

Consumers Decision Making In Buying Private Brand and Manufacturer Brand

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Abstract:- Brand has an influence on consumer decision making process. The emergence of private brand creates competition with the manufacturer brand. Consumer perception towards both brands has caught the attention of many researchers. Some researchers claim that consumer perception will lead to consumer decision making. This paper will discuss on consumer's decision whether to purchase private (store) brand or manufacturer (national) brand. Furthermore, researchers will explore the consumer perceptions on private brand and manufacturer brand. Variables such as quality and price perceptions are most common in distinguishing between private brand and manufacturer brand. Other variables such as brand leadership, brand personality and shelf space are also being discussed in the paper.

Keywords:- private (store), brand manufacturer (national) brand, brand choice/selection, perception

1 Introduction

Manufacturers brands are products produced and marketed by a trader for instance the retailers. The manufacturers develop the products and create an image for the brand. Some successful companies have strong manufacturers' brands, such as IBM, Nokia, McDonald's and Microsoft. They spend much money creating, promoting and building loyalty to their brand name Hu and Chuang [1]. Strong manufacturer brands help store image and bring traffic flow. Loyal consumers of manufacturer brands usually know what to expect from the merchandise and feel comfortable with them.

But manufacturer brands generally have lower gross margins than private brands. These lower

gross margins are because of the manufacturer taking on the cost of promoting the brand and increasing competition among the retailers selling the brands Levy & Weitz [2]. As noted by KPGM [3] there are several definitions to describe private label such as own brand, store brand, retailer brand, own label and etc. In addition, anything can be a private label product from a basic commodity product, such as tinned tomatoes to an innovative retailer brand with comparatively high quality and price. The name used applied commonly for all retailer-owned product names, in any cases.

The development, manufacturing, marketing and distribution of private labels are on retailer as they initiated the label. Several examples of private brands in Malaysia are Tesco, Giant,

Mydin and Carrefour. As cited in Alan Dick [4] indicates that consumers will employ direct and indirect indicators of quality when they are making quality judgments on Cue utilization theory (Cox, 1967; Olson, 1972). Product ingredients, taste, and texture all of which relate to physical properties of the product are the direct indicators items while those product-related cues which are not part of the physical product such as price or brand name will be indirect indicators.

2 Consumer Perceptions

Consumer perceptions on private and manufacturer brand can be broadening into perceived quality, price perception, brand leadership and brand personality. In Cheng *et al.* [5], differences among national brands, and international private brand and local private brand are being discussed using price, quality, leadership and personality dimensions.

The variation in perception on quality between private brand and manufacturer brand has long been researched. In comparison with private labels, national brands, which are high familiarity among consumers across the nation d'Astous and Saint-Louis [6], are more capable in product design, operational process efficiency and technology Steiner [7]. Therefore, they are believed to be more capable in manufacturing attractive products. As a result, their product quality is likely to be perceived as being superior. Hoch and Banerji [8] claim that market shares of private label were greatest as the quality is relatively higher than national brand.

Improving quality is a major reason for growing acceptance of private label cited by Steiner [9]. As mentioned by Steiner [9] there are numbers of product innovation for private label but the things is there are still quite numbers of these retailers imitated manufacturer product that leaves these retailers private label in position of imitating yesterday's favorites. Manufacturer's brand product innovation is a strongest competitive weapon against private labels'.

As for product price perception, because of their inherent lower cost characteristics, private labels are always marked lower than branded products by retailers such as hypermarkets and national retailing chain stores Miranda and Joshi, [10]. Consumers are willing to pay less for private labels than national brands due to the brand does not involved higher cost compared to the private brand. Moreover, a number of academic works have shown that low prices are associated with

low quality Alba *et al.* [11]. As private labels are perceived to be of lower quality, national brands are therefore recognized as being more highly priced so as to ensure the perception of their quality McGowan and Sternquist [12]. This can be concluded that the price perception on manufacturer brands is higher than the one on private brands.

