



## Store brand proneness: Effects of perceived risks, quality and familiarity

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### ABSTRACT

While international retailers engage in the active promotion of store brands, consumers from Asia–Pacific markets remain resistant to purchasing store brands despite the intensification of promotional efforts. This study extends previous store brand research by: (1) determining the mediating role of perceived quality within a model of the antecedents and consequences of quality; and (2) assessing the extent to which age moderates the strength of relationships posited in the model. The model was tested in a retail store brand context using a quota sample of 220 shoppers and a cross-sectional survey. Empirical results suggest that performance risk, physical risk, and familiarity have significant effects on both perceived quality and purchase intention. Familiarity had the strongest total effect on perceived quality and store brand proneness in a collectivistic culture such as Malaysia and its effect on store brand proneness was partially mediated by perceived quality. Lastly, the finding that age moderates the impact of performance risk, physical risk, familiarity and perceived quality on store brand proneness provides insights into store brand management.

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### 1. Introduction

Store brands, also known as private labels, home brands or own brands, generally refer to merchandise sold under a retail store's private label displaying either the store's own name or a brand name created exclusively by the retailer for that store (Sprott and Shimp, 2004). Over the past decade, amid the highly dynamic international business environment, store brands have grown significantly in the retail and consumer goods markets (Zielka and Dobbstein, 2007). International retailers engage in the active promotion of store brands to generate higher revenues and gross margins, increase store traffic and bargaining power relative to national brand manufacturers, and to boost store loyalty and improve store differentiation (Richardson et al., 1996; Baltas, 1997; De Wulf et al., 2005; Walsh and Mitchell, 2010). Store brands are regarded as an important strategic decision due to their value as an avenue for retailers to create competitive advantage, especially during an economic downturn.

Store brands hold strong influence in the international retail market. In Europe, store brand sales have been increasing since the late 1990s. According to a survey of 80 product categories in

38 countries, Europe ranked first as the most developed store brand region and eight of the top 10 highest-ranking countries in terms of store brand market share were in Europe (AC Nielsen, 2005). The growth in total store brand sales is significant throughout Europe: Switzerland (43%), Belgium (43%), the United Kingdom (42%), Germany (41%), Spain (33%), and France (32%) (PLMA, 2007). Store brands also have a strong presence in North America. Store brand sales increased by 7% in North America, which ranked second to Europe in regional store brand shares. Canada had slightly higher store brand market share of 19% compared to United States, which had a market share of 16% (AC Nielsen, 2005). Moreover, one in five products sold in US supermarkets in 2004 was a store brand (PLMA, 2007). It is evident that store brand manufacturers have secured a strong foothold in these more developed nations.

However, consumers from the Asia–Pacific markets remain resistant to the purchase of store brands despite intensified promotional activities. According to AC Nielsen, the Asia–Pacific region had a much smaller average store brand market share at 4% (AC Nielsen, 2005). Among these Asia–Pacific nations, New Zealand had the highest store brand share of 12% and Australia was second with a market share of 9%. The store brand market share in Hong Kong and Japan was around 4% whilst Thailand and South Korea each had market share of merely 1% (AC Nielsen, 2005). Similar to other Asia–Pacific countries, the development of store brands in Malaysia remains relatively slow compared to European and North American markets (Nielsen Malaysia, 2009). It appears that the market penetration of store brand products in Asian markets

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is not as developed as the Europe and North America regions that have established store brand development and markets.

The key question for retailers is always: ‘Why do consumers purchase store brands?’ Although the familiarity associated with store brands among Malaysian consumers is increasing, the majority of these consumers remain sceptical; consequently store brands are mainly consumed by the price conscious consumer segment (AC Nielsen, 2008). It is apparent that Malaysian consumers still harbour a strong feeling of uncertainty and are afraid of the consequences of purchasing store brand products (Conomos, 2008). Collectively, the presence of uncertainty among consumers has led to a negative perception about the quality of store brand products. However, marketers should be cautious in their marketing planning and implementation since what drives store brand proneness in Western countries might not hold true in Eastern nations. We speculate that the social-cultural differences as well as economic and political development which exist between Western and the Eastern societies might have an impact on consumers’ buying behaviour. Indeed, empirical evidence demonstrates that consumers in collective cultures are more inclined to base buying decisions on extrinsic cues; therefore, well-known manufacturer brands are their preferred choice (DeMooij and Hofstede, 2002). Consequently, consumer perceptions of unfamiliarity, risk and quality towards store brands might account for the relatively low market share of store brands in Malaysia.

