

A Study on Different Perspectives on Private Labels

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Abstract

Over the years, private label of products or items have always been considered attractive to the consumers for having a cheaper price than the similar manufacturing labels. However, there are some doubts about the quality of products privately labeled. This paper aims to study the private label.

Keywords: Low price, private label, quality.

Introduction

Private labeled products are perceived generally by consumers who believe that their quality is poor. Private label brands are defined as products produced by one manufacturer and sold under the name of a different company. In other words, private labels are those sold under the retailers brand instead of the manufacturers (Mbaye, 2009; Burton, Lichtenstein, Netemeyer and Garretson, 1998). Private labels were first introduced over 100 years ago in a few product categories. Now they are available in over 60% of all grocery products. Even though those private labels have a low market share, retailers continue to keep private brands in stock because of the profit margins they represent, being these higher than national brands. Also, there is a large sector of consumers who take these private brands as a second-rate alternative, considering them as inferior in quality when compared to national brands (Raju, Sethuraman and Dhar, 1995; Beldona and Wysong, 2007; GonzalezMieres, Díaz Martín, Trespalacios Gutierrez, 2006). Despite the tendency to consider private labels as being products of lower quality than national brands, over the last decade those have improved their quality considerably. Private labels used to be positioned at the bottom of the market. However, now it is different when premium private label ranges are continuously growing and sometimes their quality levels are above those other national brands in the same category (Apelbaum, Gerstner and Naik, 2003; Gomez-Arias and Bello-Acebon, 2008).

This paper studies the different perspectives on private label in the following section.

Private label

Several studies (Beldona and Wysong, 2007; Apelbaum et al. 2003) showed an interest in measuring consumers' attitudes toward private label brands. One of the findings of these studies is the negative correlation between consumer attitudes toward private label brands, brand loyalty, price-quality perceptions and impulsiveness (Beldona and Wysong, 2007). In contrast, Rao and Monroe (1989) evidenced that the relation between price and perceived quality, and between brands name and perceived quality rate positive and statistically significant. Thus, the relationship price-quality and private label-quality is of interest for this research. Perceived quality is the consumers' opinion regarding a service or product, and how this opinion fits his or her expectation. Previous research has shown a significant difference in quality perceived between private label brands and national brands, showing a higher tendency for preference on the national brand. Thus, it can be noticed that private labels' market share is growing due to increases in the quality of these products (Gonzalez et al. 2006; Burton, et al. 1998). Several studies (Apelbaum et al. 2003, Burton et al. 1998) have investigated and measured the relationship between price and quality. These studies have found that there has been a positive correlation between price and quality of products and services, although the correlation was weak, meaning that price was not the key factor determining quality.

Some other of these studies (Hoch and Banerji, 1993) found evidences to sustain that quality did have a significant effect on low private label prices but not on the general price discount for all national brands, regardless of the product category.

Different perspectives on private label

Thus, private label brands become less popular in those product categories in which the difference in quality between national and private label brands is higher. Gonzalez et al. (2006) mention that perceived quality between brands differ at the time of purchasing, feeling less risk associated when buying national brands. Also, these differences in perceived quality have positive effects on the fact that a bad purchase can be made, and a negative effect on deciding to buy a private brand. As it was noted before, the risk of buying a private label is higher than that of purchasing a national brand, Gonzalez et al (2006) allowed to clarify that as consumers become more familiar with a brand, and acquire knowledge of product changes, there is a reduction of uncertainty, and thus, decreasing risks. Specifically for private labels, as the use of the product increases and the purchase becomes more often, the risks associated with that purchase decreases, as long as the purchase has been positive. Generally speaking about price and quality, it is noticed how low price is perceived as a synonymous of low quality. Therefore, products with low price are considered to be less favorable in quality.

Also, private labels are directly affected by consumers' perception when price and brand names are used as key factors to determine quality. Generally, a national brand is believed to have good quality, allowing it to charge premium pricing compared to private labels. However, there are some evidences that the two types of brands, national brands and private labels, can have similar objective quality ratings measured in laboratories. But, still will have different subjective quality ratings, meaning that consumer's perception of quality will always be attached to different factors surrounding quality, making this perception completely subjective (Burton, et al. 1998; Beldona and Wysong, 2007). Retailers themselves mark with lower prices private label brands. This practice is due to the lower cost characteristics of private brands, which leads to consumers also willing to pay less for these brands. Taking into consideration quality perception as it has been reviewed before, national brands become obligated to price higher to ensure their perception on quality (Ming-Sung Cheng, Shui-Lien Chen, Ying-Chao Lin, Shih-Tse, 2007; Apelbaum et al. 2003). The finding of this literature contends that marking higher price national labels depend on factors of consumer demographics, such as income and education.

