



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Profiling Private-Label Avoiders

By

Dr. Ronald B. Larson
1215 N 17th Street
Montevideo, MN 56265
ron.larson@live.com

*Selected Paper prepared for presentation at the 2016 Agricultural and Applied Economics
Association Annual Meeting,
Boston, Massachusetts, July 31-August 2, 2016*

*Copyright 2016 by Ron Larson. All rights reserved. Readers may make verbatim copies of this
document for non-commercial purposes by any means, provided that this copyright notice
appears on all such copies*

Profiling Private-Label Avoiders

By Dr. Ronald B. Larson

Abstract

Many food retailers offer private-label products because of the strategic benefits they provide. Growing private-label sales could be advantageous for both retailers and private-label manufacturers. Conventional wisdom leads us to believe it would be ineffective to use traditional market segmentation and targeting to grow private-label sales because socio-demographics are not strongly linked with private-label attitudes or purchases. However, many studies found that perceived risks are associated with private-label attitudes and purchases. This study uses a survey to identify individuals who perceive there to be significant risks with private-label purchases or use. The profile of these private-label avoiders could provide retailers and private-label manufacturers with segmentation and targeting information and help them grow their businesses.

Profiling Private-Label Avoiders

By Dr. Ronald B. Larson

Private-label or store-brand products have become an important part of retailer strategy. According to Nielsen data for 2015, U.S. dollar sales of private-label consumer-packaged goods totaled \$118.4 billion and represented 17.7 percent of (all-outlet) retailer sales (PLMA, 2016). Although impressive, private labels command larger shares in Europe. The Nielsen Company (2014) reported that private-label dollar shares were more than 40 in Switzerland, Spain, and the United Kingdom in 2013 and more than 30 in Germany, Portugal, and Belgium. One might suspect that private labels have better reputations in Europe, but Nielsen found higher private-label ratings in North America. The share differences between the U.S. and European countries have suggested to some that U.S. private-label programs have growth potential.

An attractive feature of private labels for retailers is that they tend to have much larger percentage gross margins (Ailawadi and Harlam, 2004). They also can help differentiate a retailer from its competitors because the competitors do not carry the brand (Sudhir and Talukdar, 2004). Some have suggested that private labels can help boost store loyalty (e.g., Dick, Jain, and Richardson, 1997), but the evidence on this is mixed (e.g., Hansen and Singh, 2008; Seenivasan, Sudhir, and Talukdar, 2016). To grow their private-label sales, retailers and private-label manufacturers have adopted some strategies from Europe (e.g., offering three quality tiers, upgrading package designs etc.). However, marketing private labels in the U.S. faces challenges. For example, U.S. consumers typically use price as a signal of national brand quality but did not use price as a signal of private-label quality, making price a less powerful marketing tool (Boyle and Lathrop, 2013). Perhaps consumer preference profiles, market segmentation, and targeting could help marketing efforts.

Many studies have included socio-demographic variables in an attempt to develop a profile of shoppers who are the most private-label prone (e.g., Richardson, Jain, and Dick, 1996; Glynn and Chen, 2009; Shukla, Banerjee, and Adidam, 2013). One review of these studies found conflicting results for nearly all socio-demographic variables (Fan, Qian, and Huang, 2012). Sudhir and Talukdar (2004) found that socio-demographic variables, although sometimes significantly related with store brand attitudes or purchasing, typically only accounted for 4 or 5 percent of the variation in the data. Based on a review of 142 sources, Gooner and Nadler (2012) developed a generalization: *“Demographics offer limited ex ante value in predicting private label brand proneness.”* (p. 91). These findings have led some to conclude that retailers should not use socio-demographics to target potential private-label buyers (e.g., Cotes-Torres, Munoz-Gallego, and Gonzalez-Benito, 2015).

A variable that has been linked with private-label attitudes and purchasing is the perceived risk with a purchase. Bettman (1974) was one of the first to link perceived risk with private-label choices. Other studies in the U.S. have confirmed this link (e.g., Dick, Jain, and Richardson, 1995; Richardson, Jain, and Dick, 1996; Sinha and Batra, 1999; Batra and Sinha, 2000). These researchers used perceived risks as independent variables to explain private-label attitudes and purchases. This study uses a different approach. Perceived risk measures serve as dependent variables and the characteristics of consumers who perceive private-label purchases or use to have risks are examined. The profile of individuals who may avoid private labels because of their perceived risks may provide retailers with insights about whom to target with marketing communications to boost their private-label sales.

