Evolution of consumer perceptions towards private labels assignment

The Evolution of Consumer Perception Towards Private Labels Introduction In the ass private label brands, then called “ generics”, were introduced by many retail chains and outlets (PaceΓ??, 2007). These products, usually packaged in plain homogeneous design with a white background and bold black letters stating the contents, and of a generally low quality, were issued as a response to the economic downturn in America and Britain, the first real recession since WI.

The end of the post war boom, signified by the high inflation and low growth of stagflation, forced nonusers to become more price conscious and outlets to cater to this newly created market segment. Since then their position with the market has significantly evolved and, in the process, splintered in a number of different directions. Today, strengthened once again by a global recession, private labels have firmly cemented their place beside national brands and are now capable of competing with them on an almost equal footing.

The Private Label Manufacturer Association (PALM) defines private labels as products that “ encompass all merchandise sold under a retailer’s brand. That brand can be the retailer’s own name created exclusively by that retailer. In some cases, a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group. ” They are also called own brands, name brands or store brands, though these names do not have scope as wide as private label. Over time private labels have shed the stigma acquired when they were specifically marketed as inferior goods.

Consumer perception of these products has undergone a substantial shift. Now the majority of consumers do not think there is any real extinction between such products and the national brands in terms of the quality. The aim of this project is to examine this phenomenon, looking at the theories that underlie the change in consumer perception, the transformation of the marketing strategies used by the stores, and finally use real life examples in order to find out why and how this happened.

Overview of the Change in the Market The Nielsen Company's industry sales figures for private labels show that the current market, both in Europe and the U. S. , continues to grow at a record pace, consistently outperforming the national brands. Total sales them in 2011 in America were $92. 7 billion, with an overall growth in sales of 3. 9%, to the 0. 6% managed by national brands. In the retailers recorded by Nielsen, they contributed to 58% of the total year of all products sold are private labels (Anthony, 2012). To achieve this success, retail outlets had to gradually alter how they handled their own brands.

As the generic products became more institutionalized within stores, management soon realized that they had potential to be more than mere low cost alternatives. Stores started to put more resources and effort into them to try to extract more value and transform them into proper revenue streams. The UK supermarket industry, due to the high competition at a store level caused by consumers doing most of their weekly shopping at a single store, was an early innovator in this development. The various outlets were forced to come up with ways to distinguish themselves, making it essential to cultivate a competitive advantage.

Their store brands were one part of their value chain where there was space for improvement. Therefore, retailers began to pay more attention to this previously neglected aspect. The brands were used to provide products that served as substitutes for the national brands or to fill gaps not adequately serviced by them. Key companies in this were Marks & Spencer, which specialized in high quality private label food lines, Kingsbury, the first large chain to have over 50% of their sales in private label products, and Tests, which will be covered in depth later (Mulling-Kanata, n. .) By bypassing the conventional business structure and the complex relationship between supplier and seller, private labels have far higher profit margins from 25 to 50%, depending on the brand (Keller, 1993). By being owned by the store they are sold in, they avoid what is called the marketing tax, “ advertising and promotional costs incurred by national brand makers that are then passed on to consumers in the form of higher prices. Big CAP [Consumer Packaged Goods] companies spend more than $20 billion annually on advertising media.

They earmark about 25 cents of every dollar to build brand equity’ (Anon. , n. D.). This means that they have a significant advantage benefits both the stores, in the high profit, and consumers, by selling products of equal quality at a lower cost. But this also has its downsides. In a report by Accentuate, private labels are warned that in order to continue to compete they have to be “ increasing marketing budgets so that they are equal to the resources spent on national brands. After all, it is impossible to build a billion dollar brand on a million-dollar marketing budget” (Anon. 2011 a). This serious attention and scrutiny given to private labels led to specialization and diversification in the methods used in dealing with them. With their increase in importance and potential revenue, a more complex system for designing, producing and marketing these products emerged. Instead of them all being funneled to the low end, which was the market mostly ignored by the national brands for being viewed as low profit, private labels began exploiting their direct line to the shelves and looked for ways to further explore and grow their business.

