

MARKETING

PRIVATE-LABEL PRONENESS: THE CASE OF YOGURTS

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ABSTRACT

This study aims to point out the main consumer correlates of store brand proneness in a specific industry, the Portuguese yogurt market. This is a booming industry for store brands in Portugal, reaching nearly half of the total market share. Based on the results of a survey we can conclude that consumers base their decisions on adopting a product on three different types of variables: price related variables, quality related variables and involvement with the product category related variables. The price related and the quality related variables have the most influence on consumers when selecting store brands of yogurts.

KEY-WORDS: private labels, proneness, yogurts.

1. Introduction

Private labels are brands owned and distributed by the retailer while national brands are generally owned by a producer. Private labels are sold in a specific retail chain, and thus tend to have restricted distribution compared with national brands. Producers tend to advertise each national brand, while the advertising effort by the retailer is spread over all the products. The majority of private labels are cheaper than the national brands. As they hold the potential to drive store loyalty and to maintain profitability, retailers around the world continue to invest in private labels and they have witnessed significant growth in the last two decades (Dawes and Nenycz-Thiel, 2013). Given their strategic importance, the identification of the private-label prone shopper main characteristics has attracted attention of both practitioners and academics (Baltas and Argouslidis, 2007).

A private-label prone shopper buys store brands to a greater extent than national brands. A large body of literature provides evidence that private label attracts both price and quality conscious consumers (Baltas and Argouslidis, 2007). Moreover, the determinants of private-label proneness are known to vary across different product categories (Gonzalez-Benito and Martos-Pardal, 2012).

This study aims to point out the main consumer correlates of store brand proneness in a specific industry, the Portuguese yogurt market. This is a booming industry for store brands in Portugal, reaching nearly half of the total market share. Indeed, according to ACNielsen (2012) store brands represent 45% of the market in value and 53% in volume, while the top 3 national brands (Nestlé, Danone and Lactogal) together represent 50% of the market in value and 41% in volume.

2. Background and hypotheses development

Several studies have attempted to understand and explain consumers' behaviors towards private labels based both on psychographic and socioeconomic variables (Shukla et al., 2013). Therefore, a brief overview of

these variables is provided below. Moreover, based on the results on previous studies a set of hypotheses has also formulated.

Price consciousness

The concept of price consciousness is defined as the degree to which the consumer focuses exclusively on paying a low price (Lichtenstein et al., 1993). According to Burton et al. (1998), consumers with positive attitudes towards private labels are extremely price conscious and tend to focus almost exclusively on paying low prices, due to the wish to maximize their money, minimizing other factors when evaluating a brand (Miranda and Josh, 2003). Therefore we expect that (H1) the higher the customer's sensitiveness to price the higher will be his proneness to buy private labels.

Value consciousness

Value consciousness has been defined as the concern for paying low prices subject to some quality constraint, relating the perceived costs and the perceived benefits. (Lichtenstein et al., 1993). Garretson et al. (2002) and Ailawadi et al. (2001) believe in the idea that the low prices from store brands can be used as an incentive to improve the image of the store's prices and to attract consumers who are value conscious. Hereby, from their studies, it is expected that (H2) the perceived value influences positively the purchase of private label goods.

Price-quality association

According to Liechenstein et al. (1993) the perception of price/quality is defined as the generalized belief that the suggested level of price is positively related with the level of quality of a product in all product categories. Therefore, generally, low prices of store brands cause these products to be seen as less attractive, constituting the price a sign for low quality. Therefore, we can expect that (H3) there will be a negative relation between the price/quality perception of consumers and the adoption of private labels.

Perception of private labels

Consumers can make evaluations using a variety of information signals that they associate to products. The current literature shows that, when assessing the quality of private labels, consumers use either intrinsic cues (Sprott and Shimp, 2004) or extrinsic cues (Bao et al., 2011). According to the cue utilization theory, consumers tend to rely more on extrinsic cues than intrinsic in quality evaluation of private labels (Richardson et al., 1994). The idea that national brands have better quality than store brands, is very present in customer's minds, and is very influenced by publicity and advertising that can help highlight this characteristic. For this motive, consumers feel more confident when choosing branded goods. Therefore we expect (H4) that the perception of private brands is positively related with the proneness to buy private labels.

Perceptual consequences of making a bad mistake

Laurent and Kapferer (1985) give their insight on this variable in their literature on "product category involvement. Other studies on the "degree of inconvenience of making a mistake" state similar conclusions (Narasimhan and Wilcox, 1998). The consequences of making a bad choice are directly linked with the consumer's perception of risk and the importance they give to a certain product category. Consequently, we maintain that (H5) the existence of a negative relation between the perceptual consequences of making a bad mistake with the proneness to buy private labels.

Probability of making a bad choice

The other half of the "consequences of making a mistake" notion deals not with the actual consequences of making the mistake, but rather with the probability of doing it. The expected value of any decision is the product of its consequences times its likelihood (Dunn et al., 1986). This suggests that it's important to understand the degree of variability of the quality in a certain category. This is different from the perceived PLB quality level, as it is the variability that should create greater uncertainty and doubt and create more perceived risk. For Richardson et al. (1996), the perceived quality variation leads to a reduced perceived value-for-money of private labels both directly and via perceived risk. This eventually led to reduced private label brand proneness. Therefore we expect (H6) the existence of a negative relation between the perceptual consequences of making a bad mistake with proneness to buy private labels.

