



The development of a consumer value proposition of private label brands and the application thereof in a South African retail context



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ABSTRACT

Private Label Brands are of strategic importance to retailers worldwide. However, there is a dearth of knowledge, particularly in emerging markets, as to the manner in which consumers cognitively assess these brands. At the heart of the issue is a gap in knowledge as to how consumers formulate a value proposition in their minds and the effect of loyalty to existing brands. This paper assumes a positivist, hypothetico-deductive approach by attempting to address the question: *What are the key drivers of perceived value of private label branded breakfast cereals, taking price, perceived risk and perceived quality into account?* Moreover, the study considers how various attributes of brand image contribute to the perception of brands and the extent to which loyalty to established national brands inhibits purchasing intent of private label merchandise. A conceptual model was developed, and tested by means of Partial Least Squares path analysis, using a sample of 482 respondents. The outcome reflects that consumers take cognisance of value through price, risk and quality cues, but that loyalty to existing brands has a minimal effect in the final stage of the model. Moreover, both in- and out-of-store influences were found to play a significant role in the determination of product quality. Retailers therefore possess a number of levers at their disposal to influence perceived value, most notably price, product quality and the perceived risk portfolio, as well as packaging, shelf placement, store environmental factors, etcetera.

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1. Introduction

Private label brands (PLBs), consisting of merchandise sold exclusively through a particular retail chain, are growing in prominence throughout the world. Retailers are incentivised to sell these brands for a plethora of reasons including margin enhancement, facilitating customer choice and the fostering of customer loyalty (Kumar and Steenkamp, 2007). However, the acceptance of these brands is not without consumer reservation. In South Africa, private label brands exhibit pitifully low penetration rates and are typically seen as being inferior to national brands (NBs) (Beneke, 2010). Product categories that have achieved success in this environment include chicken, tinned food, frozen vegetables, and long life milk (Nielsen, 2006). Such products often fall into the category of commodities, typically being low being low cost, low risk and low involvement in nature (Kumar and Steenkamp, 2007; Beneke, 2010).

This study examines this phenomenon microscopically by considering the motivations that entice consumers to purchase

private label merchandise and, likewise, those that inhibit such behaviour. To this end, the study considers a multitude of inputs into the consumer's derivation of product value and the peripheral effects influencing the consumer's perception of such brands. In doing so, a conceptual model is developed which maps the cognitive influences integral to the decision process. This serves the purpose of advancing the literature, as there appears to be a dearth of knowledge, particularly in emerging markets such as South Africa, as to the manner in which consumers cognitively assess these brands. Furthermore, novel to this area of research, this paper introduces new antecedents to the process of deriving perceived value, focusing on the roles played by familiarity with private label brands, in-store extrinsic cues, as well as store image.

At the heart of this research is the original conceptualisation of perceived product value by Sweeney et al. (1999), which has subsequently been validated and applied by scholars including Beneke et al. (2013), Kwun and Oh (2008), Sánchez-Fernández and Iniesta-Bonillo (2007) and Snoj et al. (2004). This process suggests that the consumer's perception of value is preceded by quality considerations, the pricing of the merchandise and the level of risk involved. These antecedent factors are processed to formulate a notion of perceived value, which then has a direct effect on the consumer's willingness to buy the brand in question. The current

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study utilises this framework at a foundation level, but augments it by suggesting additional factors influencing the perceived quality of the merchandise and also taking loyalty to existing NBs into consideration as a potential impediment in the final phase of the buying decision process.

In an attempt to improve understanding of private label brand (PLB) purchasing behaviour within the South African fast moving consumer good (FMCG) sector, this study draws focus to the determinants of private label branded breakfast cereal purchase intent amongst middle class consumers. In this endeavour, antecedents of purchasing behaviour are identified and tested so as to determine the manner in which consumers formulate a value proposition of such brands (Sweeney et al., 1999). Furthermore, as brand switching plays a crucial role in the adoption of PLBs, affinity towards NBs will also be probed as a potential impediment in this process. The focus was placed on breakfast cereal due to its ubiquitous availability in supermarket store, high rate of sale, and mass consumption within South Africa (Euromonitor, 2013). It also conforms to the normative characteristics of FMCG private labels, being low cost, low risk and low involvement in nature (Kumar and Steenkamp, 2007; Beneke, 2010).