Once their position in one market was solidified, and a dependable stream of money established, they the quality of the product, so it was not noticeably worse and therefore less attractive and only bought out of necessity and, secondly, they segmented the market and began to target new sections. The new product lines were positioned to attract not by cost, but by other properties, which was their intrinsic worth, or as brands in themselves with all that that signifies.

Big companies like Wall-Mart, and others more traditionally associated with extreme low cost, worked hard to establish these separate lines as quality products. “ Chains including Safely Inc. And Wall-Mart Stores Inc. Are spending money into polishing up their private labels as brands in themselves. They are expanding lines, adding new flavors and packaging and finding ways to charge more. Kroger Co. , for example, is rebinding its “ Naturally Preferred” and “ Private Selection” organic reduces under the name “ Simple Truth”” (Kara, 2012).

The consumer perception of private labels, in response to this change in approach by stores, has developed greater acceptance and understanding of these brands. They have become more willing to buy them, and more trusting of them as products in general. What has made this change even more worrying, from the perspective of national brands, is that this segment-by-segment invasion plan executed by private label retailers allowed them to established their products not only as of equal quality to national brands, but some private labels have also maintained their low cost petition.

They are viewed as both high quality and better value for money; consumers buying groceries and household items, by purchasing private labels, can save up to a third of what would be spent on national brands (Anon. , 2011 b). Lisa Rider, vice president of retail consulting solutions for Nielsen said " the secretes out. Store brands are Just as good. Store-brand buyers are no longer seen as cheapskates but as savvy shoppers" (Anon, 2010).

The prestige traditionally associated with national established brands, thought to give them a large edge against others, has been seriously damaged by this development. The Hartman Group state that " In many instances, shoppers no longer can distinguish between national and private label brands. What's most interesting is not so much the fact that it's happening, but that people don't really care that they don't know the difference" (Anon, 2009).

Consumers no longer can be taken for granted to assume that brands are better; the increasing prevalence of private labels has exposed that the assumption of better quality because of a products branding is perhaps more illusory than previously thought. The recession in 2008 has allowed the gates to be fully opened to store brands; the erasure and power of private labels had been growing for years, but with the recession and the need of consumers to save money, they got a final push to abandon the traditional national brands for the store ones.

According to Consumer Edge, an independent equity research boutique focused on the global consumer sector, “ The recession drove more households to try private label and in categories where satisfaction is high consumers are saying ‘ I like the performance and don’t General Strategies of Private Labels Strategies for private labels have changed over time along with the change of the racket structure. Historically, the manufacturers of the products have been far bigger than the relatively smaller retailers and distributors, whose main purpose was to sell directly to the customers.

The suppliers, national and manufacturers, had all the control which left the retailers with a “ take it or leave it” choice. It was in the ass’s when the retailers started to develop national chains and this power balance started to change. Along with the increase in negotiating power, private labels emerged and grew at the expense of the national brands’ market share (Kumar, 2007). The strength of private labels varies in relation to the economic situation; generally, it is increasing during a contraction and declining during an expansion (Squelch et al, 1996).

Though, this is not completely true since it ignores ‘ consumer learning, whereby consumers realism that the quality of private labels exceed their expectations, in which case it will be difficult for national brands to win them back during an economic expansion (Lamely et al, 2012). This generalization is partly due to the new consumer behavior but also due to cuts in advertising from the national brands side. A study showed that firms, which increased advertising during the recession, have experienced higher sales and market share during or after the recession (Tells, 2009).

Lamely et al (2012) show that a contraction in the economy is a golden opportunity for private labels to gain market share since promotional support is more counter cyclical than promotional support to national brands that are more “ right on target”. Hooch and Banners (1993) found that private labels perform better in large categories that offer high margins and that private labels do better when competing against ewer national brands that spend less on national advertising. Their study showed that high quality was more important than lower prices for the private labels.

In addition, Puts (1997) found that an increase of number of brands increases the ability for national brands to raise prices and that lower market prices occur in the categories that have a more concentrated brand structure. Local market condition turned out to be not as important in the competition between national brands and private labels (Putt’s, 1997). The relationship between suppliers and retailers is a complex arrangement because he supplier is often both the competitor and a manufacturer of the private label.

