence" theoretical perspective: referring to the conflict between market and society "community develop antibodies against the market" (Pellegrini, 2012). The earliest studies acknowledge that brand community practices create value (Schau, Muñiz, & Arnould, 2009).

[1] The gradual improvement in assessments concerning Private Label is also generating Private Label loyalty: for certain product categories (e.g. commodities), store brands become consumers' first choice. Even if there are significant differences in sales performance between various retailers and categories, the Private Label market share in Italy is about 18 % on total FMCG (IRI Group data). The FMCG Italian market is in an early stage in the retail branding life cycle. For an in-depth analysis of Private Label in the Italian FMCG market, please see Ziliani et al. (2010) and Fornari, Fornari, Grandi, and Menegatti (2013).

Table 1 Internet and social media presence: channels and vanity metrics

Media	Vanity metrics
Website http://www.ioleggoletichetta.it	Number of visits per week: 25,000 Traffic sources: 47.42 % social (99.29 from Facebook, 0.64 % from Twitter, 0.04 % from YouTube); 37.25 % search, 10.03 % direct.
Facebook https://www.facebook.com/ioleggoletichetta?fref=ts	99,228 fans Major target: 25–44 years old, female Join Facebook 25/01/11
Twitter twitter.com/etichettiamoci @etichettiamoci	2,472 tweet 16,668 following 18,375 follower Join Twitter 03/12/11
YouTube http://www.youtube.com/user/ioleggoletichetta	13,941 visualizations Join YouTube 04/12/11
Google+ google.com/+IoleggoletichettaIt	In the circles of 956 persons
Pinterest http://www.pinterest.com/etichettiamoci/	1,521 following 414 followers 14 boards 93 pins

Sources: Community Administrator Raffaele Brogna, Facebook, Twitter, Google, Pinterest, Tweet Tunnel, SimilarWeb

A new Italian project appears to combine the concept of working consumers, social media and Private Labels. "*Io leggo l'etichetta*" (I read the label) was started by Raffaele Brogna 3 years ago. The title refers to the practice of reading the name of the producers or the address where Private Labels products are manufactured/packed. That kind of information is printed on product labels, as required by law. Once the address is known, it is possible to compare the information with National Brand products and trace the identity of the co-packer of retail store products. The project includes a website and the major Social Media, as shown in Table 1.

Community members match three label elements: the address of the manufacturing plant, the ingredients list and the nutritional information values. When a new match Private Label/producers is made, customers are invited to share the new highlights with the community (see Fig. 1).

New information on matches is sent and shared to the community every day. The purpose of the project is to help consumers save money and increasing customer awareness. Both on the website and into Social Media, customers don't limit themselves to make matches and highlights. In posts, comments, photos and sharing, numerous conversations refer to Private Labels, National Brands and retailers. Consumers share their views on Private Label, evaluations of the price/quality ratio and the interpretations of co-packer identities.

In order not to let the value created by customers go to waste, a wiki of co-packers was built up and is updated every day. "A wiki is usually a web application which allows people to add, modify, or delete content in a collaboration

Fig. 1 Community highlights example

with others" states Wikipedia. This definition shows that wikis can serve many different purposes, both public and private, including knowledge management, community and websites, and a wiki is the simplest workable online database. The conversations between consumers, carried on between the website wiki and the Facebook page, offer a variety of useful insights, interpretations and meanings.

2.1 Methodology

Online conversations can provide useful insights into consumer practice (Reckwitz, 2002) and with the use of appropriate methodological tools, can reveal relevant topics and how Private Labels are perceived by consumers. The aim of this paper was pursued by taking a practice theory approach to Private Label by collecting and examining data from different Private Label-related conversations focused around the community of "*Io leggo l'etichetta*". The practice theoretical approach is characterized by a focus on everyday activities (Närvänen, Saarijärvi, & Simanainen, 2013), collectively enacted through shared practices (Halkier & Jensen, 2011). Warde (2005) says that "the basic assumption is that consumption occurs as items are appropriated in the course of engaging in particular practices and that being a competent practitioner requires appropriation of the requisite services, possession of appropriate tools, and devotion of a suitable level of attention to the conduct of the practice." Practice theory pays particularly attention to how everyday activities in social life are collectively enacted through shared practices. Practice theory aims at building theory trough methods of qualitative

analysis such as thick description, theoretical comparison and classification of data (Spiggle, 1994). In analysing the data in this study "doings, sayings, and understandings" (Schatzki, Knorr Cetina, & von Savigny, 2001) related to Private Label were of particular interest. Following the classification made by Warde (2005), practice was classified as (a) understanding, (b) procedures and (c) engagements. This allowed us to identify interrelated doings, sayings and understandings associated with Private Labe, as shown in Tables 3 and 4.

The study uses a form of netnography (Kozinets, 2010; Kozinets, de Valck, Wojinicki, & Wilner, 2010) to collect and analyse online conversations. This method uses the information publicly available in online conversations to identify and understand the needs and decision influences of relevant online consumer groups, and has been used in consumer behavior and marketing research to study online communities (Kozinets, 2002), brand communities and blogs (Schau et al., 2009; Närvänen, Saarijärvi, & Simanainen, 2013). Rokka (2010) suggested that netnography is a good research tool to use together with a practice theory framework.

The data analysed for the study are detailed in Table 2.

All the contents analysed are from the "Io Leggo l'etichetta" community, in particular the wiki (1,067 highlights) and the Facebook page (265 posts).

3 Discussion

Data analysis revealed two main categories of consumer practice in online conversations in the "*Io leggo l'etichetta*" community: (i) conveying conceptions and ideology the first one (Table 3), and (ii) searching for and providing information the second one (Table 4).

Focussing in more detail on the results, it was found that:

- The gradual improvement in Private Label perception is going on.
- Customers take part in conversations with a mixture of narcissism (to emerge) and altruism (to share useful information). Only a minority of them takes advantage of the community to criticize the entire Modern Distribution.

In the online conversations, customers expressed their attitude and opinions, posting photos, receipts, and comparisons of Private Labels versus National Brands. Some customers are more active than average and post more information. Many customers attach a photo, a link to an external source, or a receipt to the information, in order to give authority to their posts.

The aim of the Community is the provision and exchange of information about Private Labels, co-packers and retailers. Consumers were willing to share personal experience of Private Labels and to inform other customers that they found new correspondence between a Private Label reference and a National Brand producer. In many cases, customers provided others with their own rankings of different Private Labels and retailers (e.g. "Lidl Private Label is the best").