Literature Review

Many studies on private labels divided perceived risks into categories. For example, Dunn, Murphy, and Skelly (1986) asked the primary shopper of households to complete a survey about four categories of products. For each category, respondents completed two questions about three types of risks (performance, financial, and social) for each type of product (national brand, private label, and generic). Performance risks involved issues such as disappointing product quality. Financial risks were typically price-related. Social risks included reactions by friends and family if a consumer buys the product. This survey found that performance and financial risks appeared to be more important than social risks. Performance risks were also different for each of the product types and categories.

Most of the recent work on private-label purchasing and perceived risks has been conducted in other countries. One study in the Netherlands asked students about products at three large retailers. They concluded that the evaluation of a store brand at each retailer was linked with perceived psychosocial, functional, and financial risks (Semeijn, Van Riel, and Ambrosini, 2004). A study in Germany classified five product categories by level of perceived risk (financial, functional, and social risk) and asked shoppers about their interest to purchase a new store brand in each category. They found high levels of any one of the three risks reduced interest in buying the store brand (Zielke and Dobbstein, 2007). Mieres, Martin, and Gutierrez (2006a) surveyed shoppers in Spain. They asked 23 questions designed to measure different perceived risks involved in national brand and private-label purchases. These questions collapsed into six risk factors (functional, financial, social, physical, psychological, and time risk, three or four items per measure). Physical risk was the only risk not linked with store brand proneness.

Several recent studies on private labels were conducted in South Africa. Beneke et al. (2012) examined the influence of six different types of perceived risk on private-label product purchase intentions. Functional and time risks had significant, negative effects while financial, physical, psychological, and social risks did not have significant influence on purchase intentions. Beneke et al. (2013) conducted a store intercept survey and concluded that perceived risk (a single measure based on five items) influenced the perceived value of private-label household cleaning products. Beneke, Brito, and Garvey (2015) studied private-label cereal attitudes and found perceived functional and financial risks were linked with perceived product quality and perceived product value.

One caveat with these international studies should be mentioned. Private-label preferences and performance by country are influenced by many variables (Mandhachitara, Shannon, and Hadjicharalambous, 2007). One important factor appears to be culture, especially individualism (De Mooij and Hofstede, 2002; Shannon and Mandhachitara, 2005). Tifferet and Herstein (2010) surveyed a diverse sample of students and found individualism predicted the inclination to purchase store brands better than demographic variables. Therefore, cultural differences between countries may limit the direct applicability of some results to the U.S. However, the combination of the U.S. and international studies suggests that perceived risk is particularly important for private-label sales. Based on their review, Gooner and Nadler (2012) concluded: *“Private labels’ higher perceived social and performance risks relative to manufacturer/manufacturers’ brands inhibit private label share growth.”* (p. 92).

Given the importance of perceived risk, one might expect researchers to use the measure as the dependent variable and try to explain the perceived risks with private labels. Two studies attempted this analysis. Mieres, Martin, and Gutierrez (2006b) surveyed shoppers in Spain and

included 23 questions about purchase risks which they used to construct a single perceived-risk measure. They tried to explain differences in perceived risks between national brands and private labels. Perceived quality, reliance on extrinsic product attributes when shopping, and familiarity with store brands were all linked with the perceived risk differences. They did not find any significant links between the socio-demographics and their perceived risk differences. Beneke (2013) conducted the other study with a survey in South Africa. He examined which demographics were linked with each of the six types of perceived private-label risks. Psychological risk varied by gender and race. Social and time risks were influenced by age group. This research suggests that socio-demographics might be useful for profiling individuals who believe private-label purchases have high risks.

Another fairly obvious research question asks whether general risk aversion is linked with private-label purchasing since perceived risks are important. Only one private-label study was found that tried to assess a respondent's risk aversion as part of a survey. Burton et al. (1998) included four questions in a U.S. store intercept survey to measure each shopper's general risk averseness. Risk aversion was not related with their private-label attitude measure. They did find that impulsiveness was negatively linked with private-label attitudes. Consumer risk preferences and their link with private labels are also considered in this study.

Methodology

To better understand private-label avoiders, a U.S. web-based survey was conducted in October 2015 using the Qualtrics panel. The sample frame was adults aged 25 to 65. Most questions were answered using 7-point Likert scales. To improve the quality of the responses, two attention checks were included in the survey and one question was repeated to check for

consistency (response correlation was 0.902). A total of 605 adults completed the survey and answered a variety of socio-demographic questions (race, gender, age, education, marital status, and income). The survey included a popular 14-item impulse buying scale developed by Hausman (2000). Principle component analysis with varimax rotation was used with the impulse buying questions to develop two factors: Hedonist Buying and Impulse Buying. These factors were very similar to those found by other researchers and the scale author.

