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The value of private label brands to U.S. consumers: An objective and subjective assessment [☆]

Peter J. Boyle ^{a,*}, E. Scott Lathrop ^b

^a College of Business, Central Washington University, 20000 68th Avenue W, Lynnwood, WA 98036, USA

^b Whitman School of Management, Syracuse University, 721 University Avenue, Syracuse, NY 13244-2450, USA

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ABSTRACT

This study investigates the value of private label brands to consumers using two approaches: First, subjective evaluations of the perceived relationships between price and quality for private label (PL) brand and national brand (NB) products based on survey responses; and second, objective measures of price and quality for PLs and NBs widely available in the U.S. Price was generally perceived to be a signal of quality for NBs, but not for PLs, an indication that consumers' knowledge may not have kept pace with quality improvement in PLs. Objective estimation of the quality gap potentially existing between PLs and NBs determined that the "quality premium" of NBs observed in the past has largely disappeared. Consumers, notwithstanding, sought a lower purchase price for PLs. In turn, the higher price they were willing to pay for NBs accorded with estimates of the actual "price premium" associated with NBs.

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1. Introduction

Private label brands are now an integral element of the retail landscape, having achieved impressive penetration in all western markets, with levels of 40 percent in several European countries (according to 2012 figures from the Private Label Manufacturers Association–PLMA). Indeed, the PLMA reports that in certain product categories in some countries penetration is beyond 70%. The consistent levels of growth of PLs in most markets tracked by Nielsen for the PLMA (which includes the U.S., where penetration approaches 25%) signify how valuable PLs are to retailers. In the present work, we seek to determine the value of PLs to U.S. consumers, where many PLs have increased in quality and price.

Consumers certainly seem to value private labels (PLs). According to the PLMA, a 2011 survey of European shoppers found that one-third of them are "buying more" store brands. Also, according to the PLMA, a separate 2011 survey of U.S. consumers found that 39 percent would recommend a store brand. Thus it seems safe to assume that PLs will continue as an important component of many consumers' purchases. Relevant to consumers' purchase decisions are the factors of private label quality and price, especially with respect to national brands (NBs). In the present work we characterize the value of PLs, first by examining the objective price–quality relationship of PLs relative to NBs, and second by investigating consumers' subjective

perceptions of that relationship. In particular, we focus on the actual or objective "price premiums" associated with the purchase of NBs, and on consumers' stated (subjective) willingness to pay those price premiums for the implied benefits of NBs.

1.1. Quality trends in PLs

At one time the terms "cheap" and "private label" appeared fission-proof, but today the merchandising strategies of retailers' PLs resemble those of the national brands, encompassing both low and high price points (Liu and Wang, 2008; Soberman and Parker, 2006). One consequence is that, to a greater extent, newly-introduced PLs are targeted at the upper echelons of product quality (see, e.g., Corstjens and Lal, 2000; Steenkamp et al., 2010). Pache (2007) reports that while some PL companies follow the familiar low-price, low-quality approach (sometimes referred to as "generics"), others embark upon a "high quality" (i.e., equivalent to national brand) product strategy, setting their prices just 5 to 10 percent below national brands. In fact, the current trend is towards PLs rivaling the quality of NBs. Our research addresses the following: Have consumers' perceptions of the price and quality of PLs relative to NBs kept up with changes in the market?

2. Relationship of present work to previous research

In the present work we investigate the actual and perceived relationships between price and quality for common PL brands widely available in the U.S. Our motivation arose, first of all, from previous research, which has typically found shoppers to perceive

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* Corresponding author. Fax: +1 425 640 1488.

E-mail address: boylep@cwu.edu (P.J. Boyle).

PLs as inferior in quality to NBs (e.g., Cunningham et al., 1982; De Wulf et al., 2005), even though that is not always the case (Lichtenstein and Burton, 1989). Because of the recent developments in PL price and quality, we examined consumers' current perceptions of the value of PLs by using survey data. Our second motivation was that PLs price-quality relationships may be fundamentally different in product markets having PLs compared with those in which PLs are absent, thus we sought to investigate the value of these PL markets to consumers by analyzing product quality and price data for several nondurable products.

2.1. Consumer perceptions of product quality and price

Generally speaking, consumers tend to impute quality on the basis of price (Agarwal and Teas, 2002; Brucks et al., 2000). Why might that belief arise and persist? Rao and Monroe (1989) argued in their meta-analysis of price and perceived quality that consumers evaluate product quality using a comparative process, so "perceived differences in prices lead to relative judgments that product quality varies significantly" (p. 356). A follow-up meta-analysis (Volckner and Hofmann, 2007) of price and perceived quality studies published since 1989 concluded that the perception of a price-quality relationship persists, albeit more weakly than in the past. But even if price-quality beliefs are present, they can vary according to whether consumers are familiar with the product category (Gardner, 1971); or if they perceive the product to be a risky (Peterson and Wilson, 1985) or a prestigious purchase (Brucks et al., 2000); or if the product is a durable or nondurable (Boyle and Lathrop, 2009; Lichtenstein and Burton, 1989).