Table 2 The data set

Number of different discussions boards	2
Number of single highlights made by the Community's customers on website wiki	1,067
Number of posts to wiki Facebook Page	265
Timeline of conversations	16.03.2012–28.01.2014

Table 3 Conveying conceptions and ideology

Online conversation practice	Customer understanding	Customer procedures	Customer engagements
Communicating Private Label image	Private Labels provide customers with a wide assortment	Customers legitimize the use of Private Label instead of National Brands. Only a minority of the customers defend National Brands	Customers defend the "value for money" of Private Label with a constructive conversations and wiki
Communicating National Brand Producers image	There is a conflict of interests between customers and National Brands Producers	Customers say that National Brand producers are taking advantage of the illiteracy of the majority	Customers uncover the identity of the manufacturer of Private Label
Communicating retailers' image	Retailers offer wide choice trough Private Label, giving quality at the right price, unlike National Brands Producers	Retailers are described as defenders of customers' purchasing power	Retailers offering a wide assortment of Private Label are preferred, particularly discounters
Communicating Private Label customers' image	Who prefers Private Label is a skilled customers, that maximize his budget	Private Label users are described as rational, informed and smart customers	Customers are co-creators of value, choosing the "right" product and working together to the wiki

Focussing in more detail on the results, it was found that:

- Customers are aware of the existence: (i) of different local co-packers for fresh categories (milk, yogurt, ...); (ii) of single co-packers that serve different retailers.
- Customers are more interested in food Private Label (91 % of the 1,067 highlights) rather than non-food. The most frequently discussed categories are: canned foods (12.2 %), pasta (6.7 %), fresh cheese (6.3 %), meat and cold cuts (6.1 %), and biscuits (5.5 %). The majority (47.5 %) of the interest is in hard/soft discount retailer Private Label.

Table 4 Searching for and providing information

Online conversation practice	Customer understanding	Customer procedures	Customer engagements
Searching for the best Private Labels by comparing products and manufactures	Comparing labels and products provides a basis for rational choice	Peer support provides value to the whole community	Utilizing community generated information (CGI), taking advantage of others' work and contributing to the conversation and to the wiki project
Giving advice	Community creates information useful to all the customers	The Community has free access	Skilled customers underline their own expertise
Trying to change for the better	All together costumers increase their awareness and power	The Administrator and the Community start petitions and class actions	Feeling good working for common welfare

Firat and Dholakia (2006) introduced the idea that customers "produce", giving actual value to the goods that they purchase and consume. The "*Io leggo l'etichetta*" community, trough the labour of its members, is giving value to Private Label.

4 Conclusion

The combination of a practice theory framework with Kozinets netnography provided a new way of studying the perception of Private Label in online community conversations. Throw participation in the Community, consumers create value with each other: they learn about other consumers' practices and ideologies, and can modify practice as a result. The values of the wiki increase as more customers use it: the more customers share their ideology and practices, the more "*Io leggo l'etichetta*" creates value. In many posts, customers said that after reading the wiki they would change their purchase and consumption habits.

Retailers and National Brand producers are facing new threats and opportunities: as customers are becoming aware of the real role and identity of co-packers, retailers are seeing their reputation and value proposition increase. On the other hand, it is becoming increasingly difficult for producers to legitimize the value propositions of their National Brands in the eyes of the more skilled customer. The role of Social Media is clear: purchase decisions and corporate reputation depend nowadays on Internet, where user generated information represents real value.

Although the empirical dataset was rich and diverse, there are two main limitations of this study. (1) In analysing practices from online discussions it was not

possible to identify certain links between concrete activities related to Private Label purchase and consumption, even though some consumers posted their receipts with the products' photos. (2) The dataset was generated from an online community were informants were not obliged to identify themselves.

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Part V
Trends and Theoretical Research

A Trend Analysis of Private Label Research Between 2000 and 2012

Sebastian Molinillo, Yuksel Ekinci, Georgina Whyatt, and Nicoletta Occhiocupo

Abstract The aim of this study is to review the state of empirical and theoretical research about Private Label (PL) and to identify gaps and future research avenues. This paper uses a bibliometric approach of recent advances in the research of PL; it focuses on the period of greatest scientific output (2000–2012) and includes all international publications on PL in marketing journals ranked by the Academic Journal Quality Guide. The analysis systematically considers main authors and universities, countries, topics of investigation and methodologies used. The result reveals that research on the topic has been strongly influenced by a small group of authors and that most studies come from United States, Spain, United Kingdom, Netherlands, France, Australia and Germany. The paper discusses key emerging topics on PL such as consumer perceptions and behaviour, price, channel relationships and quality. Most of the articles have been focused on grocery products using a quantitative approach. Directions for future research are suggested.

Keywords Private label • Private brand • Store brand • Own-brand • Retail brand • Review

1 Introduction

Private Labels (PL) have become increasingly of interest for both academics and practitioners. The first PL experiment dates back to the nineteenth century (Herstein & Gamliel, 2004). According to our research on the main bibliographical and

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editorial databases, the first article on Private Label (PL) management in a publication cited by the *Social Science Citation Index* (SSCI) did not appear until much later (i.e. Bonwich, 1962). From 1962 to 1989 there were fewer than 12 articles written on the subject, and a mere 42 published between 1990 and 1999. However, since 2000, interest in PL management has increased substantially, with 221 articles in print to 2012, of which 55 % were published in the last 5 years to that date. This growing interest in the academic debate is also due to the increase in PL market share across different countries. According to PLMA (2013), the market share for PL has grown significantly across Europe, accounting for more than 50 % in Switzerland (53 %) and Spain (51 %), over 40 % in the UK (45 %), Germany (42 %), Belgium (41 %) and Portugal (44 %), and represented more than one of every three products sold in Austria (39 %), France (36 %), Denmark (31 %) and Hungary (31 %). Nielsen (2011) shows that PL market share is almost 18 % in the U.S. Both manufacturers and retailers are therefore interested in gaining a better understanding of trends associated with PL growth.

This study differs from other reviews on PL (e.g. Hyman, Kopf, & Lee, 2010; Manikandan, 2012) in that it covers the time of greatest publication output on PL and it includes a comprehensive list of the international publications on marketing ranked by the Academic Journal Quality Guide (Association of Business Schools, 2010). This has generated the largest selection of articles (221) ever to be reviewed on the subject of PL.

The aim of this paper is to: (i) identify the origin of PL research; (ii) examine the topics and methods used; and (iii) suggest recommendations for future research. The study is structured as follows: firstly, the methodology is discussed; secondly, the indicators of publication activity by authors and institutional affiliations; thirdly, topics and methodological approaches are reviewed. Finally, conclusions and directions for future research are discussed.

2 Methodology

This article reviews the literature on PL between 2000 and 2012 published in marketing journals cited by the Academic Journal Quality Guide (AJQG) of the Association of Business Schools. The AJQG has been chosen because it includes journals that have been classified and ranked according to a number of different assessment criteria. The AJQG uses "five sources of evidence" (Association of Business Schools, 2010, p. 1) and it is internationally recognised as one of the leading classification lists (Harzing, 2012). A database that includes all the publications during this 12-year period has been created. The journal articles referred to in this study have been identified using specific key words: *private brand*, *private label*, *store brand*, *own-brand* and *retail brand*. The key words appeared in the title, abstract, article key words or in the text. Only articles relevant to the aim of this work were eventually selected and used.

Trend analysis methods were used to review the 221 articles as they are valuable tools to monitor and chart scientific processes. The selected articles have been entered into a SPSS database and indicators of activity have been employed. According to Callon, Courtial, and Penan (1995), these indicators provide data on the quantity and impact of the research activity performed with reference to the number of publications during the period considered against the unit of analysis used (author, country, journal, methodology, etc.). That information allows for monitoring the research output from a quantitative perspective, looking at the origin of studies, the most explored research themes, and the methodological approach used.

