With or without you: Consumer acceptance of two national brand portfolio extension options

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Abstract

The aim of this paper is to investigate which portfolio extension option: either a cheaper sub-brand or a private label endorsed by the national brand is better from the consumer perspective. Two hypothetical product concepts from a leading beer brand were tested among Dutch consumers. The findings show that consumers are equally likely to try the options and form a positive or negative opinion about the manufacturer after the extension. However, when looking at the ability for a brand to cover a price conscious segment and therefore increase penetration, the cheaper national sub-brand performs better. Given that the manufacturer will be not restricted in distribution of such a brand, our findings are in favour of a cheaper sub-brand rather than an endorsed private label.

Introduction

Private labels (PLs) are brands owned by retailers, wholesalers or distributors and are distributed selectively in their stores (Bushman, 1993; De Wulf et al., 2005). Increased market shares of PLs worldwide lead to a growing interest in private label brands in research and practice (Kumar & Steenkamp, 2007). Traditionally associated with inferior quality and considered as a low price alternative to national brands (NBs), retailers have moved upscale by introducing premium PLs and improving the quality of value and mid tier PLs (Nenycz-Thiel & Romaniuk, 2011). The continuous upcoming of PLs and their up scaling forces national brand manufacturers to account for PLs in their brand strategy (Hoch, 1996; Mills, 1999; Verhoef et al., 2002)

Several strategies for NB manufacturers towards PLs exist. Some of these strategies focus exclusively on the brand manufacturers' own brand success such as investing in product innovation and brand advertising. Other strategic options imply a head to head confrontation with respective PLs; here NB suppliers often opt for closing the gap by cutting prices or introducing cheaper fighter brands (Cotterill et al., 2000). One could argue that an interdependent rivalry takes place between vertically aligned firms. In this sense the dilemma for NB manufacturers is twofold: firstly manufacturers depend on retailers to distribute their goods. Secondly by choosing to fight PLs and therefore their owners, the retailers, NB suppliers deliberately intend to weaken the end customer, which in this case is also a competitor. This behaviour can result in negative relationship effects between retailer and manufacturer (Verhoef et al., 2002).

A controversial move by brand manufacturers in response to the upcoming of PLs is to actually produce them. According to Dunne and Narasimhan (1999) such a move can have economic, competitive, and relationship motives. Producing PLs may result in economies of scale and more profitability for the brand manufacturer and can take away market shares from competitors. Producing PLs can also lead to long-term relationships with retailers creating mutual benefits (Lincoln & Thomassen, 2008). Nonetheless several authors recommend NB manufacturers prudency when considering the production of PLs (Kapferer, 2008a). Risks involved with the production of PLs are the loss of power or the risk of commoditisation of the category (Verhoef et al., 2002). Many well-known NB manufacturers strategically choose not to produce PLs in the attempt to spread innovations exclusively among their own portfolio brands (Kapferer, 2008b). While NB suppliers see the profitability of their own brand portfolio as paramount, retailers have a broader perspective covering the whole product category, including PLs.

While both strategies have some pros and cons from the retailer and manufacturer point of view the question arises, which strategy is more beneficial from the consumer perspective? In the end it is the consumer response that will be reflected in sales, hence in manufacturer's profits. This paper will address this gap by investigating consumer reactions to introduction of two types of brands – a PL endorsed by the manufacturer and a cheaper NB.

Background

In order to compete with cheaper PLs, manufacturers can consider two options: supply a PL to the retailer or extend the manufacturer brand portfolio with the introduction of a cheaper NB sub-brand. Both options would meet several price segmentation and brand portfolio goals of the supply-chain members (Kapferer 2008). Offering retailers a selection of brands that are vertically positioned can have the benefit of shutting out competitors for the manufacturer (Steiner, 2004). Adding to that, a price/value segment portfolio would best meet retailer expectations. It would also simplify the category management process for both collaborators.

Unlike the cheaper NB sub-brand, the PL option is more likely to positively affect the supplier-retailer relationship. Here the PL and therefore the retailer would mainly benefit from the NB's brand equity. On the other hand, a cheaper NB sub-brand would close the price gap to other PLs without any direct association with the retailer. It should be mentioned that marketing the NB sub-brand will be more costly. In addition to lower marketing costs, producing the PL can also benefit the supplier with more negotiating power and the assurance of distribution at the cooperating retailer (Rubio and Yagüe, 2008).

