# Private Label Purchasing: Integrating Effect of Store Image, Store-Category Association, and Branding Strategy

Kandapa Thanasuta*
Thammasat Business School
Mahidol University International College

Pinrada Metharom
Thammasat Business School

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## ABSTRACT

This study investigates the effect of store image and store-category association on the private label purchasing under different branding strategies in Thailand. Eight hundred and nineteen respondents participated in the study through mall interception. Multiple regression analysis was utilized to determine the relationships and moderating effects amongst interested variables. The research shows that store image and store-category association significantly affect private label purchasing, with branding strategy only moderately affecting the store-category association relationship. When own-name branding strategy (same private label brand name as the retail store's name) is implemented, the intention to purchase the private label goods decreases compared to when the other-name branding strategy (different private label brand names from the retail store's name) is employed. It was found that the relationship between store-category association and private label purchasing is weaker under an own-name branding strategy. These findings provide further theoretical implications for marketing research, as well as practical guidelines for retailers who manage private label goods.

Keywords: Private label purchasing, store-category association, store image, branding.

## 1. INTRODUCTION

The landscape of consumer packaged goods is very competitive. It is undeniable that the private label is one of the significant players in the market. Indeed, the success of private labels is exceptional in many developed markets such as Europe and North America. Approximately one-third of consumer packaged goods' sales belong to private labels (Nielsen, 2014). However, the responses from developing markets, i.e. the Middle East and Asia, are not very promising. Nielsen (2014) states that consumers in the Middle East and in Asia have a strong brand loyalty to the national brands. It is obvious that brand plays a pivotal role in the decision making process. Yet, the current branding strategy implemented by private labels points to low customization across different markets. This makes it difficult for private labels to penetrate the market. Existing studies on private label branding (Dhar and Hoch, 1997; Bao et al., 2011) were all conducted in developed markets. Further study on the effect

of private label branding in the context of developing market would provide an additional perspective to an area which has yet to be explored.

Research regarding to private label branding success place emphasize on many driving factors, including consumer characteristics (Richardson et al., 1996), category characteristics (Steenkamp and Dekimpe, 1997), marketing mix (Ngobo, 2011), product innovativeness (Pauwel and Srinivasan, 2004), promotional activities (Cotterill et al., 2000), and store image (Collin-Dodd and Lindley, 2003; Ailawadi and Keller, 2004; Vahie and Paswan, 2006).  Hoch and Banerji (1993), state that consumers, manufacturers, and retailers have collectively contributed to the success of private labels. Store related factors, which are under the direct control of retailers who manage private labels, have been widely explored in order to identify their impact on private label purchasing.  Whether a favorable perception towards the store can be leveraged to private labels under a different branding strategy or not remains questionable. Collins-Dodd and Lindley (2003) identified the positive relationship between consumer perceptions of a particular retail store and an individual store brand.  The study, however, does not consider the moderating role of the private label branding strategy. Instead, private labels of different brand names are treated as one.

This current study, along with the effect of the private label branding strategy, incorporates store image and store-category association as variables to explain private label purchasing.  Clarification of these effects would extend the knowledge of previous studies, as well as provide practical implications for retailers.

## 2. LITERATURE REVIEW AND HYPOTHESIS

Wu et al. (2011) describe store image as the overall perception that consumers have of multiple attributes, based on intrinsic and extrinsic characteristics of a store. Consumers use store image as a cue to infer product quality (Dawar and Parker, 1994; Baker et al., 2002).  Yoo et al. (2000) identify a positive relationship between store image and product quality.  With its low-price nature, consumers perceive the quality of private label goods to be inferior to that of national brands.  A good store image is a way of reducing the association of poor quality; enhancing the attractiveness of private labels, in addition to their price appeal (Wu et al., 2011).  A study by Collins-Dodd and Lindley (2003) also supports a positive relationship between consumer perceptions of an individual store brand and a particular retail store.  Store image is clearly classified as a significant predictor of a private label brand image.  Consumers use store image as an extrinsic cue to speculate on the private labels' image (Ailawadi and Keller, 2004; Vahie and Paswan, 2006).  Once a positive perception of a store is formed, the positive effects enhance the brands carried by the store and influence the assessment of the private labels' brand image (Dhar and Hoch, 1997).  In other word, because the private label brand is viewed as an extension of the retail store, consumers use store image as a diagnostic cue to evaluate the private label brand (Ailawadi and Keller, 2004; Collins-Dodd and Lindley, 2003).