3 A Trend Analysis of PL Literature

To explain the quantitative evolution and origin of the literature related to private label (PL), it is useful to calculate some indicators of publication activity and the impact of articles on the topic. This section discusses issues relating to authors and universities that have published research on PL. The following parameters used were: number of authors who have published each year; leading authors in the field; average citation number for each author; and university output on the topic.

3.1 Authors

Authorship analysis is a thought-provoking part of journal review (Malhotra, Wu, & Whitelock, 2013). Between 2000 and 2012, 397 authors published work on PL. The number of authors writing on PL considerably increased during the 12 years considered here, rising from 22 authors in 2000 to 69 in 2012. This highlights the growing attention given to the topic by the academic community across different countries. The majority of authors on PL are from United States universities which have more than 40 % of the total (41.85 %). Across other countries, Spain represents 7.80 %, United Kingdom 5.76 %, Australia 4.5 % and Netherlands 4.26 %.

The number of authors involved in each paper is generally small, with most of the articles being written by two authors (46.6 %), followed by three authors (29.4 %), with fewer having one author (11.8 %) or more than four authors (12.2 %). The proportion of co-authored papers is consistent with previous reviews about other marketing topics (e.g. Malhotra et al., 2013) and the average of 2.5 authors per paper is common in marketing journals (Leonidou, Barnes, Spyropoulou, & Katsikeas, 2010). With this collaborative approach, researchers share expertise with each other and generate different perspectives in PL research. Despite the growing number of academics involved in publications on PL, 79.34 % of them authored one article, with 6.54 % having participated in three or more

Table 1 Authors who published more than two papers on PL

Author	Papers	Citations	Average citations	AWCR[a]
Rubio, N	11	131	11.90	19.85
Ailawadi, KL	9	1.961	217.89	190.07
Yagüe, MJ	8	61	7.62	9.80
Gómez, M	7	114	16.28	16.46
Nenycz, M	7	32	4.57	8.13
Steenkamp JBEM	6	396	66.00	70.44
Burt, S	5	337	67.40	30.05
Martos-Partal, M	5	54	7.71	11.42
Chintagunta, P	4	516	129.00	51.41
Dawes, J	4	12	3.00	3.75
Dekimpe, MG	4	236	59.00	39.86
Deleersnyder, B	4	236	59.00	39.86
Herstein, R	4	51	12.75	7.33
Johansson, U	4	79	19.75	11.03
Oubiña, J	4	71	17.75	8.80
Romaniuk,	4	25	6.25	5.83
Anselmsson, J.	3	44	14.67	7.60
Dube, JP	3	146	48.67	18.47
Gielens, K	3	50	16.67	14.75
Gijsbrechts, E	3	127	42.33	18.34
Gonzalez-Benito, O	3	15	5.00	5.13
Kumar, N	3	428	142.66	48.05
Lehmann, DR	3	649	216.33	58.86
Neslin, SA	3	1.026	342.00	86.64
Ngobo, PV	3	30	10.00	10.00
Raju, JS	3	278	92.66	29.64

[a]*AWCR* age-weighted citation rate
Source: Adapted from Harzing (2007)

articles. This supports findings by Lotka (1926), according to which only a small number of authors will have a high level of productivity.

In order to assess the impact of the research output of the main authors in the field, it is key to see the number of citations, as this determines the importance of the researcher within a certain field of research (Stremersch, Verniers, & Verhoef, 2007). The following three indices have been used to evaluate the impact of work published on PL: Google Scholar (GS), Web of Science (WOS) and Scopus. The index that includes all publications on PL in the given period is GS, which also has the highest average number of citations, due to the fact that the GS database considers references used in any scientific and academic document, not only in journal articles. Therefore, the GS index will be used to analyse the citations received by the authors who published the highest number of papers. In this respect, Table 1 shows authors who published more than two papers on PL.

The author with the highest number of citations and the highest age-weighted citation rate (AWCR) is one of the most prolific authors. At the same time, other

authors with fewer publications have a higher average number of citations, which implies that they have an impact in academic research. This is based on the argument that influence can be objectively measured by the number of citations of an author (Leone, Robinson, Bragge, & Somervuori, 2012). In addition, according to Stremersch et al. (2007), the number of citations that a marketing paper receives, will also depend on the quality and topic of the paper, and author visibility or personal promotion. Among the 44 authors who account for the 20 most frequently cited articles according to GS, only 10 are included in Table 1, as that only shows the authors who published more than 2 papers on PL. Authors with one or two articles only (e.g. K.L. Keller; C.H. Noble; R.K. Sinha) might have got more citations than others with a higher number of publications, due to the fact that the most cited articles in GS are in journals ranked at the top in AJQG and also in JCR lists, such as: *Journal of Marketing*, *Journal of Marketing Research*, *Journal of Retailing*, *Marketing Science* and *European Journal of Marketing*. Therefore, research in PL is influenced by researchers, whose papers have been published in journals of high impact.

3.2 Institutional Affiliations

If there are two or more authors from the same institution for a single article, only one contribution is added for that institution. As a result 19 universities represent 60 % of the academic production on PL research. In the second half of the period (2006–2012), 63 % of them increased their publications on the topic and only 21 % reduced it. Universidad Autónoma de Madrid (18 papers) heads up the list, with Dartmouth College (12) and Tilburg University (12) coming to a close joint second. There is a clear shifting of emphasis; while in the first half of the period (2000–2005) US universities offered the highest proportion of papers (63 %), in the second half of the period their presence was lower (39 %) and universities from other countries took a leading role in the field (61 %). It is also noteworthy that two or more universities appeared in 81 % of articles with two or more authors. Apart from this, more than one country is represented in 30 % of the papers with two or more universities. This shows how the interest in PL has increased and spread in the recent years, with diverse research groups from different universities and countries.

US universities have the highest number of appearances in the PL articles (101 papers), with almost half of the scientific output (47.22 %). The other countries with nine or more appearances are as follows: Spain (32 papers), United Kingdom (20), Netherlands (16), France (12), Australia (11) and Germany (9). If there are two or more authors from the same country for a single article, only one contribution count is added for that country. With reference to the countries with more appearances, there are some remarkable differences across averages in the Academic Journal Quality Guide (AJQG) rankings, as following figures demonstrate: Netherlands (3.0), followed by US (2.84), Australia (2.27), Germany (2.22), France (2.0), United Kingdom (1.95) and Spain (1.75). The research in PL is clearly led by

researchers from US, not only by the volume of total production but also by their appearances; in 53 of the 61 articles published in journals on the top ranking AJQG. Half of 61 papers (31) correspond exclusively to researchers based in US institutions, while the other 22 are co-authored with researchers from other countries like Netherlands (7 out of 9 published), Germany (2/2), France (2/2), Belgium (3/3), Turkey (3/3), Canada (2/2) and United Kingdom (1/2).