A good understanding of behavioural intention and consumers’ perceptions towards store brands has implications for retailers who want to increase the awareness and consumption of store brands. However, Hyman et al. (2010) note in an extensive review of store brand literature that 73.8 percent of the empirical studies were drawn partly or fully from US-based data. Despite the significant financial impact that store brands have in the international retail market, there are limited studies on store brands in the Asian context (Lin et al., 2009). Thus, determining the extent to which these perceptual factors influence consumers from a distinct cultural background is still an issue. Building on previous store brand literature, we attempt to address this issue by offering an integrated model in predicting consumers’ store brand proneness.

## 2. Literature review

### 2.1. Background of the study

The retail scene in Malaysia has undergone significant changes since 1990 with the emergence of a contemporary retail landscape introduced by established hypermarkets from Europe. The concept of retail in Malaysia has been redefined and renewed following the introduction of free trade, globalisation, technological advances and changing consumer needs associated with an improved lifestyle. Through collaboration between multinational companies and local partners, multinational retailers such as Carrefour, Makro, Giant and Tesco have made an impact on the Malaysian retail scene. Subsequently, retail sales have become an important contributor to the economic development of the country. Chan (2006) reports that the retail industry in Malaysia expanded by 9.6% during the first half of 2006, despite rising interest rates and falling consumer confidence. Furthermore, the *Malaysia Retail Report (2011)* forecasts that total retail sales will grow from RM168.72bn (US\$47.90bn) in 2011 to RM284.02bn (US\$80.63bn) by 2015. This figure displays potential of retail business in Malaysia.

The major attractions of these hypermarkets include a wide variety of food outlets and merchandise retailers along with customer convenience; this combination poses a potential threat to small retailers (Saithuruka, 2004). The size and financial capability accumulated since 1960s by hypermarkets has enabled them to

capture and dominate market share in a sustainable manner. Small or weaker retailers with less competitive business models and inefficient distribution structures tend to lose out to these hypermarkets. One argument is that the different merchandising strategies of each retail format meet the needs of different customer groups (Mohd Roslin and Melewar, 2008). One of the strategies opted by the hypermarkets is the promotion of store brands. This strategy capitalises on the cost advantage of leveraging upon the direct use of the retail channel and lower advertising and packaging expenses (Dick et al., 1995). Retailers are increasingly emphasising store brand attributes and this approach seems to be integral to the ongoing development of hypermarket-based retail outlets (Euromonitor, 2010).

### 2.2. Determinants of store brand proneness

Retailers need a good understanding of the drivers of consumer intentions to purchase store brands before they can convince consumers to switch from their usual brands to a store brand. A rich body of marketing literature reveals that many factors correlate with store brand purchase. Earlier store brand studies in the 1960s and 1970s were mostly focused on profiling store brand prone customers in terms of shopping habits, socioeconomic factors and personality characteristics (Dick et al., 1997). Subsequently, research that evolved around store brands was mainly related to consumer characteristics differences (e.g., socio-demographic, perception and attitudinal factors) between store brands and national brands (e.g., Bellizzi et al., 1981; De Wulf et al., 2005; Mieres et al., 2006a). These studies were undertaken in the US or European countries that have a more mature store brand market compared to the Asia-Pacific region.

Among the various consumer perceptual antecedents of store brand purchase, price-related factors such as price consciousness, perceived price-quality association, and perceived price variation appear to be the most common determinants of store brand purchase decisions (e.g., Sinha and Batra, 1999; Jin and Suh, 2005). However, the 2005 AC Nielsen study concluded that price is not directly related to market share in relation to store brand purchases. While personal care products had the widest price differential of over 50% on a global basis between store brands and the corresponding national brands, personal care products scored the lowest in terms of market share and growth rate at 5% and 3%, respectively (AC Nielsen, 2005). Store brands are not always competing with well-known national brands simply on price. Indeed, empirical evidence has shown that product quality is more important than price in store brand purchases (Hoch and Banerji, 1993; McNeill and Wyeth, 2011). Price may have once been the key driver for eliciting store brand purchase, but the changing perceptions of consumers suggests that other non-price factors may better explain consumer preference towards store brands.

Perceived risk is regarded as one of the most crucial factors for understanding consumer behaviour (Bettman, 1973). Shopping is a function of the degree of perceived risk associated with the product category (Tauber, 1995). When making product choices, consumers are often faced with uncertainty over the performance of the product. This notion is especially relevant in the Asia-Pacific region given that the phenomenon of store brands and their market development are relatively new compared to the Europe and North America regions. Consumers’ risk perception towards store brands is an important driver of the purchase decision and may potentially be a vital aspect of the formation of quality perceptions towards store brands. Also, the multidimensional concept of the perceived risk construct remains unresolved. While extensive research has examined the role of perceived risk, as a global construct, in the changing store brand context (e.g., Lin et al., 2009;

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