From a strategic pricing perspective, three sets of players are affected by store brands and interact to create its net impact: (i) the retailers, (ii) the manufacturers, and (iii) the consumers. Since store brands by definition can be exclusively sold by the retailer that carries them, many retailers attempt to use this exclusivity to differentiate themselves from the competition.

Price consideration has a significant positive impact on the purchase of private labeled fast-moving consumer products at TESCO outlets. This is because many Malaysian consumers are motivated to buy products at lower prices. The customer base in the low price segment of the Malaysian consumer market is big. These consumers in the low-cost segment always look for products that offer value for money Jayaraman and Wong [13].

As mentioned by Steiner, Robert L. [7] price setting of private label is another competitive advantage as to compete with manufacturer brands. Although its bring competitive advantage, too obvious price cutting could cause bad impressions to private label as consumer might perceive that product of private label has no quality. He also reported that price cutting in manufacturer's product harm private label more than price cutting of private label harm manufacturer brands [15].

According to Steiner [9] private label will lose more when they raised the price rather than national brands lose fewer sales to private label when they raised the price. Yet, private label still win the market share as if the national brand raises its price as it lose to private label. Dhar and Hoch [14] conducted a comprehensive study involving 34 edible grocery categories sold in 106 major U.S. grocery retail chains. They found that across all categories the mean NB/PL price gap was about 40% and that "...a 10% change in the price gap fraction results in a 0.8% change in store brand share." (p.223).

Brand leadership consists of supportive brand processes and the ability continually to achieve excellence Aaker and Joachimsthaler, 2000; Yakimova and Beverland, 2005 as cited in Cheng *et al.*[5]. These leading brands, being the primary

brands in relation to secondary brands Henrik [16], are perceived to be more innovative and can be, according to Aaker [17], “in the no. 1 syndrome.” Innovative brands are recognized as being technologically ahead while brands that are in the no. 1 syndrome can attract enough customers to buy into their brand concepts to make them sales leaders. National brands usually have better capability to develop their products and simultaneously utilize their product design capability as a competitive weapon against private labels Steiner [7]. As such, help their prominence in the market and increase their market share in relation to private labels Cotterill and Putsis [15]. It can be concluded that the manufacturer brands compare to the national brands are likely to be seen as the leading brand.

Brand personality, based on the brand-as-person perspective, can provide a link to the brand’s emotional and self-expressive benefits as well as a basis for customer/brand relationship and differentiation Aggarwal [18]. This is especially the case for brands that have only minor physical differences and have meanings added to the brand through various marketing activities such as advertising Supphellen and Gronhaug [19]. The emphasis of brand personality is also meaningful for those brands that are consumed in a social setting where the brand can make a visible statement about the consumer Aaker [17]. National brands always increase advertising to enhance their brand awareness Siggelkow [20]. As consumers are more widely exposed to their names and logos compared with private labels, which are displayed only at stores, national brands are therefore better known Monget [21]. Thus, consumer will perceive that manufacturer brands are more out-standing and distinctive; therefore create its own personality as exceptional to private brand.

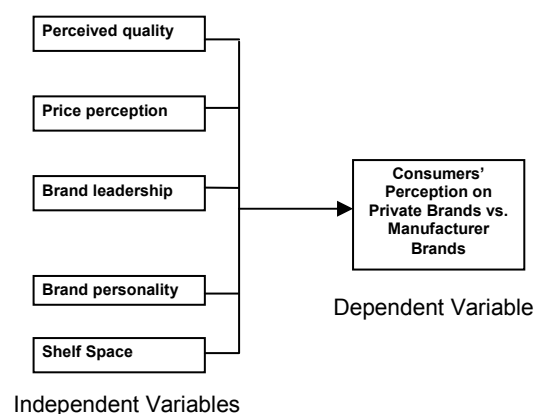
Steiner [9] mentioned that it is retailer right to decide on the placement of national brands and its own label brands on the store shelves as for everyday sale and promotional periods. Definitely, to position the product, national brand will used a number of incentives to obtain preferred position on his selves. Of course the final word is from the retailers cited by Steiner [9].