3.3 Review of Topics and Methodological Approaches

In the 12-year period analysed, the topic most widely investigated by researchers was consumer perception of, and behaviour towards, PL; one or other of these topics featured in almost half the articles studied (47.1 %). The price variable was investigated in 23.1 % of the articles, while channel relationships and quality were the subject of 13.1 % and 12.7 % of articles respectively. On the other hand, innovation, segmentation and shelf space content areas were the least frequently studied topics. These results show key areas of research in which few studies have been published and therefore point to gaps in our knowledge and potential future research themes.

With reference to the temporal dimension of the studies, the evolution during the past 12 years shows that there are more cross-sectional studies (60.32 %) than longitudinal studies (39.68 %). In most countries, the majority of articles are cross-sectional studies, except for Australia (45.5 %), France (44.4 %), Netherlands (28.6 %), and US (45.2 %) where more than half of the studies are longitudinal. Most PL research published in the reviewed period involves the collection of empirical data: 82.35 % quantitative and 7.70 % qualitative. In addition to that, modelling (6.79 %) and "others" (8.60 %) have been least frequently utilised. The "others" category covers conceptual papers (63.16 %), meta-analysis (15.79 %) and reviews (21.05 %). Where papers have used a qualitative methodology it has been in combination with a quantitative methodology; the qualitative approach was solely used in just 1.36 % of the papers. Despite quantitative study design being the most popular, there are some differences across countries with the highest number of published papers. Papers from Australia have the highest proportion of quantitative studies (90.9 %), while the United Kingdom has an above average number of qualitative studies (14.3 %) and France above average of modelling (25.0 %), which might be reflecting the type of research training across different countries. On the other hand, US have below average number of qualitative studies (1.0 %), while Netherlands, United Kingdom, Australia and Germany hardly have any modelling studies.

PL has been studied using different units of analysis: 54.8 % of the studies focused on PL grocery products, 10.0 % drugstore product, 5.0 % packaged goods, 4.1 % other products, supermarkets (7.7 %), hypermarkets (2.7 %), department stores (2.3 %) and others stores (4.1 %). There are remarkable differences in units of analysis considered across different countries. 80 % of the studies conducted in

Australia focused on food products; in Netherlands, Spain and US that proportion decreases (53 %, 49 % and 40 % respectively), but PL food products still remain at the centre of research attention. On the other hand, 23 % of the UK studies and 25 % of the French ones looked respectively at supermarkets and hypermarkets, shifting their attention to the store format as a unit of analysis. Finally, 24 % of studies conducted in Germany considered drugstore PL products.

Lastly, the number of countries considered in studies including empirical data collection is normally one (89.5 % of the cases). Most of empirical studies are concentrated in three countries: US (32.0 % of the studies), Spain (17.1 %) and United Kingdom (13.8 %). Therefore, future research could address issues on PL through the comparative analysis of countries that are in different PL life cycle stages.

4 Conclusions

Although many authors have contributed to developing the existing academic frameworks around PL, most of them are from a rather limited number of countries, including United States, Spain, United Kingdom, Australia, Netherlands and France. Only a small number of authors consistently developed research throughout the years and published in highly ranked journals, significantly influencing therefore the development of PL knowledge. It can be noted that some authors published throughout the years on the PL topic, but their work appeared in journals that tend to have a lower impact in the management field.

Research in PL is clearly led by researchers from US not only by the volume of total productions, but also by their appearances in 53 of the 61 articles published in journals on the top ranking AJQG. Nevertheless, the interest in PL has increased and spread in the recent years across a variety of research groups from different universities and countries. The results show that certain aspects of PLs have not yet been explored in sufficient depth and those could be addressed by future research. For example, innovation, segmentation, shelf space, loyalty, branding, multi-tier strategy, channel relationship, life cycle, etc. It would be interesting to extend the research scope to under-researched product categories (e.g. shoes, clothes or durable goods), retail sectors (e.g. DIY, fashion or sportswear) and retail formats (e.g. convenience stores, supercentres or big-box retail). In addition to that, research comparing patterns across different countries would add to the body of knowledge not only in the interest of further developing this academic area, but also in line with trends in the market, bridging the gap between theory and practice.

With reference to methodologies, future research could employ more qualitative methods, as well as undertake longitudinal studies, and use different analytical techniques (e.g. neural networks, econometric models, temporal series, and game theory) to contribute to deepening knowledge about PL. Finally, we are aware that our work has limitations that may have some impact on the analysis presented here. It would be useful if future studies used co-word techniques for understanding

relationships and interactions between the different topics researched, as well as to discussing significant contributions and trends of the research topics.

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Private Label Brands in Focus: An Overview of Market Insights and Trends in South Africa and Beyond

Justin Beneke and Andrew Montandon

Abstract This paper presents an overview of Private Label Brands by considering both the status quo and emergent trends in this sphere. The research's primary focus is profiling Private Labels in the country of South Africa, with developments from abroad are juxtaposed against the local retail landscape. Global market trends are brought to the fore at the end of the paper. Within a South African context, despite the proliferation of retail floor space, Private Labels have not followed suit. As such, Private Label Brand adoption sits at a paltry 18 % (little moved in the last 5 years) compared with a pan European average penetration rate of 30 %. The reasons for this are varied, but a lack of retailer R&D has almost certainly hampered growth. Yet, underlying economic fundamentals hold much potential for retailers of such wares. Globally, Private Label market share is expected to roughly double from 25 % to 50 % by 2025 (Rabobank, Retail private label brands in Europe: An inseparable combination, 2011) due to the strong development of such products and integrated supply chains, in the process earning increased returns for major retailers. Moreover, it is expected that there will be a significant shift in the market, with retailers abandoning 'B-brands' and replacing these with their own substitute Private Labels. The future of such brands appears rosy, assuming consumers can be convinced of their merits!

Keywords Private label • National brands • Insights • Trends • Emerging market • South Africa

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1 Introduction

Private Label Brands (also known as 'own brands' and 'store brands' are becoming part and parcel of many shoppers' daily buying routine. For consumers, these brands allow for cheaper alternatives to mainstream brands, facilitate greater choice within product categories and typically feature 'no nonsense' money-back guarantees backed by the retailer. In short, they allow for discerning customers to extract superior value by buying merchandise packed and sold directly by the retailer. On the other hand, retailers are strongly incentivised to sell such merchandise as they command greater profit margins than would be attained through selling National Brands, possess the ability to build and entrench loyalty to a particular chain of stores, and may serve as a bargaining chip when negotiating with key suppliers (Kumar & Steenkamp, 2007).

Due to their phenomenal growth in the market place, Private Label Brands have captured the attention of numerous retail management scholars in the previous decade (Kumar & Steenkamp, 2007). To this end, much has been published on the consumer behaviour driving this process (e.g. the consumer's perception of product quality and value), as well as the barriers to adoption (Beneke, Flynn, Greig, & Mukaiwa, 2013; Glynn & Chen, 2009; Steiner, 2004; Garretson, Fisher, & Burton, 2002; Batra & Sinha, 2000). Hence, this has become a hot topic as scholars from both developed and emerging markets have engaged in this topic. This paper provides an opportunity to step back and assess the matter from a market perspective. In doing so, this paper will consider developments in this sphere and how these may impact growth going forward.