H1:      Store image positively influences private labels purchasing.

Consumer decisions to purchase private label goods depend on the types of product under consideration (Richardson et al., 1996). Different types of stores sell different types of products, and certain types of stores are associated with particular product categories to some extent in consumers' minds (Inman et al., 2004). For example, drug stores are associated with health care products, whereas mass merchandisers are associated with household goods. This product category is seen as signature of the store, and it is evidence of quality associated with that particular category. The degree of association between a product category and a certain store in consumers' minds is known as "product signatureness". A strong perceptual connection between a store and a product is regarded as a high level of product signatureness (Bao et al., 2011). On the other hand, a poor association between a product and a store may result in the poor performance of the brand (Lee and Hyman, 2008). The signatureness that consumers apply to the store can also be leveraged to a private label product, given that a private label is an extension of a retail store brand (Ailawadi and Keller, 2004; Collin-Dodd and Lindley, 2003). The association between the store and the product category predicts the association between the store and the private labels, and the attitude towards the private label's brand (Lee and Hyman, 2008). A private label brand in a signature category of a store is likely to receive a perception of high quality, and a higher purchase intention compared to brands introduced in the non-signature categories.

H2:      Store-category association positively influences private labels purchasing.

Dick et al. (1995) state that brand name influences consumer evaluation of a product. It is a cue that signals product quality and provides assurances to reduce perceived risk (Zeithamal, 1988; Rao and Monroe, 1989; Erdem and Swait, 1998). The brand name communicates collective information on a particular product (Richardson et al., 1994). Private labels are also offered under different brand names (Dhar and Hoch 1997). According to Dawson (2006), many retailers use different strategies to name their private labels. Some choose to have a private label name that is identical to the store name, whereas some employ a new and independent name across categories. Other retailers create a certain name for each specific category. Ngobo (2011) classifies the first type as "own-name branding" and the second type as "other-name branding".

As stated by Nenycz-Thiel (2011), each strategy contains both benefits and drawbacks. With own-name branding, consumers face a lower risk of purchasing products from unknown producers; having the same name as the store over many product categories increases the awareness and recall of the retail store. The perception of an own-name private label depends on consumer views of the store (Collin-Dodd and Lindley, 2003; Vahie and Paswan, 2006). It signals a positive quality perception to consumers who have a favorable impression of the retailer (Erdem and Swait, 1998). However, many consumers do not trust a store's capability to provide a high-quality product across all categories, given that their production is not the store's area of expertise (Quelch and Harding, 1996). Own-name branding also connotes that a product belongs to the store, and may end up creating a negative perception (Aaker and Keller, 1990). The problem of a negative association between the brand and the store is less likely to occur when a retailer implements other-name branding. Due to the absence of a linkage between the

brand name and the store name, consumers may perceive the other-name branding private label as another national brand.

The correct private label branding strategy creates a distinction from competitors (Ailawadi and Keller. 2004).   It is inconclusive whether own-name branding or other-name branding benefits the private label.   Since own-name branding private labels is closely related to the stores that sell them, and the association between store and brand is stronger when own-name branding is implemented, this research is hypothesized in favor of own-name branding to provide an additional perspective to the current findings.

H3:      Own-name branding strategy positively influences private label purchasing.
H4a:    Private label branding strategy moderates the effect of store image on private label purchasing; thus, the positive effect is stronger for own-name branding.
H4b:    Private label branding strategy moderates the effect of store-category association on private label purchasing; thus, the positive effect is stronger for own-name branding.