There are several options for estimating risk aversion with surveys ranging from a 40-item scale that can be used in any of five domains (Weber, Blais, and Betz, 2002) to a single question that was linked with risky behaviors (Dohmen et al., 2011). This study will try two approaches.

Barseghyan, Prince, and Teitelbaum (2011) evaluated the deductible choices in home and automobile insurance policy purchases for 702 households. They concluded that the typical person is more risk averse when choosing the deductible for their home insurance than their car insurance. Although the authors labeled this risk preference instability, combining both choices may reveal something about the strength of risk preferences. In the survey, respondents were asked about insurance deductible preferences for their home and their car: “If I were shopping for homeowners or renters insurance, I would prefer a policy with a higher deductible and lower costs over a policy with higher rates and better coverage” and “If I were shopping for car insurance, I would choose a policy with a higher deductible and lower costs over a policy with higher rates and better coverage.” The correlation between the responses to the two questions was 0.702 which differs from the instability reported by Barseghyan, Prince, and Teitelbaum (2011). This high correlation was probably not from question carryover because the deductible questions were more than six questions apart (Weijters, Geuens, and Schillewaert, 2009). The

sum of the answers to these two questions was used as a measure of risk tolerance. Its average was 8.56 and its range was from two to fourteen.

Two other questions were used to assess risk preferences. Both contained a frame of reference to improve the scores: “I tend to be more concerned about harmful risks than my friends and neighbors” and “I tend to avoid taking risks more than my neighbors and friends.” The correlation between these two questions was only 0.201. The sum of the answers was used as a measure risk concern. Its average was 9.07 and its range was from two to fourteen.

Like risk preferences, time preferences can be assessed in a variety of ways. In this survey, four questions were asked that dealt with present-focus: “The joy in my life comes from what I am doing now, not from what I will be doing later,” “I try to live one day at a time,” “I tend to focus on what is going on now instead of what will happen in the future,” and “If I take care of the present, the future will take care of itself.” Principal component analysis placed these four time preference questions into a single factor labeled “Today Focus.” The correlation between this factor and the impulse buying factor was 0.268, suggesting that they are measuring different concepts.

Two survey questions served as dependent variables in binary logistic regressions: “The decision to try a store brand (private label) food product involves risk” and “If I were preparing a meal for guests, I would only buy brand-name ingredients.” The first statement considers most types of risk while the second statement is focused on social and psychological risks. Roughly one-third of the sample at least somewhat agreed with each question (i.e., a 5, 6, or 7 on the 7-point scale) and about half the sample agreed with at least one question. This suggests that the number of buyers who perceive risks with private labels is quite large.

Table 1. Results from Binary Logistic Regressions

	Purchasing New Private Label Products is Risky			If Preparing a Meal for Guests, Only Buy Brand-Name Ingredients		
	B	SE	P-value	B	SE	P-value
Nonwhite Dummy	0.267	0.266	0.316	0.237	0.276	0.391
Female Dummy	0.053	0.197	0.790	<u>-0.441</u>	0.199	0.027
Some College but No 4-Year Degree	<u>0.511</u>	0.242	0.034	<u>0.523</u>	0.249	0.035
College 4-Year Degree or More	<u>0.614</u>	0.270	0.023	<u>0.603</u>	0.280	0.031
Age of 35 to 44 Dummy	-0.350	0.291	0.229	-0.224	0.305	0.463
Age of 45 to 54 Dummy	-0.286	0.290	0.324	-0.034	0.300	0.909
Age of 55 to 65 Dummy	-0.071	0.271	0.795	0.314	0.281	0.263
Single, Divorced, or Widowed	-0.066	0.205	0.748	-0.039	0.210	0.854
Income of \$40,000 to \$79,999	0.179	0.224	0.425	0.208	0.230	0.367
Income of \$80,000 to \$119,999	0.492	0.291	0.090	<u>0.659</u>	0.297	0.027
Income of \$120,000 or More	0.371	0.386	0.337	<u>0.790</u>	0.397	0.047
Risk Tolerance (Insurance Deductible) Measure	0.049	0.032	0.133	-0.011	0.033	0.730
Risk Concern (vs. Others) Measure	<u>0.083</u>	0.042	0.046	<u>0.102</u>	0.043	0.018
Time Factor (Today Focus)	0.142	0.098	0.149	<u>0.293</u>	0.104	0.005
Hedonistic Buying Factor	<u>0.269</u>	0.099	0.006	<u>0.364</u>	0.102	0.000
Impulse Buying Factor	0.078	0.097	0.421	0.165	0.100	0.097
Constant	<u>-2.362</u>	0.630	0.000	<u>-2.040</u>	0.646	0.002

Results

The binary logistic regression results, shown in Table 1, are estimates of how much each independent variable increases the probability that a respondent would at least somewhat agree with the statement. Three measures were significant in both equations. People appeared to perceive more risks buying private labels and serving private labels to guests if they had more education, believed they were more concerned about risks than their friends and neighbors, and enjoyed shopping (hedonistic buying). Three other measures were only significant for the serving-brand-names-to-guests analysis. There was more agreement by men, by those with higher incomes, and by those primarily focused on today. Although race, age, and impulse buying were significant in other research, they were not significant in this study. Marital status and risk tolerance also were not statistically significant at the 5 percent level in either regression.