During the ass in the U. S. 50% of private labels were manufactured by a company that also produced its own brand (Squelch et al, 1996). From the manufacturer side, labels or not. Traditionally, the strategic decision has been that they should not participate in private label production since it may negatively affect the perceived value of their own brands and profits

(Squelch et al, 1996). While others think that they should supply private labels because it can benefit them economically and strategically (Dunne et al, 1999).

Squelch et al (1996) also point out how important it is for retailers to cooperate with national brands since they offer a substantial traffic- building value to the store, even though retailers may achieve higher margins from selling private labels. If a store doesn't have the brands that the consumers expect, they might switch stores resulting in a loss of revenue. Marketing Strategies & Types of Private Labels Various academics define marketing strategy differently.

What most agree on is that a marketing strategy's aim is to increase an organization's competitive advantage by incinerating on the organization's core competence by using its limited resources. Consumer segmentation is a common marketing strategy that aims to look at a heterogeneous market as a number of smaller homogeneous markets in order to satisfy and meet the varying market's need (Wedded, 1999). The evolution of private labels has lead to a number of different stages for retail brands. When private labels were first introduced, they were low-price alternatives to the relatively higher quality national brands.

Kumar et al (2007) identify four different categories: Generic private labels Copycat brand Premium store brands Value innovators Generic private labels' aim is to offer the cheapest products out in the market, without any further differentiation from competitors. They utilize cheap packaging material and in many cases doesn't carry any store or brand identity. It covers the basic functional product categories and enables retailers to expand its customer base by targeting price conscious buyers.

To the right is an example of a generic product that was sold in the sass's. (Source: http:// housemistresses. Bloodspot. IEEE/2012/08/generic-products-of-ass. HTML) Copycat brand's (also referred as a " me-too strategy') aim is to copy another brand and sell it at a lower price. Copycat private labels have the retailer's name and tend to have a similar packaging to the chosen competitor's product. Copycat brands are used as a mean for stores to increase negotiating power against manufacturer and to increase the retailer share of category profits.

It is usually positioned under an umbrella store brand or a category-specific own label and originates in large avoid the costs needed to develop a new product and conducting a market research as the product is already recognizable in the existing market. L Many European retailers are following a trend where they would start with copycat strategy, then munch a basic line and move on to offer premium products (Spineless, 2006). It is only recently that private labels have started to innovate and began to take their brands to a new level (Winter, 2009).

The ' premium store brand' approach is a " high quality' strategy, which differentiates the products according to their quality and highlights the value adding features. Retailers have used these brands to give their store a competitive advantage, and increase the category sales and profit margins. The products are often fresh and image-forming categories, and their pricing is close to or higher than national brands. They can have the store brand issued under a sub-brand or its own label and highlight it with the packaging design. Llama et al (2012) found that the price premium segment is insensitive to contractions and expansions.

Broadening of the price gap between private labels and national brands was also showed to have a positive effect for private labels. They also found that new product entries for private labels increased during recession times. Even though, a general trend is to move to premium products, not all retailers follow this path and continue to offer only “ low price & low quality’ private label products (Hung et al, 2009). Value innovators are the brands that position themselves as best performance per price and aim to build customer loyalty to the store.

Such strategy provides the best value on the market which helps to generate sales by word-of-mouth. The German chain Laid is seen as an example of value innovators, where they have own labels with meaningless branding to demonstrate variety. The price is often 20 to 50% lower than brand leaders and they have products in all categories. Consumer Perception As a result of various private label types discussed earlier, consumer perception of private labels has changed over time. Researchers and academics raise a number of questions, which are concerned with consumer behavior and loyalty towards private label.

Burton et al (1998) state that consumers’ positive or negative perception of private labels is based on product, purchase and/or self-evaluations, which they associate with private label goods. They have also found that those consumers with positive attitudes to private labels buy 50% more of such products. Those, who purchased private label goods less often, have given lower ratings. Emery's (1967) early study gave similar results as it showed that nearly 50% of 140 respondents think that private abeles have lower quality and price in comparison to national brands.