## 3. METHODOLOGY

Empirical study was carried out to verify the hypotheses.   A three-item scale was used to measure the dependent variable, private label purchases.   The variable was measured with a 7-point Likert scale.   The other two influencing variables, store-category association and store image, were also measured with a 7-point Likert scale.   To represent the store-category association construct, a four-dimensional scale from Bao et al. (2011) was chosen.   The store image construct was measured based on the service, convenience, quality, variety, value, and atmosphere provided by the store (Vahie and Paswan, 2006).   Private label branding strategy is a binary variable, in which one category belongs to own-name branding and the other one to other-name branding.   Samples of measurement items are displayed in Table 1.

One of the interested variables, store-category association, for determining private label purchase is related to product category.   A selection of appropriate categories was carried out.   Lists of product categories of one leading supermarket in Thailand were collected to identify categories which contain both own-name and other-name private labels.   Later, thirty five respondents were asked to identify two product categories which they think were the most likely and the least likely to be present in the selected store.   Two top-rated product categories were selected to be included in the study.

**Table 1**: Measurement items

| Measurement | No. of items | Sample questions |
|---|---|---|
| PLs purchase | 3 | The probability that I would consider purchasing this product is … |
| Store image | 7 | (Store) is easy to shop in (Store) has a large variety of products |

| Store-category association | 4 | I would expect (store) to sell (product category) |
|---|---|---|
| PLs branding strategy | - | 1 = own-name branding<br>0 = other-name branding |

After a pilot test, the research data was collected from selected stores of a supermarket chain that carries private labels, utilizing both branding strategies. Consumers were randomly screened through questions as to whether or not they purchased private label products over the previous three months. A total of 840 questionnaires were distributed; of these 819 were usable, with 412 belong to the own-name branding group and the remaining 407 to the other-name branding group. To test the hypotheses, multiple regression analysis was performed against the dependent variable.

## 4. RESULTS AND DISCUSSIONS

After checking the normality of the data, an exploratory factor analysis was performed to identify cross-loading. The factor analysis suggests that cross-loading between variables does not exist. To ensure reliability, item-to-total correlation, inter-item correlation, and the Cronbach's alpha coefficient were measured using a cut off value of 0.5, 0.3, and 0.7 respectively (Hair et al., 2010). The results indicate that items under each construct yield a satisfactory level of internal consistency. The means of all variables are above 4.0 which reveal positive behavioral responses. Table 2 summarizes the means, the standard deviations, Cronbach's alpha, inter-item correlations, and item-to-total correlations.

**Table 2**: Constructs' means, standard deviations, and reliability

| Variable | Mean | S.D. | Cronbach's α | Inter-item correlation | Item-to-total correlation |
|---|---|---|---|---|---|
| PLs purchase | 4.13 | 1.12 | 0.95 | 0.83-0.90 | 0.87-0.92 |
| Store image | 5.52 | 0.76 | 0.88 | 0.43-0.71 | 0.61-.076 |
| Store-category association | 5.25 | 0.84 | 0.80 | 0.42-0.64 | 0.53-0.67 |

**Table 3**: Effect store image, store-category association, and branding strategy

| Variable | Main effect model | | Interaction effect model | |
|---|---|---|---|---|
| | β | Sig. | β | Sig. |
| Intercept | 0.084 | 0.059 | 0.076 | 0.090 |
| Store image (SI) | 0.226 | 0.000 | 0.220 | 0.001 |
| Store-category association (SCA) | 0.245 | 0.000 | 0.342 | 0.000 |
| Branding strategy (B) | -0.084 | 0.008 | -0.083 | 0.009 |
| B x SI | | | 0.081 | 0.790 |
| B x SCA | | | -0.135 | 0.049 |

Dependent variable: private label purchase

The hypotheses were tested using a regression model. The results of the regression model are presented in Table 3. Overall, the main model is significant (0.000) with an adjusted $R^2$ of 0.274. After the interaction is included in the model, the adjusted $R^2$ slightly increases to 0.280. The study discloses that three main effects significantly influence private label purchasing. Only two amongst the three; namely store image and store-category association, support the hypotheses. H1 (store image → private label purchase) and H2 (store-category association → private label purchase) are supported with β = 0.226 and β = 0.245 respectively. The results verify those of previous studies. These findings can be explained by continuous improvement of the store to strengthen its image to compete with other retail stores in the market. Improved perceptions towards the store are transferred to products carried by the store. At the same time, the store has clearly displayed its specialization; the marketing campaigns to promote products are visible to consumers. According to Bao et al. (2010), assurance on the quality of a particular category enhances the perception of quality; and that can be applied to purchase intention of private labels in the product category as well.