2 Methodology

This paper was compiled through a literature survey of industry reports, government publications and some elementary data analysis. A funnel approach was adopted to sift through the material, initially considering the retail sector at a macro level in South Africa and thereafter focusing on Private Label diffusion and adoption, both in South Africa and abroad. This allowed the authors to establish a profile of the status quo of these brands and to chronicle trends based on market dynamics. In the discussion, major developments and market strategies are highlighted to infer growth opportunities.

3 The South African Retail Sector

3.1 Overview and Structure

In terms of the retail landscape within South Africa, retail space has grown substantially to occupy 18.5 million m^2 of land as of 2010 through 1,443 shopping centres (up from 6 million m^2 and 239 shopping centres in 2002) (Prinsloo, 2009, 2010). Gauteng, South Africa's most prosperous province containing the cities of Johannesburg and Pretoria, represents the bulk of the footprint with its retail area increasing from 3 million m^2 and 111 shopping centres in 2002 to 8.5 million m^2 and 634 shopping centres in 2010, an increase greater than the retail area of the entire country in 2002. However, despite this seemingly massive growth in retail development, South Africa's 2011 Global Retail Development Index (GRDI) has deteriorated from 24th (41.7) in 2010 to 26th (42.2) out of 30 developing countries (Kearney, 2011).

The composition of retail trade sales in South Africa is depicted in Fig. 1. General dealers account for the bulk of market share (39 %), with food and beverage retailers commanding 9 % of national sales. The wholesale and retail sector, as a whole, contributes 13.8 % of GDP (Statistics South Africa, 2012).

In terms of store growth, there has been a massive increase in the number of Pick n Pay Family stores (130–224) over the period 2005–2010, with Shoprite's low-cost U-Save stores increasing from a mere 62 stores to 169 in the same time period (Nielsen, 2011).

Similarly, Shoprite has forged ahead with phenomenal expansion of its stores, particularly into the township market, in addition to the ongoing revitalisation of existing stores (Nielsen, 2011). Almost across the board, FMCG retail stores appear to be increasing in number, as evidenced in Fig. 2.

Development has also taken place in the diversification of FMCG retailers. Traditional FMCG chains have embraced new product categories such as liquor, pharmaceuticals and DIY hardware, often opening dedicated stores to cater for this pent-up demand by consumers. Spar is a fine example in this respect. Initially trading as convenience stores, the retailer has opened larger-format supermarket stores and, more recently, 400 Tops liquor outlets. Another interesting development is the petrol station forecourt collaborations between partners such as Woolworths & Engen, Freshstop & Caltex, as well as Pick n Pay & BP (Nielsen, 2011).

There has also been an increased demand for ready-to-eat offerings from most FMCG retailers, thereby stimulating growth of delis, fresh food sections, and bakery departments within supermarkets and larger convenience stores. This is often matched with the extension of trading hours, in same cases taking retailers into a 24 hour service domain (Gauteng Provincial Treasury, 2012).

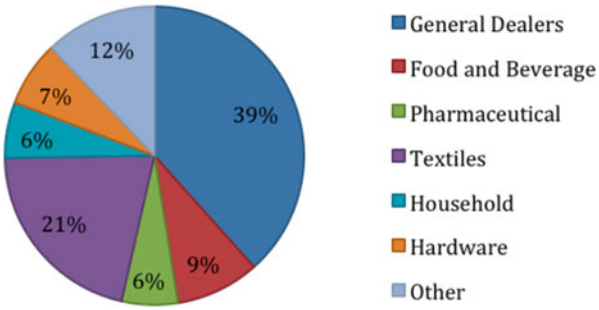
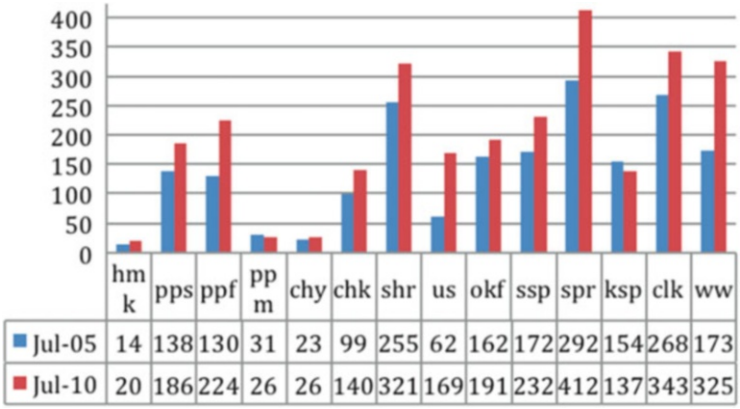


Fig. 1 Composition of retail trade sales in South Africa—2012. (Source: Statistics South Africa, 2013)



	hmk	pps	ppf	ppm	chy	chk	shr	us	okf	ssp	spr	ksp	clk	ww
Jul-05	14	138	130	31	23	99	255	62	162	172	292	154	268	173
Jul-10	20	186	224	26	26	140	321	169	191	232	412	137	343	325

Fig. 2 South African FMCG retail store growth, 2005–2010 (Source: Adapted from Nielsen (2011)

3.2 Private Label Adoption

South Africa's uptake of Private Label Brands has been consistently increasing from year to year. The current Private Label market share in South Africa is approximately 18 %, similar to the global average (Stafford, 2012). However, this remains a long reach off Europe's 30 % standing. In part, this may be attributed to limited price coercion from Private Label Brands, which can sometimes be more expensive than National Brands (instead of an expected 20–30 % cheaper), resulting in a failure to convince consumers to engage in brand switching. Despite this, South African shoppers still appear interested in Private Label goods, as a survey by Deloitte (2012) indicated that consumers planned to increase their purchasing of Private Label products by 17 % the following year.

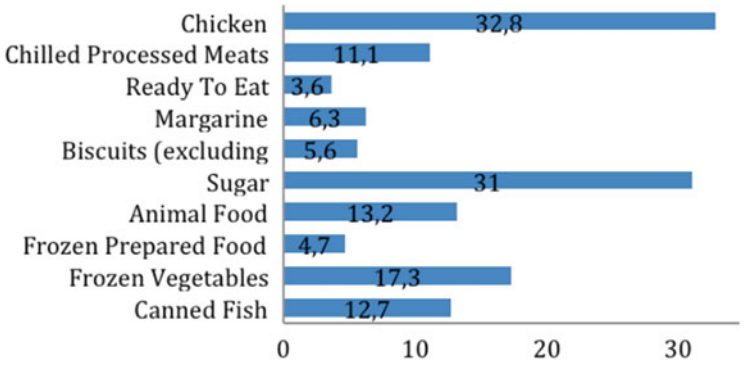


Fig. 3 Top ten private label brand categories—2010 (Adapted from: Nielsen, 2011)

As of 2010, the chicken product category represented the largest share of Private Label products sold (33 %). This is most likely due to the various delis and in-house prepared chicken offerings by retail stores. Sugar (31 %), frozen vegetables (17 %) and canned fish (13 %) represent other large Private Label categories (Nielsen, 2011). Figure 3 depicts these comparisons across product categories.