Symbolic aspect (social consciousness)

The symbolic aspect of the brand is the associations that the consumer makes of the brand, or with a certain social status, personal tastes, lifestyle, etc. This way, the consumers purchase their products not only for their function, but also for what they represent. According to Aaker (1992), the associations to a brand correspond to something that creates a link between consumer and brand. These can be situations of use of the product, a combination of characteristics or attributes of the product or even the sensations a product or a brand can provoke on the consumer. In the case of the store brands this rarely happens, since these brands have few or no type of publicity that can incite the customer. This way, the adoption of private labels tends to be low. Thus, we assume (H7) that the social consciousness is negatively related with the proneness to buy private labels.

Hedonic value

To a product we associate with a utility value or a hedonic value, taking into account the strategic objectives of the brand. Chitturi et al. (2008), as well as other authors, use the term “hedonic benefit” when referring to the aesthetic side of the product, the practical part and the emotional potential it transmits. Ailawadi et al. (2001) refers that this variable is linked with the intangible, experiential and affective attributes. According to Richins (1994), while some products are consumed for their utility (utility benefits), others are consumed for their capacity to give pleasure (hedonic benefits). With this consumers can attribute high risk to the performance of private labels, in hedonic product categories because they fear that these brands might not give the emotional benefits they desire. Therefore we expect that (H8) the hedonic value negatively affects the proneness to buy private labels.

Interest

The literature on this interest variable is similar to what was previously said for the hedonic value. People don't only buy products for their utility benefits. There are other characteristics that are taken into consideration when making a purchase decision. The interest in a certain product or category can attribute high risk to the performance of private labels, as consumers pay more attention to details and have more knowledge on the topic. As a result, consumers are willing to pay higher prices for national brands in these categories. This happens because consumers give a lot of importance to these products and want to have their expectations met. From previous studies we expect (H9) that the importance given to a product category negatively affects the adoption of private labels.

Brand Loyalty (loyalty to national brands)

Loyalty to a brand is the intrinsic commitment to make repeated purchases of a certain brand. In other words, brand loyalty is the degree to which a client has a positive attitude towards a brand, showing commitment and that he wants to continue buying it in the future. It's a bond created between consumer and brand, which is translated in the repeat purchase of the product, throughout a certain period of time. According to Garretson et al. (2002), consumers who are loyal to brands present a strong tendency to buy the same brands they've always bought and, so, it's less likely they will make a change to a new or unknown brand. Burton et al. (1998) also verified that the attitude towards private labels is negatively related to the consumer's propensity to being loyal to a brand in the different product categories. In the same direction goes Ailawadi et al. (2001), who refer that customers who are loyal to national brands show a smaller tendency to adopt store brands, since the costs of changing are very high. However, in their study this variable didn't show great significance in the explanation of the consumer's consumption of private labels (Ailawadi et al., 2008). To sum up, according to the authors the consumer's position towards private labels is negatively related with the consumer's loyalty to brands throughout the different product categories (H10).

Product signatureness

The concept of product signatureness refers to the degree to which a product category is associated with a store in consumers' minds (Bao et al., 2010). This is an external cue commonly associated to another variable, the store image, which is also frequently used in studies on consumer's quality evaluation of private labels.

While the signatureness refers to a product category, the store image defines the global impression of a retail store. But, it's important to keep them close together as they can be related. The fact that a signature product

epitomizes a retailer's service and expertise is representative of the product quality associated with the store and the general store image. Thus, (H11) when a private label is introduced into a signature category of a store, it should receive a high quality perception from consumers (Bao et al., 2010).

3. Methodology

3.1 Survey development

The questionnaire encompasses four main sections. The first section presents questions focusing on general shopping behavior and shopping behavior in the yogurt category. Respondents were asked to provide the percentage of national and store brands they usually buy. In the second part all the 23 questions have to do, mostly, with yogurts and the conflict between national and store brands. This is done by measuring individual factors within this specific category, adapted from a previous study (Kapferer and Laurent, 1985) such as Perceptual Consequences of Making a Bad Choice (PCMBC), Probability of Making a Bad Purchase (PMBP), Social Consciousness (SC), Hedonic Value (HV) and Interest (I). The third part (20 questions) contains a more general evaluation of the individual factors that are put into consideration, when making a purchase decision and includes scales adapted from Burton et al. (1998), Ailawadi et al. (2001) and Bao et. al (2010) related to Brand loyalty (BL), Product Signatureness (PS), Price Consciousness (PC), Value Consciousness (VC), Price/quality Perception (PQP) and Perception of Private Labels (PPL). In part 2 and 3, the respondents had to show their level of agreement with the items presented based on a scale, with 1 meaning "entirely disagree" and 5 meaning "entirely agree". The final part of the questionnaire is composed by a group of 7 questions with the objective of evaluating the demographic and socioeconomic factors.