Implications

Many food retailers would like to grow their private-label sales. Conventional wisdom was that since private-label attitudes and purchasing were not linked with socio-demographics, traditional segmentation and targeting of marketing messages would be ineffective. This research took a different approach and focused on the consumers who avoid private labels, who perceive their purchase or use to be risky. The links between perceived risk and both private-label attitudes and purchases are quite strong, suggesting that retailers and private-label manufacturers could grow their businesses by reducing the perceived risks with purchases.

Several socio-demographic variables can help profile individuals who avoid private labels because of their perceived risks. Significant variables included education, risk concern, and hedonistic buying along with gender, income, and time preferences. The results of this analysis

indicate possible targets for private-label marketing communications (e.g., college educated individuals who enjoy shopping and believe they are more concerned about risks than their friends and neighbors). The findings also suggest possible tactics to use. To reduce general risk perceptions, private-label sampling events in stores when the target is shopping, money-back satisfaction guarantees, and advertising showing people enjoying private-labels might be helpful. To reduce social risk perceptions, upscale messages and communications showing men confidently enjoying and sharing the products with others could be useful. Other research could confirm private-label avoider profiles and test the effectiveness of the suggested tactics for building private-label shares. The overall conclusion from this research is that market segmentation and targeting may help retailers and private-label manufacturers grow their private-label businesses.

References

- Ailawadi, Kusum L., and Bari Harlam (2004) "An Empirical Analysis of the Determinants of Retail Margins: The Role of Store-Brand Share." *Journal of Marketing*, 68(1), January, pp. 147-165.
- Barseghyan, Levon, Jeffrey Prince, and Joshua C. Teitelbaum (2011) "Are Risk Preferences Stable across Contexts? Evidence from Insurance Data." *American Economic Review*, 101(2), April, pp. 591-631.
- Batra, Rajeev, and Indrajit Sinha (2000) "Consumer-Level Factors Moderating the Success of Private Label Brands." *Journal of Retailing*, 76(2), Summer, pp. 175-191.
- Beneke, Justin (2013) "A Closer Inspection of the Impact of Perceived Risk on Purchase Intention of Premium Private Label Brands: The Effect of Age, Gender, Income and Racial Group." *Journal of Business and Retail Management Research*, 7(2), pp. 1-13.
- Beneke, Justin, Alex Brito, and Kerry-Anne Garvey (2015) "Propensity to Buy Private Label Merchandise: The Contributory Effects of Store Image, Price, Risk, Quality and Value in the Cognitive Stream." *International Journal of Retail and Distribution Management*, 43(1), pp.43-62.
- Beneke, Justin, Anne Greene, Inge Lok, and Kate Mallett (2012) "The Influence of Perceived Risk on Purchase Intent - The Case of Premium Grocery Private Label Brands in South Africa." *Journal of Product and Brand Management*, 21(1), pp. 4-14.
- Beneke, Justin, Ryan Flynn, Tamsin Greig, and Melissa Mukaiwa (2013) "The Influence of Perceived Product Quality, Relative Price and Risk on Customer Value and Willingness to Buy: A Study of Private Label Merchandise." *Journal of Product and Brand Management*, 22(3), pp. 218-228.