In scrutinising distinct product segments as a share of Private Label spend, a slight shrinkage in staple products was observed between 2008 and 2010 (from 29.1 % to 27 %). In contrast, the share of toiletries, beverages, perishables and dry groceries all grew during this time (Nielsen, 2011). This may be seen in Fig. 4.

3.3 Brand Awareness and Penetration

South African retailers are enhancing their portfolio of Private Label Brands by offering lines of budget, normal, premium and elite products (Deloitte, 2012). Thus, their share of category is not owned through a single brand, but through a range of such brands. The awareness levels of their respective brands are highlighted in Fig. 5.

The comparatively low awareness of Spar and Woolworths may be due to these stores being predominantly aimed at a more affluent target market and thus having a smaller footprint. Thus, it seems plausible that a lower market share equates to reduced awareness levels of the brand. In contrast, Shoprite and Pick n Pay, both mainstream supermarket brands in South Africa, command high awareness levels of their 'Ritebrand' and 'No Name'—both aimed at the mass market.

The penetration rates of Private Labels also largely reflect this. Comparing the penetration of Private Label merchandise across the major FMCG stores, AC Nielsen reports that Shoprite, Pick n Pay, Independent and Spar brands dominate consumers' pantries, with the penetration of Checkers and Woolworths brands far off the mark (Nielsen, 2011).

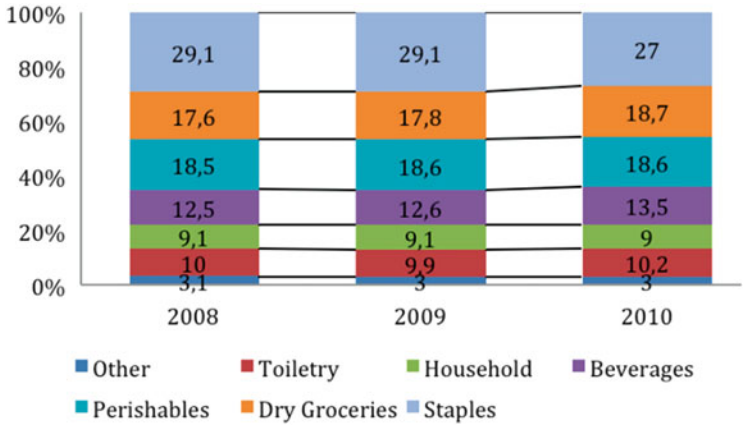


Fig. 4 Consumer spend on private labels, 2008–2010 (Adapted from: Nielsen, 2011)

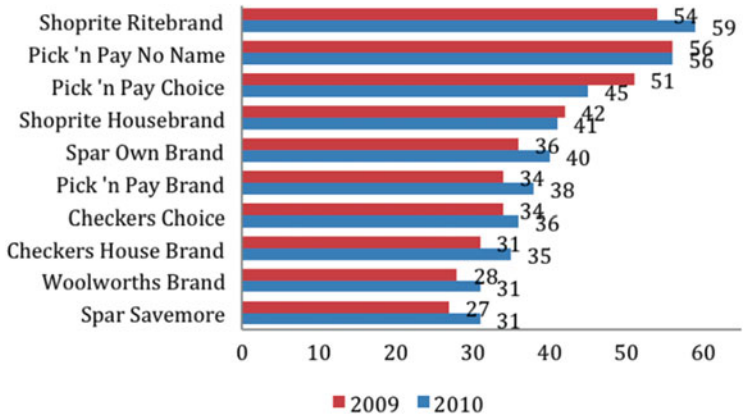


Fig. 5 Awareness levels of private labels in South Africa, 2009/2010 (Adapted from: Nielsen, 2011)

4 International Private Label Developments

4.1 A European Perspective

The United Kingdom and the rest of Europe have recently emerged from a particularly difficult consumer recession. Uncomfortably high unemployment levels and challenging economic circumstances are giving rise to an ever more cautious shopper, who continually looks for ways to maintain (or even reduce) the cost of grocery shopping. This has undoubtedly shaped the consumer mindset and

grocery purchasing habits. For the retailer, this behaviour has assisted Private Label custodians in strengthening their position against National Brands.

Perceptions and Consumption Patterns in the United Kingdom

It is widely reported that British consumers are developing a strong affinity towards Private Label products (Kumar & Steenkamp, 2007; Steiner, 2004). According to Mintel's (2012) year-end report which sampled consumption of Private Label food and drink, 52 % of respondents said that they prefer Private Label Brands to National Brands and an emphatic 82 % claimed that Private Labels consistently provide value for money. In addition, 80 % of those surveyed said that they purchase Private Labels and 89 % purchase National Brands (mixed basket). Over half (57 %) revealed that they had noticed an improvement in taste and quality of Private Label products in the last year. Lastly, 20 % of respondents stated that they expected to reduce their purchasing of National Brands the following year.

With reduced disposable income pitted against the backdrop of higher prices in almost every area of retail, consumers are altering their consumption patterns (Symphony IRI Group, 2011). One such example is that of ground coffee, the price of which has increased 18.6 % between 2011 and 2012, prompting consumers to assess even minor purchases (Institute of European and Comparative Law, 2012).

This has fostered a mentality in recent years of consumers substituting Private Labels in favour of National Brands. Consequently, Private Labels have experienced steadily increasing market share, notably from 2003 to 2007 in the UK, and with even greater gains experienced by Poland, Hungary and the Czech Republic between 2003 and 2012 (see Fig. 6). In the case of the UK, Private Label market share temporarily dipped during the recession but has now stabilised, primarily in food, drink and personal care categories (Symphony IRI Group, 2011).

Western European Comparisons

Private Label Brands are fundamentally attractive as they offer an average of 30 % saving over National Brands. This facilitates a strong value proposition, resulting in consumers' behaviour raising the market share of Private Labels in European countries upwards of 30 % in recent years (Symphony IRI Group, 2011).

Yet, retail strategies throughout the continent appear to differ. While in some European countries, like that of Germany and France, Private Labels are seen as an inexpensive offering (with prices averaging 40 % less expensive than National Brands), in the United Kingdom, this saving is only between 10 and 15 % (Symphony IRI Group, 2011). This also fluctuates over a period of time. Figure 7 reflects this.

