

FACTORS INFLUENCING PURCHASE OF PRIVATE LABELS

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Abstract

The emergence of private labels has led to a major landmark in the history of retailing. There has been a massive growth in private label sales across all categories from super market to hyper market and it has also gained popularity with an increase in the market share. Private label purchase is determined by many factors like Price, quality, store image, service quality dimensions, promotion etc. to purchase. These factors may vary depending on the individual category in each segment. Private labels are becoming more sophisticated, spanning many price-quality tiers and categories. As such, private label branding is evolving and retailers have to pay greater attention to factors that affect private label perceptions. Previous studies conducted by researchers have come up with different views and in this regard, this paper reviews existing literature related to private label brands to check whether price and quality have been considered as important factors influencing purchase of private labels or not and from the reviewed literature, it has been acknowledged that the said factors play a major role in influencing the purchase of PLBs.

Index terms: private label brands, national brands, Quality, Price consciousness

Introduction

Private labels or Store brands are brands owned, controlled and sold exclusively by a retailer (**Baltas, 1997**). **Kumar and Steenkamp (2007)** have defined store brands to be any brand that is owned by the retailer or distributor and is sold only in its own outlets. Store brand is the only brand for which the retailer must take on all the responsibility – from development, sourcing and warehousing to merchandising and marketing. Private label brands are those products which are completely owned and sold by a retailer or a wholesaler (**Chakraborty, 2013; Hyman et al., 2010**). **Marketing expert Kotler and Armstrong (2012)** define private labels as brands which are made and owned by retailers. Usually these brands are only available at the specified chain store only. Private label brands have characteristics which noted by Lupton et. al. (2010) with no packaging promotion such as advertising and the quality of the products are mostly perceived as inferior quality compare to manufacturer's brand.

The trend of private labeling is fast catching up among the Indian retailers as it poses a win-win solution for both retailers and customers. Private labels or store brands are developed by retailers as an option to drive customers to their retail outlets. (**Singhi & Kawale 2010**)

Significance of Private Labels

Private labels are commonly referred as name brand, store brand, own label, retailer brand or generics. These are brands owned by the retailer rather than the producer or manufacturer. Private labels are found in almost all food and grocery categories. Private Labels are a win-win solution for retailers and customers in the current retail market structure. While retailers expect better bargaining power with their vendors, in turn better margins and control over their merchandise mix. Customers also get a wider range, better quality and good prices for the products.

It has been reported that mid- higher income consumers in developing countries are often the first to try and accept private label as low-income shoppers are more cautious in their purchase and need higher levels of trust in a product. Though the lower income households purchase more private label goods in both edible and non-edible categories than the other two income brackets, it is also true that national brands still constitute the bulk of their market baskets. (Nielsen Homescan, 2012)

Consumers prefer to buy private label products mainly due to their low pricing and prefer to buy such products from large chained retailers, which also offer a wide variety of private label products with better quality (Euromonitor, 2012). Consumers in India prefer private labels over national brands due to availability and price benefits in that category. According to the Technopak's Private Label Report 2012, food and grocery segment is a key driver for PLs accounting for 20-25 percent, and sometimes even 40 percent, of all categories in Private Labels. Margins in private labels in staples like sugar, groceries can range between 15-25%.

Purpose of the study

The purpose of the study is identifying whether *price* and *quality* factors determine the private label or store brand purchase.

Methodology

The present study makes an attempt to review the literature related to price and quality factors that can influence the private label purchase among consumers. Extensive search of literature was carried out to understand price and quality factors that were found which determined the purchase of store brands.

Factors moderating Private label purchase

Many studies are done by marketing researchers about private labels, the consumer perception about private labels, its influence on consumer choice and factors for private label purchase. The major factors researchers found which determines the private label purchase include Price and quality related factors.

International studies Reviewed:

Price and price related factors have major influence in the purchase of private labels across categories. *Burger and Schott (1972)* studied variables like demographic, product class salience, product use and marketing attitude to understand the influence of these factors on the private label purchase among US consumers. The private label consumers considered store name as more important factor than brand name. Demographic variables have least impact on the purchase. Retailer's price strategies are typically used in promoting private brands. The intrinsic and other extrinsic attributes can also influence the private label purchase. Price is one of the extrinsic cues which determine the private label purchase among US consumers (Richardson et al, 1994). The attributes which are intrinsic and extrinsic in nature had an influence on perceptions about store brand quality. The intrinsic attribute include the ingredients and extrinsic attributes include price, brand name and packaging.