However, those consumers who buy private labels on regular basis consider those to be the same quality as national brands. Consumers' purchasing behavior relies extensively on quality and price (Klaus, 2005). In his paper, Klaus (2005) concludes that many grocery retailers see the price as the key aspect when determining consumer food preference, however, there are two important aspects that have to be taken into account. First, there are research studies that have found that consumers routinely buy food products without knowing their actual price. The study conducted by

Venezuela and Deere (2002) in France shows that only 10% of those surveyed could remember the price of a product when they were asked at the counter, and only 30% made a right guess within a 5% margin of error (Klaus, 2005). Second, it was also stated that habitual purchasing has a significant impact on consumer behavior, meaning that consumers' purchases were not always made deliberately and consciously. This means that when making habitual and routine purchases, consumers recall the results of the previous trade-off between perceived quality and perceived price and repeat the same decision (Klaus, 2005).

A lot of consumers are owe having a positive experience with private label and see no reason to switch back to national brand grocery products (Miller, 2010). In addition, numerous statistics have shown that there is a significant increase in consumer awareness of private labels. For example, the survey undertaken by SGF for PALM, found that in 1991 only 12% of respondents have said that the bought private label “ frequently’. In 2006 this number had increased to 41% and reached 55% in 2009 (R. C, 2009). This shows an increasing trend in consumer awareness over the last years.

When Europe has entered the recession, more and more people have became ore price conscious and chose lower priced private label products over the national brands (Miller, 2010). A number of academics raise important question by examining how consumers perceive private labels in comparison to national brands. Wittgenstein et al (2009) paper seeks to determine whether consumers consider private labels to be a “ real” brand and whether they tend to develop loyalty towards them (based on the likelihood of repurchase).

From the panel data analysis on household food purchases over a period of four years (2000-2003), authors have found that those who buy national rand’s are more likely to be loyal to the national brands, while private label retailers are less capable of keeping consumers loyal. Furthermore, they conclude that private labels are not considered as the “ real” brand in comparison to the national brand. However, this research is limited because the study was only based on the purchase of frozen pizzas in Germany.

Frozen pizzas represent an example of copycat strategy product, therefore, consumers see such private label products to be cheaper and of fairly similar quality to the original branded product, but do not perceive them as being a “ real” brand. According to Hung et al (2009) only premium private label products fulfill the strategic role of differentiation and thus can be considered as a true brand. Swanskins et al (2012) found that consumer consumption of private label goods will shape their beliefs about other private label products of same or other categories.

Authors believe that a so-called “ surprise element” (difference between the expected quality of a purchased private label good and the actual et al, 2012). As some private label retailers now engage in a number of strategies by moving from historically generic products of low quality and low price to offering remit and luxury food, MΓ?? need et al (2008) state that because the quality of private labels has improved over the last years there is no significant difference in quality between private labels and national brands in most categories.

Furthermore, as product quality has improved, consumers started to view private labels equal in terms of quality in comparison to national brand foods (Martinez, 2010). If the customer is satisfied with one private label, this increases the confidence in private label goods in general. This therefore increases confidence and reduces the received risk of further purchasing private label products (Swanskins et al, 2012). This may explain the increasing success of private labels across the European countries and the U. S.

Brand Management of Private Labels Hyssop (2001) defines branding as the process of creating a relationship or connection between a company’s product and the emotional percept of the customer, for the purpose of generation segregation among competition and building loyalty among customers (Shampoo, 2011). It is one of the most valuable intangible assets and researches have showed that consumers tend to use their existing value perceptions hen assessing new product offerings from an established company (Vaudevillian, 2000).

Customers use brand names as a way to simplify the process of selecting products and assuring quality (Squelch et al, 1997). In fact, one of most important and most frequent information read about a food product is the brand name (Guerdon, 1995). Richardson et al (1994) also support this view by stating that quality assessment of private labels is more likely to be based on the extrinsic cues, which is the image or a brand, rather than on the extrinsic cues that consist of information about product's ingredients and how it was made.

Private labels have shown that brands are not important, but the food itself is what really matters (Campbell, 2012). Although, some of the private labels have undertaken a long Journey in order to evolve into real brands. Over the last years, retailers have reformulated, repackaged, restructured and re-launched products in order to change consumer perception of private labels from being seen as generic and simple alternatives to well-known national brands (Hung et al, 2009). Stores such as Tests, Marks & Spencer and Waitress have significantly changed consumers' shopping experience through their offerings.