An experiment at Dominick’s supermarkets in Chicago tested the additional sales generated by expanding the facings, e.g. the horizontal space on the shelves, versus changing the vertical location from the bottom shelf to an eye- level shelf. Their strong conclusion was that “a couple of facings at eye level did more for the product than five

facings on the bottom shelf.” (Dreze, Hoch, Purk, 1994 p.324 as cited in Steiner, [7].

According to Steiner [9] in a way of reducing the price private labels is not enough in competing with national brand. And yet display promotion and feature of the private labels product appear to be more attractive in gaining the attention and share (p.36). Such end cap or island display, during year 1 is found to have statistically significant activity associated with an increase in PL market share in year 2 was promotional display. 3 promotional vehicles - by a print ad feature, by coupons and also by promotional display used to increased market share of national brands Cotterill and Putsis [15].

Figure 1: Conceptual Framework



This model is adapted from:

Cheng, Julian Ming-Sung, Chen, Lily Shui-Lien, Lin, Julia Ying-Chao Lin and Wang, Edward Shih-Tse. Do Consumers Perceive Differences Among National Brands, International Private Labels And Local Private Labels? The Case of Taiwan. *Journal Of Product & Brand Management*, Vol. 16, No.6, 2007.

Steiner, Robert L. The Nature and Benefits of National Brand/Private Label Competition. Working Paper-presented at Annual Meeting of the American Economic Association on Jan. 5, 2002 at Atlanta, Georgia, 2002.

3 Discussion

Looking at one’s own perspective and buying habit, quality plays an important aspect in determining whether to purchase the private brands or the manufacturer brands. Since manufacturer brands have been in the market for ages, manufacturer brands signifies higher quality. Improving quality on private labels is a competitive advantage as to compete with manufacturer brand. It will takes on product innovation but yet it requires private labels to

highly invest especially on R&D. If it does invest in R&D, the question is: Are retailers of private labels capable enough especially on financial aspect in improving the quality of their product? Or what can they do is simply imitating what already being done by the manufacturer brand?

Several studies have revealed that price determines the quality of a product-- the higher the price, the higher the quality of a product. Manufacturer brand has been viewed as having a higher price compared to the private. However, consumers are more tempted to purchase the manufacturer brand due to higher quality (indication of higher price). Studies also showed that cutting the price obviously give bad impressions to private labels as consumers will perceive private labels quality is low. To this, it is difficult for private labels to capture the attention of the customers and yet to increase their market share. In addition, cutting the price of manufacturer product helping them to capture the attention of the costumers and increase the share of market.

Manufacturer brands are considered as the leader in any product due to they are the pioneer in the industry. Manufacturer brands started the product and private brands are imitating their products and strategies. Brand personality or characteristics can be referred to their benefits offered to the customer. Personality can also be derived from its promotional activities and physical appearance. In the promotion industry, manufacturer brands are leading their ways. Therefore, for this criteria, manufacturer brands have a higher brand personality compared to the private brands due to these brands are more aggressive in promoting, marketing and selling their brands. .

Since the retailer has the authority to choose the shelf space that is more attractive or visible to the consumer, consumer will tend to select the private brands. There is study reported that private labels do have right in placing their product on the store shelves. This is a privilege to them. Again, they can use this right as a weapon to stringent their strategy in capturing customer's attention. However, having the right of placing their product on the store shelves without displaying promotion and feature of quality capturing the attention of customer is a tough battle between private labels and manufacturer brands.

4 Conclusion

Most literatures on private brand versus manufacturer brand are mainly focused on the western customers' experiences and perceptions. In the future research, researches would like to investigate the Malaysian customers' perception on these variables- quality, price, brand leadership, brand loyalty and space shelf. The importance of the study is not only to see or investigate customers' perception on these variables- quality, price, brand leadership, brand loyalty and space shelf but to confirm the strength of private label concept. Can these private labels compete with manufacturer brands? Do these private labels capability to compete as using the variables- quality, price, brand leadership, brand loyalty and space shelf mentioned above?

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