Multi-tiered Private Label offerings allow consumers to choose between premium, standard and value product offerings. The United Kingdom has the highest use of Private Labels in Europe, largely due to their full tier approach (i.e. ranging

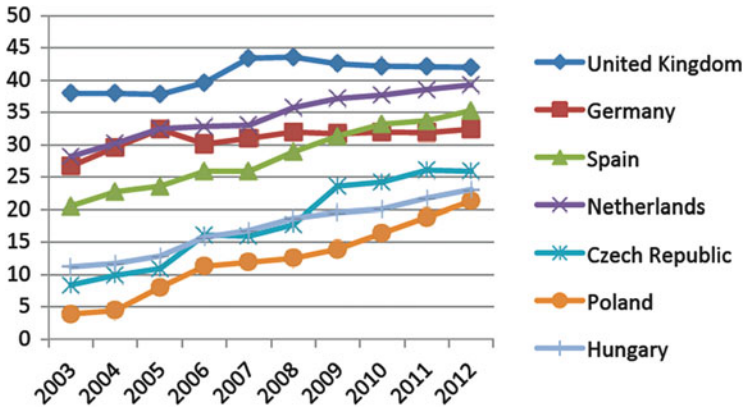


Fig. 6 Private label market share in selected European countries, 2003–2012 (Source: Schreijen, 2014)

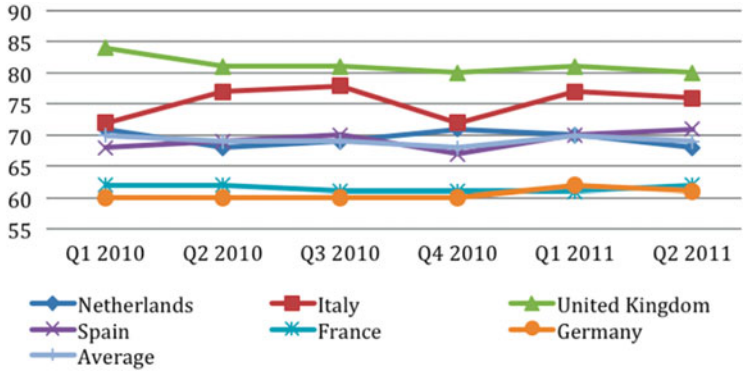


Fig. 7 Price of private label versus National Brand, 2010–2011 (Adapted from: Symphony IRI Group, 2011)

from very cheap and basic to expensive and specialized product ranges) (Symphony IRI Group, 2011), mirroring the approach of Pick n Pay in South Africa.

Apart from the portfolio of Private Label merchandise on offer, the retail development and macroeconomic landscapes also shape the ability of a country to allow Private Labels to thrive (Institute of European and Comparative Law, 2012). In contrast to the United Kingdom, countries such as the United States and Italy have not matched the same level of Private Label success and exhibit significantly reduced Private Label usage when compared to the European average. This is evidenced in Fig. 8.

The reasons for lack of market share vary widely, but may—inter alia—be attributed to perception problems, retail distribution models, non-preferential shelf space, as well as flawed pricing strategies (Symphony IRI Group, 2011).

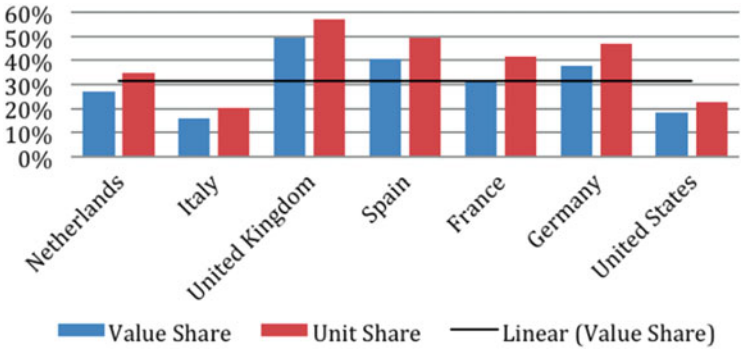


Fig. 8 Private label share by country—2011 (Adapted from: Symphony IRI Group, 2011)

Product Development and Promotional Activities

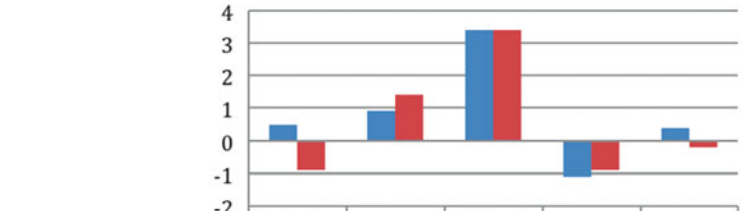
New product developments within the food and drinks categories are typically driven by National Brands rather than Private Label Brands in the United Kingdom. However, in 2011, Private Labels accounted for a greater share of new product development (54 %) than National Brand development (46 %) in the country (Mintel, 2012). Whether this trend continues remains to be seen.

Regarding promotional spending, three quarters (75 %) of all promotion on consumer goods within the United Kingdom is outlaid by National Brands, whereas Private Labels typically rely on sales momentum in the particular retail store. Despite this, the promotional spend for Private Label Brands generally follows that of the market. The use of promotions by Private Label Brands can be seen to be increasing in countries where the price gap between National Brands and Private Labels is the lowest, in particular the United Kingdom and Italy (Symphony IRI Group, 2011). Figure 9 contains further details.

4.2 The North American Perspective

American (US) consumers, in keeping with their European counterparts, have also experienced the brunt of the global recession. Here, 72 % of primary grocery shoppers claim to have changed their grocery shopping habits in the past year on account of the recession, with the primary beneficiary being food and beverage Private Labels (NPD Group, 2012). The NPD Group reports a gradual rise in private label share, of total purchases in the United States, from 18 % in 2000 to 27 % in 2011.

Studies regarding the sentiment towards Private Label shopping revealed that nearly half (49 %) of primary grocery shoppers surveyed by the NPD Group (2012) indicated they were most likely to buy the lowest priced or best value brand, irrespective of brand name. Additionally, 41 % claim that they would prefer to



	Netherlands	Italy	United Kingdom	France	Germany
Promotion Total	0,5	0,9	3,4	-1,1	0,4
Promotion Private Label	-0,9	1,4	3,4	-0,9	-0,2

Fig. 9 Private label promotion versus total promotion spend—2011 (Source: Symphony IRI Group, 2011)

buy a Private Label if the value was superior to that of National Brand alternatives. Only eleven (11) percent of consumers claimed they would buy National Brands, regardless of price. In terms of product development, 30 % of new products in the United States are of the Private Label variety, 4 % higher than in 2011 (Mintel, 2012).

5 Emergent Trends in the Private Label Arena

Despite differing market shares for Private Label products throughout the world, the effects of the global recession are expected to drive all FMCG markets towards broadly similar positions within the next 10–15 years (Rabobank, 2011). These developments include a cull of certain brands, with an increase in Private Label market share predicted.

5.1 Unabated March of the Private Labels

The global Private Label market share is expected to roughly double from 25 % to 50 % by 2025. This increase is expected to be largely as a result of increased concentration rates in food retail, with the big retailers getting bigger, and a professionalisation of Private Label supply. The subsequent economies of scale at both the demand and supply side are expected to drive Private Label sales (Rabobank, 2011).