Therefore, it is not a surprise that the U. K. Has one of the largest private label market share in Europe and serves as a good example for the other countries of how to engage with private label strategies. (Source:

http://www. Testicle. Com/index. Asp? Paged= 11) Private labels have been at the heart of Deco’s business since 1924, when the company first sold its Tests Tea (Berg, 2011)2. At the beginning of the year 2000, Deco’s private label products accounted for only a quarter of its revenue, while now label products. It was the first retailer to follow a three-tier approach by establishing a ‘ good, better and best’ private label portfolio – a strategy that has since been replicated by the leading retailers across North America, Europe and Asia. The three price ranges of private labels are: Tests Everyday Value (low price), Tests Standard (medium or standard quality), and Tests Finest (premium quality) (Kumar, 2007). Today, Deco’s Finest and Everyday Value are the leading brands in the UK market with sales more than El billion a year for each label.

Tests has also created a number of smaller sub-brands for more specialized categories, such as organic food ND fair trade, in order to further meet the needs of the various consumer segments. Below is presented Tests private labels price and quality decomposition for its three product portfolios. In many cases, private labels only possess a price advantage and are seen as a simple substitute to national brands (Hung et al, 2009). Although, this began to change and many of the private label products are no longer viewed as a simple low cost alternative for national brands, but they are perceived as a brand in its own right. By placing consumers’ needs at the core of its operations, Tests has expanded TTS product lines, which in turn created a positive shopping experience and a positive store image. Tests Value was launched in 1993 designed to be cheap, basic and serving the needs of an average family. It was first thought that purposefully cheap-looking basic line products could be a potentially brand-damaging move, but Tests Value has actually set a new trend across the industry, which helped the company to increase its market share from 15% to 25% Just in a decade (Wallop, 2012).

Since it was first launched, the Value line has grown to over 2000 products and is one of the Deco's most successful product lines. Faced by rivalry from low priced stores, such as Laid, and by recognizing the importance of a strong brand, Tests has decided to rebind its Tests Value product range to Everyday Value and switch from the blue and white stripes towards colorful packaging which features sass-style line drawings of kitchen equipment and food, which is fairly similar to Waitress's Essentials range of goods (wallop, 2012).

Tests Value (Source: http://logos. WAIS. Com/wick/File: Tests_Value_range. Pong) Tests Everyday Value range-packaging-rocket-design) Consumers' product evaluation is affected by the presence of an intrinsic cue, such s brand image and reputation (ABA et al, 2011) and as one of the earliest studies, based on the analysis of perceived risk towards the private labels, has shown – as consumers became more and more familiar with a private label products, this reduced the risk of uncertainty and gave them confidence in the quality of such products (Bateman, 1974).

Private labels that possess high quality are the key determinants of consumer satisfaction and store loyalty (Binning, 2008). In fact, Streetlamp et al (1997) state that it is possible to build store loyalty only if the private able products have a positive image. Therefore, as consumers are already familiar with the store's brand and its products' value and quality, this forms a solid base for stores to expand their product lines to a different level.

Those retailers with a higher level of market power and a recognizable brand image are in a better position to launch premium private label products (Hung et al, 2009). Furthermore, premium products are positioned in the minds of consumers as having a value-added component (I. E. Unique or innovative design and sometimes having a higher quality than national brand products). This acts as a differentiation tool and is also seen a vital strategy to build store loyalty (Hung et al, 2009).

Tests Finest serves as a good example of how a retailer can elevate its store brand to a higher standard. Tests Finest started in ready meals and chilled foods, where the retailer had a visible advantage as such products are difficult to prepare and distribute. Vital to its success was its relative high quality. For example, Tests Finest Premier Cru champagne was named the best non-vintage champagne at the 2005 International Wine Challenge (Hung et al, 2009). Also, underpinning Deco's private able strategy was the company's attention to detail in the product design.

Tests Finest packaging includes silver and deep black colors and also features a product photograph or a cut out window so that consumers can the see the actual product. 5 Such packaging creates a premium element and provides with an impression of luxury. Tests Finest shows how much the consumers' expectations have changed over time and while most of the private labels serve consumers' basic needs in terms of food, the premium private label products have created a particular social status. Tests Finest