Therefore, these are also factors that influence a certain population to be more likely to purchase private label brands. Typically, a retailer purchases private labels at a price close to the marginal cost. In fact, even when this retailer charges a 25% more for the product, this private labels' price is still around 25% lower of the national brands' price it's competing with. Therefore, private labels tend to do better in categories where price sensitivity is higher to a consumer (Raju et al. 1995; Hoch and Basenji, 1993). Burton, et al. (1998) argue on how as aggregate disposable income decreases, private label purchases increases, not meaning there is a change in perceived quality. From this argument, it can also be inferred that private labels are therefore more popular in countries with less disposable income, being the case of most third world countries. Also, there is a buyer's segment considered "upscale smart shoppers" who are constantly making price comparisons across brands. As long as they keep their quality perception objective, this segment is more likely to purchase private label brands. Burton et al. (1998) and later Steiner (2004) found that when customers are loyal to a particular store, they tend to be less loyal to a certain brand, and therefore are more likely to buy a private label.

There are some evidences that over the years brand loyalty have decreased as various brands begin to arise and leading brands become less evident. These evidences can be treated as an opportunity for private brands to attract a wider public into purchasing, not necessarily meaning they will become loyal to private brand but to give them an opportunity of purchase. According to Apelbaum et al. (2003) private label brands are more likely to succeed in categories in which margins are high, no intense advertising is done and high quality persists. However, what retailers have been trying to achieve, is to convert their brand into just on more brand on the shelf, one alternative more to the consumer. Later on, Beldonaand Wysong (2007) noted a report on the current economic conditions that are making the retailers to increase the number of private labels offered. Consumers are looking to save money with the economy being hard enough on them. Actually, according to the Food Marketing Institute, cited by Holton (1992), the percentage of grocery shoppers buying private labels had increased a 7% in just a year, from 1990 to 1991. Some analysts believe this is due to the economic climate as mentioned before, although some do believe the increase on quality in private labels is to be attributed. People care less about brand names, and retailers have learned how to better manage their own labels (Raju et al. 1995).

A strategy shown by the retailers is to place their brand as close as possible to the products' category leading brand, also since 90 % of people are right-handed, not only does the retailer place his brand close to the leading national brand, but also places it directly to the right of it (Gomez-Arias and Bello-Acebon, 2008; Hoch, 1996). A person, who spends more on private labels and does it on different categories on a store, may become more profitable. Private labels do not tend to create price competition, rather than they create store differentiation and profits, being a broader line more profitable than a narrow private label line. Some observers believe that in order to change private label perception, it should focus on merchandising private labels as an addition to national brands rather than replacing them and concentrate on profit opportunities (Steiner, 2004; Hoch et al. 1993). Private labels are the only brands that can be seen several times throughout a store, and this is to say that no other brand name appears in so many products and categories. Even the biggest companies do not have as much coverage and penetration storewide. Retailers can assure good shelf placement and distribution for their own label. Therefore the great competition created between national brands and private brands rather than among national brands (Hoch, 1996; Gomez-Arias and Bello-Acebon, 2008).

Conclusions

According to a study conducted by Condesa Consulting Group (CCG) in the year 2006 to evaluate the Mexican Private Label market on behalf of the Canadian Embassy in Mexico, the country has the largest private label industry in Latin America, with 2005 sales estimated at slightly over US\$995 million, including both food and non-food items. CCG estimates that retail food sales account for approximately 39% of total retail sales, or US\$388 million. Noting these facts, we intend to point out the factors motivating these purchase behaviors. Regardless the concern level the consumer has on the pricing of an item and no matter if is high or low; there is at least an equal amount on concern around the quality of the item. By saying this there will always be a correlation between quality and pricing no matter if it is direct or indirect there will always have an impact on the other one.

It is clear that acquiring a store label is commonly considered a bad purchase, it can be noted that regardless the economical differences between countries, the perceptions of Private labels vs. National Labels have the same tendency, and this has been demonstrated by comparing the background research against the results of the study. So based on results we can conclude that whenever a consumer has a positive post purchase feeling the level of concern around the price and quality decreases because the satisfaction level has created also a level of trust which make the consumer feel that they are getting something reliable. Economical crisis on the country would be also another factor that might change tendencies and perceptions around the Private Labels against the National Labels considering that there is always a difference on the price and depending on the consumers' economical situation they purchase either Private Labels or National Labels.

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