Sinha and Batra (1999) considered the price, perceived quality, consumer price consciousness, category risk, category price-quality association, price unfairness of national brands and its impact on private label purchase among US consumers. Consumers tend to be less price consciousness in categories where perceived risk is high. The quality variation, purchase mistake with respect to private labels can influence the purchase decision. Another study by **Batra and Sinha (2000)** considered the potential effect of price consciousness and factors like consequences of purchase mistake, degree of quality variation in category and search versus experience nature of product features in categories to model the consumer level factors determining private label success among US consumers. Consumer's category price consciousness determines the purchase of private label brands. Private label purchase increases when the consequences of making a purchase mistake are reduced, quality variation is small, product categories have more search characteristics. Quality variation didn't have significant direct impact on private label purchase. Factors like price differential and category price can determine the purchase of store brands.

Garretson et al., (2002) are of the opinion that consumer intention of purchasing PLs is influenced by his attitude which affected by perceived benefits, the benefit resulting from price and perceived quality is found to be significant. Price quality perception and association affects consumer attitude towards PLBs.

Christophe Bontemps, Valerie Orozco, and Audrey Trevisiol (2005) study the price response of national brands to the development of private labels. Using monthly data from a consumer survey, they show that prices of national brands increase with the development of private labels. However, they also show that the price increase in national brand products is explained by a strategy of product differentiation. Finally, price reaction of national brands differs with the type of private labels they are facing.

Sckokai & Soregsrdi (2006) investigated whether consumers benefit from private label development. Quality as a factor may lead to increase in national brand prices as response of private label development. If national brand manufacturers react further differentiating their products, they may increase the quality which leads to increase in national brands prices. Consumers benefit in terms of price, quality with respect to private label development.

Mendez.et.al (2008) did a comparative study between store and manufacturer brands with respect to quality and price differentials among Spanish consumers. The attributes studied include category price, price differential, objective quality and store brand market share. Private label is distinguished from other brands because of its price only. Low price can motivate the consumer for first purchase, but price differential won't always drive private label purchase in all categories. In categories with high social and emotional component price differential between private labels and manufacturer brands are insignificant. When the quality aspect is considered store brands occupy an intermediate position between local manufacturer brand and high quality national brand.

But **Thiel and Romanuik (2009)** considered role of quality and price in perceptual categorization of private labels and national brands among household shoppers in Australia. Low price is the strongest differentiator between private labels and national brands. Pricing is the categorization driver for private labels and national brands in consumer minds. Low quality was found to be the strongest negative driver for private label and national brand categorization. The price quality association and brand loyalty can determine the private label purchase.

However, Wu.et.al (2011) considered indirect effect of price consciousness and perceived risk on purchase intention of private labels. The study was conducted in two most popular chains of drug stores in Taiwan. Consumer's category price consciousness was found to be the significant predictor for the purchases of private label brands. It was found that effect of price consciousness is outperformed by the influence of perceived risk associated with different categories. The perceived risk has a mediating effect on the relationship between the brand image and the consumer's purchase intention of private labels. *This again proves the fact that consumer tend to less price conscious in categories where there is high perceived risk.*

The empirical study by **Pandya and Joshi (2011)** took into account the category and demographic attributes to study the private label purchase behaviour among consumers of Ahmedabad and Surat. The key attributes

taken for the study includes quality, price, risk and private label image in personal care and consumer durables category. The study found that pricing is an important attribute that determines the private label purchase. Perception of quality has a positive effect on brand perceptions that influences the private label preference and use. Even though pricing and quality are the major factors influencing the consumer attitude, packaging was also found to influence the consumer perceptions. Attitudinal difference was observed for the attributes of quality, price and risk among consumers in Ahmedabad. Attitudinal difference was observed for attributes of price and risk in consumer durable products and quality, price, risk and image for personal care products among consumers in Surat. In case of consumer durables, consumer attitudes were consistent for attributes like quality, packaging and image.

Manyu Huang and Kevin E. Voges (2011) demonstrate that customers with higher price sensitivity are more likely to purchase private brand. The lower price seems to be the main advantage for private brand commodities, which gives the advantage when they introduce these commodities. The differences in perceived quality between private brands and manufacturer brands are small for consumers who purchase private brand commodities.

KandapaThanasuta (2012) investigated the relationship between consumer decision-making styles and actual purchases of private label products in a Thai market. The results indicate that price-conscious consumers are the ones most likely to purchase private label products in low-differentiation categories.