From the consumer point of view, the importance of several factors may influence the acceptance of either of the two options. The factors are: price, brand, brand image and quality. Since both options are cheap, the importance of *price* should increase the acceptance of both options. Next, the *brand* can act as an extrinsic cue that conveys the quality associations (Rao & Monroe, 1989). For those, for whom *brand* is of high importance, the PL option should have lower acceptance as the brand is now sold under the retailer name. Similarly, for those who value *brand image* when making a choice, the PL option should have lower acceptance. At the same time, since the NB sub-brand will be sold at a low price, this can lead to damage of the NB brand image (Sethuraman & Cole, 1999), hence lower acceptance of the cheaper NB option. Finally, if *quality* is important, the consumers should be less likely to accept the PL option as PLs are usually perceived as lower quality than NBs (De Wulf et al., 2005). This leads to the following hypotheses:

H1: The higher the importance of price, the higher the acceptance of both options.
H2: The higher the importance of the brand, the lower the acceptance of the PL option.
H3: The higher the importance of the brand image, the lower the acceptance of both options.

H4: The higher the importance of quality, the lower the acceptance of PL option.

Research Method

Two product concepts of a leading Dutch beer brand (herein referred to as NB X) to be sold at the Dutch grocery chain market leader Albert Heijn (AH) were tested among Dutch beer drinkers. AH is the largest grocery chain in the Netherlands, with currently 830 outlets and a market share of nearly 33% (ADNiewsmedia, 2010). AH stores offer a multi-tiered PL portfolio and have approximately 4000 products under their store brand on offer - ranging from basic products to premium products (Semeijna et al., 2004). All PL products include the store name and logo on the packaging.

The two tested product concepts included a cheaper NB sub-brand and PL that is endorsed by the NB but sold under the AH store brand (co-brand). Either product would become a new member of a vertical brand portfolio of the corresponding beer producer in order to reach out to more price sensitive consumer segments. This research comes at a time when US supermarket giant Kroger recently announced the introduction of a premium PL beer brand called "Port Republic", that beer drinkers will likely consider to be a branded craft-beer equivalent (Kroger, 2011).

The data for this research was obtained from an ad hoc study conducted via face-to-face interviews. The interviews took place in Groningen, The Netherlands in the month of October 2010. The study was part of the project for a 4th year bachelor unit called International Product Management at Hanze University Groningen. Total sample was 681 with 41% of the respondents being female and 59% male. The sample was evenly distributed over five age groups (16-24: 17%, 25-34: 19%, 35-44: 17%, 45-54: 15%, 55-64: 16%, 65+: 16%) and the age was in line with the population statistics.

First, the respondents were asked about their preferred beer brand and whether or not they have drunk any PL beer before. In the next sections, the importance of factors for choosing a national brand and supermarket brand was measured. The factors were: brand, flavor, price, quality, image, habit, packaging and location. The importance scale was a five-item scale from 1 *not important* to 5 *very important*.

The main part of the questionnaire was a hypothetical situation (e.g. O'Connor et al., 2006; Carneiro et al., 2005). The respondents were asked a set of questions in relation to the leading beer brand in The Netherlands. Therefore, it is very likely that all respondents were aware of the brand. The question about the sub-brand option was*: If [NB X] would offer a cheaper version (new beer brewed by [NB X], but cheaper than regular [NB X]) I would try this cheaper [NB X] beer?* The next question was: *Would your opinion on [NB X] change if it made such a cheaper version of [NB X]?* The set of questions for the PL were: *Would you try a supermarket beer that is brewed by [NB X], for example "Albert Heijn AH beer - brewed by [NB X]"? Albert Heijn is just an example.* The next question was: *In general would your opinion on [NB X] change if it made a supermarket beer like the one mentioned above?* The respondents were asked to answer the questions on a five items scale from 1 *not at all* to 5 *absolutely*.

For the second scenario, the respondents were also asked about the price they think the supermarket brand should have. The respondents had three options: Equal in price to other supermarket beers, more expensive than other supermarket beers but a little bit cheaper than regular [NB X], or same price as regular [NB X].

To address the research question, the researchers used logistic regression to see which factors drive the acceptance of the two options and where the differences in the drivers between the two options lay. The five item scale answers were recoded in binary variables for the importance factors and the acceptance of the options. The dependant variable in models for each option was 1 *acceptance*, and 0 *no acceptance of the options*. The independent variables were the importance factors the researchers hypothesised could have an influence on acceptance: brand, price, image and quality. The other independent variables were whether NB X was a preferred brand or not and whether the respondents had tried a PL beer or not.