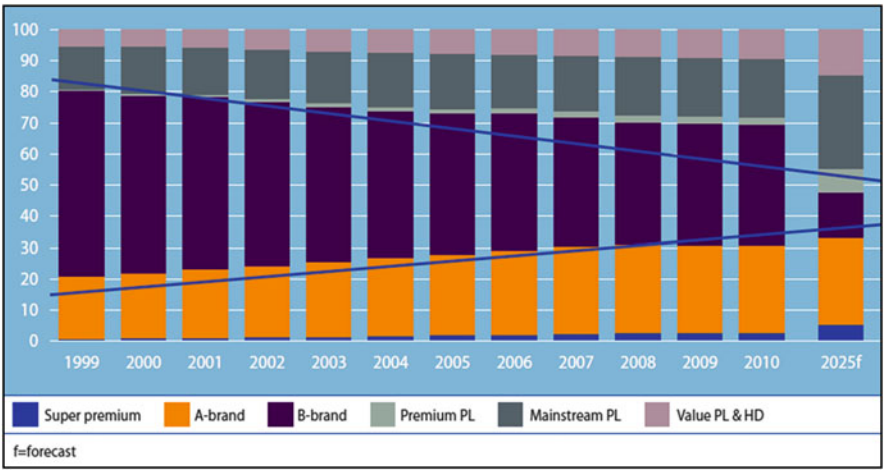


Fig. 10 The B-brand squeeze, 1999–2025 (Source: Rabobank, 2011)

5.2 The Tussle Between A- and B-Brands

B-brands (essentially second tier National Brands) are expected to become increasingly vulnerable in the coming years, as retailers look to replace such brands with their own Private Labels in due course. Figure 10, below, depicts this 'squeeze'. Realistically, as these B-brands become vulnerable to volume losses, manufacturers may need to accept a significant cut in profit margins in order to keep their brands on the shelf (Rabobank, 2011).

The role of A-brands (first tier National Brands) is expected to grow from strength to strength in the future as neither the consumer, nor the retailer, appear willing to abandon these brands. Often considered as a reference point, retailers appear reluctant to compete head-on with super premium A-brands using price as a weapon, as this warfare is likely to erode the legitimacy of premium Private Label Brands and, ultimately, lead to reduced profits (Rabobank, 2011). From a consumer perspective, shoppers still consider these brands to be a point of reference for quality and price, underscoring their reluctance to turn their backs on such merchandise. Figure 11 illustrates the nature of this retail space.

As can be seen in the figure, a plethora of offerings exists at the lower end of the spectrum (i.e. low-mid price/quality). Owing to this eventuality, retailers are inclined to cease stocking B-brand competitors in order to relieve themselves of competition for their mainstream Private Labels. In contrast, premium Private Labels can exist in harmony as a non-competitive alternative to super premium National Brands (typically category leaders).

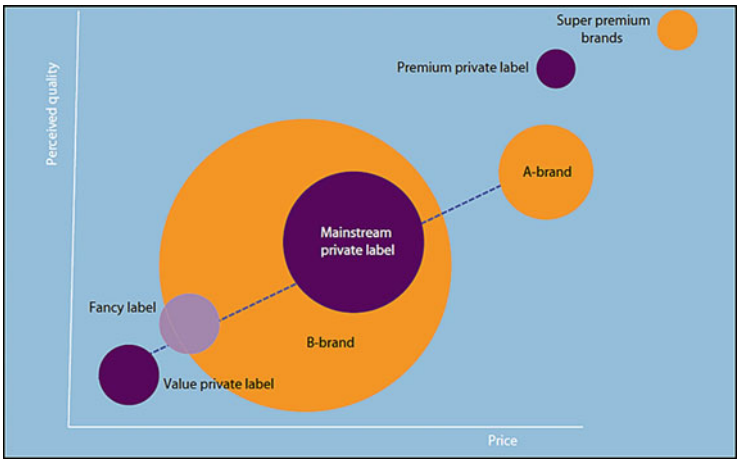


Fig. 11 Market positioning of brands (Source: Rabobank, 2011)

5.3 Integration of the Private Label Supply Chain

As a result of the developments highlighted above, it is expected that many B-brand producers will look favourably upon becoming Private Label Brand suppliers. Hence, B-brands currently face the option of either upgrading and differentiating their portfolio of brands, or resorting to becoming contract manufacturers for the leading retailers by focusing on cost leadership (Rabobank, 2011).

It is expected that this activity will lead to a consolidation of the Private Label supply chain and further professionalisation (Rabobank, 2011). These market dynamics are depicted in Fig. 12.

6 Concluding Remarks

This paper has highlighted a number of market insights and trends with respect to the adoption, growth and development of Private Label Brands. South African retailers may be deemed to be moderately successful in deploying Private Label Brands. Although these have yet to fully compete with mainstream National Brands, these Private Label offerings account for a reasonable market share (18 %). Successfully penetrated product categories are dominated by commodities e.g. chicken and sugar. Some retailers, for example Spar and Pick n Pay, have rolled out a suite of products ranging from the high end to the low end of the market. Others, such as Shoprite, have tended to focus on the lower to middle segment of this continuum, with relatively little product differentiation and development.

The European experience differs widely. Sophisticated retail markets such as the United Kingdom and Germany experience high levels of Private Label adoption,

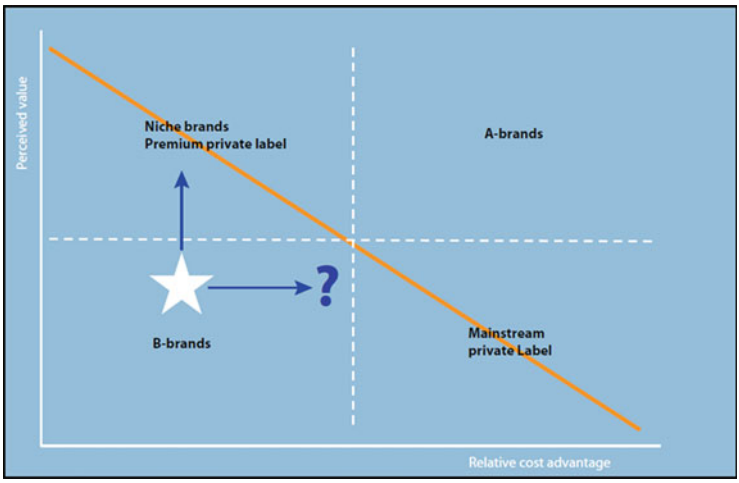


Fig. 12 The strategic challenge for B-brand suppliers (Source: Rabobank, 2011)

but markets such as Italy sit some way off the European average. This is somewhat counter-intuitive as their socio-economic profiles are not radically different, although the fragilities of certain economies appear to have been brutally exposed by the recent recession.

Generally, though, economic hardships have been shown to benefit Private Labels. Across the continents of Africa, Europe and North America, consumers who report being financially pressed favour the more affordable Private Labels over the entrenched National Brands. Whether this trend will continue remains to be seen as the global recession dissipates and disposable income levels rise once again.

The prospects for Private Label market share appear promising, with market share expected to roughly double from 25 % to 50 % by 2025 (Rabobank, 2011). Along with strong development of Private Label product lines and supply chain integration, it is expected that B-brand manufacturers will come under increasing pressure to exist as suppliers to the major retailers, with A-brands (i.e. those at the premium end of the market) consolidating and cementing their stature as class leaders. Thus, A-brands will continue to provide a point of excellence and a beacon on which to focus for the foreseeable future.

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