2.2. Actual relationship between product quality and price

Although consumers often perceive higher price to signal higher quality, previous research examining the actual relationship between price and quality has found this is not often the case. Most studies have relied on price and quality figures published in periodicals operated by independent organizations, such as Consumers Union in the U.S., Stiftung Warentest in Germany, Association Des Consommateurs in France, and Consumentenbond in the Netherlands that have conducted objective evaluations of each brand's quality. Evaluations are combined using an unpublished weighting scheme, with final scores used to rank order models tested from best to worst, along with representative prices. Conceptually, higher prices should coincide with higher quality in a product category. Thus a rank-order correlation of prices and testing outcomes should be close to 1.0. A meta-analysis of 9 U.S. studies by Tellis and Wernerfelt (1987), yielded a mean correlation of .27. Replications in other markets (e.g., European—Faulds and Lonial, 2001; Austrian—Kirchler, Fischer and Holzl, 2010; Dutch—Steenkamp, 1988; Japanese—Yamada and Ackerman, 1984) have led to the same conclusion, namely that price is not a reliable indicator of quality (Steenkamp, 1988). However, correlations for individual products can vary considerably, even in a single study (e.g., from $-.82$ to $+.93$ in a Canadian study by Bodell et al., 1986), and often include negative values (including -1.0 ; Gerstner, 1985).

Various explanations for markets with higher positive correlations have been advanced. Most relevant to the present work is the notion that a market which is "disciplined" by at least a few well-informed buyers (Steenkamp, 1988) should tend to exhibit a higher price-quality correlation (Salop and Stiglitz, 1977). Are markets with PLs policed by shoppers who are more vigilant than NB buyers? Perhaps, not only because PL buyers may be price conscious (Ailawadi et al., 2001), but because they tend to be

more experienced shoppers with higher levels of education (Baltas and Argouslidis, 2007; Sethuraman and Cole, 1999).

2.3. Consumer perceptions of private labels

How do consumers currently view the quality of PLs? Earlier studies (e.g., Bellizzi et al., 1981; Richardson et al., 1994) found that consumers judge the quality of NBs to be higher than PLs. As evidence, consider that in a recent food product study, De Wulf et al. (2005) found a NB to be rated more positively than PLs when brand names were available, but in a testament to the evolution of PL quality, all the PLs were rated higher than the NB in blind-tasting. This is consistent with the trend towards PLs increasing in product quality (e.g., Baltas and Argouslidis, 2007; Corstjens and Lal, 2000; Mendez et al., 2008; Steenkamp et al., 2010; Steiner 2004).

2.4. Research objectives

Given the overall trend toward increasing PL product quality, a key goal of the present research is to determine if consumers' perceptions of the price and quality of PLs have tracked that trend. A second goal is to characterize the value PLs deliver to consumers. Accordingly, we first investigate the extent to which a quality discrepancy might exist between PLs and NBs, while at the same time assessing consumers' perceptions of the PL quality relative to NBs. We then determine the extent to which price is an indicator of quality in markets with PLs, both from an objective and subjective standpoint. Finally, we explore the value PLs offer consumers, from an objective point of view as well as from the consumer's perspective.

3. Methodology and data sources

Two data sets were employed: One comprised objective measures of price and quality gathered from product evaluations reported in *Consumer Reports*. The other data set contained subjective ratings of the perceived relationship between price and quality gathered from survey participants in the U.S.

3.1. Objective data

3.1.1. Data source

Consumer Reports (CR) which is published monthly in the U.S. by Consumers Union, served as the source of our objective data. Between May 2006 and April 2011 there were 17 products (a total of 256 brands, of which 18.0% of them were PL) evaluated by CR meeting our criteria, as discussed below in 3.1.3.

3.1.2. Price-quality measures

CR provides both the price and an overall score of each evaluated brand. Prices are per unit, and are thus comparable across brands regardless of package size or contents. Quality evaluations for each brand are reported graphically and numerically on a scale ranging from 0–100, with 100 being the highest. We used the numerical ratings.

3.1.3. Inclusion criteria

Our criteria for inclusion in our study was that the products should have a reasonably short purchase-repurchase cycle; should have at least one private label brand evaluated; and the PL brand should be available through at least one physical retail location. For the purposes of the present work, a PL brand is defined as one sold by a single retailer (possibly having many retail outlets). National brands are defined as those available from

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