The Results

In order to answer the question of which option would be better for NB X, we first analysed whether there is a difference in consumers' willingness to try the options and in the opinion of NB X if it would have developed such options. The findings in Table 1 show that respondents are slightly more likely to say that they would absolutely try the cheaper version of NB X than the PL (29% vs. 23%, $p<0.001$). However, respondents' reactions to both types if brands did not differ, with equal proportions claiming their opinion will absolutely change (15%). These preliminary findings show that, for NB X, there is no difference between the options. Therefore, if no other information is provided, NB X should invest in the option that is cheaper and easier to supply.

Table 1

	Would you try the brand?		Would your opinion about NB X change?	
	Cheaper NB	Private label endorsed by NB X	Cheaper NB	Private label endorsed by NB X
	%	%	%	%
Not at all	11	14	11	12
Probably not	9	13*	13	15
I don´t care	29	26	39	38
Maybe	22	24	22	21
Absolutely	29	23*	15	15

**Sign at 0.05*

To investigate the question further, we ran two logistic regression models, specified in the research method section, to see what the drivers of acceptance for each of the options are. The models explain 17% and 14% of variance, respectively, in consumers' acceptance of the options. In both models, past experience with a PL beer had a strong and positive impact on acceptance of the extensions ($b=1.47$, $Wald=39.22$, $p<0.001$ and $b=1.15$, $Wald=20.8$, $p<0.001$) (as per Bird & Ehrenberg, 1970). However, some important differences are evident in the drivers between the models. In the case of the PL, the more important the brand, the lower the likelihood of acceptance of PL from brand X. Those, for whom brand acts as an extrinsic cue for quality are less likely to accept a PL for NB X (as per Rao & Monroe, 1989). Further, the fact that a person's preferred brand is NB X increases the chance of acceptance of PL from PL X ($b=-0.78$, $Wald=4.04$, $p=0.044$). This suggests that for those who had tried PL X, this is simply a cheaper extension of the brand.

However, looking at the model for the cheaper version of NB X, the higher the importance of price, the higher the likelihood of acceptance (b=0.85, Wald=13.27, $p<0.001$). This shows that by introducing a cheaper version, NB X has the opportunity to extend its customer base by selling to those whom believe price is important, but perhaps could not afford buying the regular version of NB X. There is also a weak negative relationship with image, in that importance of image decreases the chance that the cheaper version will be accepted (b=-0.46, Wald = 3.65, p=0.056). Still, the impact of price is stronger than the negative impact on image (-0.46 vs. 0.85). Therefore, from the consumer acceptance perspective, it would be better for NB X to invest in a cheaper version of NB X than to try and cooperate with the retailer to co-brand a PL.

Table 2

	Private label endorsed by NB X			Cheaper NB		
	b	Wald	Sig.	b	Wald	Sig.
Brand	-0.78	4.04	0.044	-0.37	0.85	0.358
Price	0.37	2.70	0.100	0.85	13.27	0.000
Quality	0.78	2.25	0.134	1.00	4.08	0.043
Image	-0.36	2.67	0.102	-0.46	3.65	0.056
Private label beer usage	1.47	39.22	0.000	1.15	20.80	0.000
NB preferred	0.61	7.68	0.006	0.39	2.74	0.098
Constant	-0.17	0.10	0.756	-0.47	0.85	0.358

Discussion and Future Research

The aim of this paper was to investigate which portfolio extension option: either a cheaper NB subbrand or a PL endorsed by a NB manufacturer is better from the manufacturer and consumer perspective. The findings show that consumers are equally likely to try the options and are likely to change their opinion about the NB after introduction of either of the options. This finding, combined with the fact that offering a PL will positively affect the relationship with the retailer suggests that the PL option is a better strategy for portfolio extension.

However, looking at the potential of the options to attract the price conscious customers, the recommendations change. The findings show that the higher the importance of price, the higher the likelihood that the cheaper NB will be accepted. This was not the case for the PL option. Therefore, introduction of a cheaper NB, will expand the customer base in that those who could not afford the expensive NB brand will now move from PL to the cheaper NB. This is likely to happen for a strong NB, with high brand equity, but with a price too high for the price conscious segment to justify. Therefore, from both the manufacturer and the consumer point of view, if a portfolio decision should be made to fight PL, the best option is to introduce a cheaper version of the NB to cover the price sensitive market.

In order to establish sound generalisations of these findings, the research should be extended into other categories and other countries. The brand in this paper was a strong, large, established brand and the recommendations may change for brands with different positions. Additionally, the authors did not look at the costs of providing each of the two different options. If the PL will be much cheaper to produce, then the manufacturer may find it more profitable to choose this option. Similarly, if the relationship in the supply chain is not positive, introducing a PL is likely to be a better option.

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