On the other hand, the significant result of H3a (own-name branding strategy → private label purchase) does not support the predicted positive relationship. Instead, a negative effect is revealed. Two possible explanations are cultural effect and consumers' familiarity with private labels brand. Thai consumers have brand loyalty (Nielsen, 2014). Consumers prefer branded products and are attached to the well-established national brands. Private labels are new comers with which consumers have low familiarity. Consumers' knowledge and familiarity often come with experience. An opportunity to evaluate products by previous experience would lift up consumers understanding. With less knowledge, consumers tend to rely on well-known brands. Own-name private label branding allows consumers to easily identify that it is a store brand, however, a perception of lower quality remains. Therefore, a negative response is possible. On the other hand, other-name branding mimics the perception of being another national brand. A better response could be expected.

Interaction effects are included in the model to identify the moderating effect of own-name and other-name private labels branding. The results illustrate that the relationship between store image and private labels purchase is not significantly moderated by the private labels branding strategy (H4a). The explanation for the unanticipated result is the overall evaluation of the store image. Consumers may look at the total image of the store, and not break their evaluation into different elements of the product, service, or atmosphere. On the other hand, the effect of moderation focuses only on the product aspect. Therefore, inconsistencies may occur.

Another path moderated by the private label branding strategy is the relationship between store-category association and private label purchasing, as indicated by a *p*-value of 0.049. However, the result displays a significant opposite relationship. As hypothesized in H4b, the relationship is expected to be stronger positive. The negative coefficient of the interaction suggests that the relationship has stronger negative effect

when own-name branding is implemented. Verification for the inconsistency lies within the issue of branding. Own-name branding allows consumers to easily identify that the product is a private label compared to other-name branding, and that consumers would perceive own-name branding to be low quality. Moreover, a store included in this study is specialized in consumer products, which possess low differentiation characteristic. High similarities in the product attributes of different brands create difficulties in identifying whether or not they are ones of similar quality. The role of the brand comes into play since it allows consumers to differentiate and assists them in the evaluation process (Aaker, 1996). Other-name branding, which is perceived to be another national brand, is likely to perform better.

## 5. CONCLUSION AND IMPLICATIONS

This research provides two main theoretical contributions. Firstly, previous research on private label purchasing has been mainly conducted in the developed markets. Further study in emerging markets would improve generalization of the results. Secondly, private labels are usually treated as one brand once research on private labels is conducted. This is contrary to what happens in practice as retailers carry many private labels under their portfolio. Taking the effect of different private label brands into consideration would extend the previous studies on branding and private labels.

Several managerial implications can be derived from the findings. Firstly, there should be more emphasis placed on building up the other-name private labels instead of own-name private labels as suggested by the research results. However, further research on other effects should be undertaken, looking into consumers' knowledge on the owner's identity of both brands, the positioning strategy of the overall private label portfolio, and the private label brand policy. Secondly, it is recommended that the store should continue to build up its image. A retail store that offers private labels in the market should pay close attention to the management of its service and product assortment; the store should continuously strive to improve its services. Product collection should also contain characteristics of high quality, great variety, and fair value. All of these actions would help to create a positive store image. Thirdly, a consideration of product category should not be overlooked, since strengthening store image brings with it the requirement of higher investment. A store should be more attentive to the category which would strengthen their specialization. When consumers believe in the favorable traits of the category, it is likely that the private label will be presumed to be no different. The intention to purchase private label products is likely to increase.

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