The following research question is therefore posited, with reference to middle class purchasers of breakfast cereal in South Africa: *“What are the core drivers of perceived value, taking perceived risk, perceived quality and perceived relative price into account? Moreover, what is the extent of the role played by the antecedent brand image, as well as the postcedent of loyalty to established national brands, in this process?”*

2. Literature review

The literature review considers the manner in which consumers arrive at a value for money perception, incorporating the key antecedents of perceived quality, perceived risk, and perceived relative price, and how this translates into willingness to buy private label brands. Furthermore, peripheral factors such as store image, familiarity with such brands, in-store extrinsic cues, as well as entrenched loyalty to NBs, will be considered for their cumulative effect in this process.

2.1. The derivation of perceived product value

A customer's perceived value represents an overall mental evaluation of a particular good or service (Yang and Peterson, 2004). Research by Chang and Dibb (2012), Monroe (2002) and Heskett et al. (1997) suggests that consumers weigh up the perceived benefits and costs of making a certain acquisition. Thus one of the prime definitions of this construct entails the ratio or trade-off between quality and price, hence representing a value-for-money conceptualisation. This theory surrounding a customer's perceived value is, to a large extent, based on utility theory found in microeconomics (Snoj et al., 2004). This approach emphasises the fact that very often individuals do not purchase goods or services for their sole functional benefit, but rather they purchase a set of attributes from which they derive value, according to the benefits, or utility, provided by the goods or services (Snoj et al., 2004). The value obtained is then determined as the customers perceived difference between the benefits received and the costs incurred (Snoj et al., 2004).

Customer perceived value is arguably one of the most critical determinants of purchase intent and, consequently, one's willingness to buy (Chang and Wang, 2011; Ulaga and Chacour, 2001). Although research has shown that this construct is rather difficult to conceptualise and comprehensively measure, it seems universally accepted that if a customer perceives the value of a good

or service to be relatively high, the probability (s)he will actually make a purchase is likely to increase (Monroe, 2002; Zeithaml, 1988). Great interest has been generated in recent years surrounding the phenomenon of value creation amongst both academics and marketing practitioners (Sánchez-Fernández and Iniesta-Bonillo, 2007; Walsh et al., 2008). This being said, value creation has become of particular importance to marketing practitioners given the array of benefits associated with obtaining a competitive advantage in the marketplace (Sánchez-Fernández and Iniesta-Bonillo, 2007; Walsh et al., 2008). Despite varying conceptualisations of perceived value in the literature, a general consensus exists that highlights the strong link between the value that is created for consumers and the loyalty towards a brand and the resultant profits (Sánchez-Fernández and Iniesta-Bonillo, 2007).

Studies by Beneke et al. (2013), Snoj et al. (2004), Sweeney et al. (1999), Sinha and DeSarbo (1998) and Richardson et al. (1996, 1994) have all highlighted the integral role performed by perceived product value in the consumer decision-making process. Research conducted by Yee and San (2011) in particular, found that a direct association exists between a consumer's perceived value and their purchase decision. Yee and San (2011) further explain that the greater the perceived value held by the consumer regarding a particular product, the greater their purchase intentions towards that particular product will be, indicating that they will be more likely to purchase the product.

In light of the above, and in the context of PLBs, the study hypothesises that:

Hypothesis 1. Perceived product value influences consumers' willingness to buy private label branded products.

Evidence has been produced to reveal that customer perceived product value is a multidimensional and highly subjective evaluation of factors, thus gaining an understanding of the various dimensions of perceived product value becomes crucial for developing effective positioning and communication strategies (Ruiz et al., 2008; Snoj et al., 2004; Yang and Peterson, 2004; Ulaga and Chacour, 2001; Zeithaml, 1988). This is because perceived product value not only dictates how the product suite is seen in the mind of consumers, but also suggests the types of communication channels and positioning tools that a company might use in order to maximise the probability that messages are interpreted as intended (Sweeney and Soutar, 2001).

Examining perceived product value as a multidimensional construct allows for a greater understanding of the various dimensions of value. Researchers have adopted varying conceptualisations of perceived product value and have thus chosen to examine differing sets of antecedents. For the purpose of the current research, it is vital to determine which antecedents drive perceived product value within the PLB arena. According to authors such as Beneke et al. (2013), Snoj et al. (2004), Sweeney et al. (1999) and Dodds et al. (1991), these antecedents include perceived product quality, perceived relative price and perceived risk of a product. In particular, perceived value has been found to mediate the relationship between these antecedents and consumer's willingness to buy a private label branded product (Beneke et al., 2013; Sweeney et al., 1999; Dodds et al., 1991).

This culminated in the following interlinking (mediation) hypotheses being formulated for inclusion within the conceptual model advocated in this article:

Hypothesis 2A. Perceived product value mediates the relationship between perceived product quality and consumers' willingness to buy private label branded products.

Hypothesis 2B. Perceived product value mediates the relationship

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