Pang Suk Min (2015) This research study investigates the influences of perceived price, perceived quality, perceived risk, perceived value and store image on consumer's willingness to purchase PLBs in Malaysia. Based on the findings, perceived price, perceived quality and store image have significant positive effects on consumer's willingness to purchase PLB. However, perceived risk and perceived value have negative influence on consumer's willingness to purchase PLBs. It is consistent with the findings from past literature that perceived price, perceived quality and store image appeared as important indicators of consumer's willingness to purchase PLBs.

National studies Reviewed:

A survey conducted by Private Label Manufacturers Association (PLMA), USA in 1991 reveals various reasons of buying private-label brands by the customers. Most of them prefer to buy them because of low-price factor. According to *Roth (1995)*, an important aspect that relates to human consumption is customers' income-pattern. When income is limited, the price-conscious customers buy goods just to satisfy their most basic functional needs rather than fulfilling hedonic needs. Previous research has also shown that customers' level of price-consciousness rises with lower incomes and is higher among the deal-prone customers who believe less in price-quality associations (Blois, 2000).

Whereas, Ailawadi et al. (2001) also show that consumers who tend to pay low prices have a more favourable attitude towards buying PLBs.

According to *Faria (1979)* price and quality are the two most important characteristics for purchase of any product and there is a direct link between them. Apart from price, quality is another major determinant in customer purchase decisions (Hoch & Banerji, 1993; Sethuraman, 1992). Research confirms that quality is the most important factor that drives customers towards national brands (Holt, Quelch & Taylor, 2003). Customers do make quality judgements on basis of price rather than physical product-attributes. They have a common perception that low-priced products are of inferior in quality because they are generally made up of poor product ingredients and thus lack the required quality-level (Batra & Sinha, 2000). The study conducted by Rubel (1995) also concluded that in case of private-label brands both the price and quality are the major purchasing parameters but if the quality offered is same for both private and national brands, then

at that moment price becomes the key factor. While the quality-level do varies from retailer-to-retailer, they were nonetheless generally inferior to manufacturers' brands (Steenkamp, Batra & Alden, 2003)

Raju et al. (1995) confirm that PLB products perform well in product classes where consumers are more price sensitive

Rajeev Batra (1999) The study develops a framework for understanding consumer price consciousness, why it varies across product categories, and how it may result in PLB purchase. The findings establish that perceived category risk and perceived price unfairness of national brands in that category are significant antecedents of consumer price consciousness, and that variation in such price consciousness across categories is a significant reason why consumers buy PLBs more in some categories than in others. Additionally, study shows that perceived price–quality association has a significant effect on private label purchase in risky categories.

Nair Suja (2011) analyzed that private label have progressed from catering to a specific target audience to catering to the needs of the urban youth largely especially due to increase in their disposable income & growing awareness of lifestyle & fashion trends. Private labels offer customers value for money proposition. Customers are assured of a quality product with e tangible price difference. Customers purchase risk is reduced as trusted retail name equals the trust in the product offered by a particular retailer. Private labels ensure cost savings to customer & leads to earning customer loyalty. Uniqueness of merchandise potentially leads to greater emotional connect for the customer & for the retailer in spite of lower prices.

U.Dineshkumar and P.Vikkraman – (2012) examines how retailers can influence the customers for private label brands by providing additional features in their product. Under this study a survey is conducted with the customers in and around the Coimbatore city for their preference towards private label brands and concluded that manufacturer brand product consumers give more importance to brand and quality, where- as private brand product consumers are more sensitive to Price and more open to trying new brands.

Monarch A.Joshi (2013) Perception of quality and Pricing are important factors relating to private labels use. It is also found that Quality is more important than price to shoppers. Attitude towards perceived risk as well as image was found to be unfavorable for private labels.

Conclusion

From the reviewed literature it could be concluded that the aforesaid factors i.e. *Price and quality* plays a major role in purchase of PLBs. (Dick et al., 1996, Nencyz-Thiel & Romaniuka, 2009). The study confirms that private label price and quality have significant relationship. Private label consumers are value conscious and focus on low prices (Chandon et al., 2011). Value consciousness has a moderating effect on the quality perception of private labels which can influence the purchase intention of private labels (Bao et al., 2011). But the result shows price consciousness, private label price influences the value consciousness and perceived quality is not having any significant influence. One conclusion we can make out from the results is that price serve as an indicator for quality which can influence value consciousness resulting in private label purchase. So retailers need to take a tactical approach when they price private label brands in all categories. One major implication for retailers is that they need to ensure that they maintain competitive price and optimal quality for private labels when compared with national brands.

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