3.2 Sample design

The information required for this study had to come from people who regularly contact with FMCG in their home, specifically yogurts. This includes people who shop, consume or interfere in any stage of the decision making process. The questionnaire was administered by personal interviewing through mall-intercept interviews. The questionnaires were distributed and answered between December of 2012 and February of 2013.

4. Results

4.1 Demographic Sample profile

Of the 305 respondents analyzed, 209 respondents (68.5%) were female and 96 (31.5%) were male. The age groups were quite even in the 3 younger categories – 18 to 25, 26 to 35 and 36 to 50 – with 72 (23.6%), 74 (24.3%) and 81 (26.6%) respondents, respectively. The 51 to 64 group represents 15.7% of the total sample (48 respondents), while the people over 65 represent 9.8% (30 respondents). As for the composition of the sample, in terms of social status, we can see that most of the respondents are married with a total of 172 answers (56.4%). The number of single people represents 32.1% of the total population in the study (98 responses), while the number of divorced/widowers represents 11.5% with 35 responses. Twenty nine percent of the respondents have children under 18 years old.

4.2 Shopping behavior description

The majority of the respondents (51.5%) revealed that in their household they usually shop once or twice a week for yogurts. While 35.7% (109 respondents) shops for yogurts twice a month, 9.5% (29 respondents) once a month and 3.3% (10 respondents) more than twice a week. In terms of the number of types of yogurt they have in their household, the respondents answered mostly 2 (41.6%) or 3 (30.8%). The number of respondents that said they only had 1 type was 40 (13.1%), while the number of people who had 4 or more was 44 (14.4%). In terms of what percentage of yogurt shopping went to private labels, the mean percentage of private labels in yogurt shopping was 45.7%, with a 95% confidence interval between 42.22% and 49.19%. The median was 0.5, the variance 0.096 and the standard deviation was 0.30972. This percentage ranged from a maximum of 100% (all yogurts are from store brands) to 0% (all yogurts are from national brands).

4.4. Exploratory factor analysis

In this study principal component analysis was performed, in order to identify a small set of uncorrelated variables to use in further analysis, followed by internal consistency analysis of each individual scale. Cronbach alpha coefficient ranged from 0,610 (PCMBC) to 0,929 (SC), revealing adequate internal consistency.

The primary objective of this study is to analyze the main factors that lead consumers to adopt private labels. Consequently, the percentage (%) of private labels bought for the yogurt category is regressed on the 11 scales previously defined. Due to the nature of the dependent variable, a truncated *Tobit* model was estimated.

4.5. Tobit Regression Model Results

The assumptions for the model were examined and confirmed. Looking at the value of the R square (R^2), the model explains 46.3% of the total variance. From the 11 construct initially tested, 6 were found to have statistically significant correlation with the dependent variable. Looking into the model results, 4 of the independent variables have a positive relation (PCMBC, SC, VC and PPL) with the dependent variable, while only 2 have a negative relation (BL and PC). Looking into the values of the coefficients (B) of the independent variables that hold a positive relation with the dependent variable, PPL is the factor that most influences consumer's selection of private labels of yogurts ($B=0.155$). This variable is then followed VC, PCMBC and SC, with 0.066, 0.052 and 0.035. Taking into account the variables with a negative relation with the dependent variable, we see that PC is the most significant factor for the selection of store brands of yogurts ($B=-0.088$). The PC is then followed by the other negative factor, which is BL with -0.057 . Considering the demographic variables males buy a high percentage of private labels compared with females and the presence of children under 18 is positively related to private-label proneness.

Table 1 – Tobit regression results

	Unstandardized Coefficients		T	
	B	Std. Error		
(Constant)	.059	.198	.299	
PCMBC	.052	.025	2.105	**
PMBP	.014	.020	.704	
SC	.035	.017	2.013	**
HV	.020	.019	1.044	
I	-.025	.034	-.728	
BL	-.057	.017	-3.251	***
PS	-.017	.022	-.786	
PC	-.088	.032	-2.770	***
VC	.066	.026	2.522	**
PQP	-.033	.021	-1.562	
PPL	.155	.026	5.965	***
Gender (male)	.090	.032	2.790	**
Children	.100	0.010	10.000	***
F	13.343			
R2	0.334			

***significant at the 1% level. **5%. *10%

5. Conclusions

Looking at the aspects discussed above, we can see that consumers base their decisions on adopting a product on three different types of variables: price related variables, quality related variables and involvement with the product category related variables. The price related and the quality related variables (PPL, PC and VC) have the most influence on consumers when selecting store brands of yogurts. These types of variables are unlikely to vary throughout product categories, due to the fact that they have to do with individual perceptions and are indifferent to the product type. The variables related to the involvement with the product category (BL, PCMBC and SC) have less influence in the explanation of the dependent variable in this study. One of the interesting results regarding demographic variables is that having children under 18 increases private-label proneness.

One of the limitations that must be taken into account relates to the fact that the sampling design was based on a convenience sampling procedure and didn't have a national coverage.

Future research should focus on more than one product category. As the involvement with the product category related variables vary from product to product in the FMCG industry, product categories that have retailer brands with high and low market shares might be compared.

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