- Bettman, James R. (1974) "Relationship of Information-Processing Attitude Structures to Private Brand Purchasing Behavior." *Journal of Applied Psychology*, 59(1), February, pp. 79-83.
- Boyle, Peter J., and E. Scott Lathrop (2013) "The Value of Private Label Brands to US Consumers: An Objective and Subjective Assessment." *Journal of Retailing and Consumer Services*, 20(1), pp. 80-86.
- Burton, Scot, Donald R. Lichtenstein, Richard G. Netemeyer, and Judith A. Garretson (1998) "A Scale for Measuring Attitude Toward Private Label Products and an Examination of its Psychological and Behavioral Correlates." *Journal of the Academy of Marketing Science*, 26(4), September, pp. 293-306.
- Cotes-Torres, Alejandro, Pablo A. Munoz-Gallego, and Oscar Gonzalez-Benito (2015) "Modeling Store Brand Choice: Minimal Effects of Households' Demographic Features." *Food Quality and Preference*, 46, December, pp. 113-118.
- De Mooij, Marieke, and Geert Hofstede (2002) "Convergence and Divergence in Consumer Behavior: Implications for International Retailing." *Journal of Retailing*, 78(1), Spring, pp. 61-69.
- Dick, Alan, Arun Jain, and Paul Richardson (1995) "Correlates of Store Brand Proneness: Some Empirical Observations." *Journal of Product and Brand Management*, 4(4), pp. 15-22.
- Dick, Alan, Arun Jain, and Paul Richardson (1996) "How Consumers Evaluate Store Brands." *Journal of Product and Brand Management*, 5(2), pp. 19-28.
- Dohmen, Thomas, Armin Falk, David Huffman, Uwe Sunde, Jurgen Schupp, and Gert G. Wagner (2011) "Individual Risk Attitudes: Measurement, Determinants, and Behavioral Consequences." *Journal of the European Economic Association*, 9(3), June, pp. 522-550.
- Dunn, Mark G., Patrick E. Murphy, and Gerald U. Skelly (1986) "The Influence of Perceived

- Risk on Brand Preference for Supermarket Products.” *Journal of Retailing*, 62(2), Summer, pp. 204-216.
- Fan, Xiaojun, Yi Qian, and Pei Huang (2012) “Factors Influencing Consumer Behaviour towards Store Brand: A Meta-Analysis.” *International Journal of Market Research*, 54(3), pp. 407-430.
- Glynn, Mark S., and Shaoshan Chen (2009) “Consumer-Factors Moderating Private Label Brand Success: Further Empirical Results.” *International Journal of Retail and Distribution Management*, 37(11), pp. 896-914.
- Gooner, Richard A., and S. Scott Nadler (2012) “Abstracting Empirical Generalizations from Private Label Brand Research.” *Journal of Marketing Theory and Practice*, 20(1), Winter, pp. 87-104.
- Hansen, Karsten, and Vishal Singh (2008) “Are Store-Brand Buyers Store Loyal? An Empirical Investigation.” *Management Science*, 54(10), October, pp. 1828-1834.
- Hausman, Angela (2000) “A Multi-Method Investigation of Consumer Motivations in Impulse Buying Behavior.” *Journal of Consumer Marketing*, 17(5), pp. 403-426.
- Mandhachitara, Rujirutana, Randall M. Shannon, and Costas Hadjicharalambous (2007) “Why Private Label Grocery Brands have Not Succeeded in Asia.” *Journal of Global Marketing*, 20(2 / 3), pp. 71-87.
- Mieres, Celina G., Ana M. D. Martin, and Juan A. T. Gutierrez (2006a) “Antecedents of the Difference in Perceived Risk between Store Brands and National Brands.” *European Journal of Marketing*, 40(1 / 2), pp. 61-82.
- Mieres, Celina G., Ana M. D. Martin, and Juan A. T. Gutierrez (2006b) “Influence of Perceived Risk on Store Brand Proneness.” *International Journal of Retail and Distribution*

- Management*, 34(10), pp. 761-772.
- Nielsen Company (2014) *The State of Private Label Around the World*. New York, NY: The Nielsen Company.
- PLMA (2016) *PLMA 2016 Private Label Yearbook*, New York, NY: Private Label Manufacturers Association
- Richardson, Paul S., Arun K. Jain, and Alan Dick (1996) "Household Store Brand Proneness: A Framework." *Journal of Retailing*, 72(2), Summer, pp. 159-185.
- Seenivasan, Satheesh, K. Sudhir, and Debabrata Talukdar (2016) "Do Store Brands Aid Store Loyalty?" *Management Science*, 62(3), March, pp. 802-816.
- Semeijn, Janjaap, Van Riel, Allard C. R., and Ambrosini, A. Beatriz (2004) "Consumer Evaluations of Store Brands: Effects of Store Image and Product Attributes." *Journal of Retailing and Consumer Services*, 11(4), July, pp. 247-258.
- Shannon, Randall and Rujirutana Mandhachitara (2005) "Private-Label Grocery Shopping Attitudes and Behavior: A Cross-Cultural Study." *Journal of Brand Management*, 12(6), August, pp. 461-474.
- Shukla, Paurav, Madhumita Banerjee, and Phani T. Adidam (2013) "The Moderating Influence of Socio-Demographic Factors on the Relationship between Consumer Psychographics and the Attitude towards Private Label Brands." *Journal of Consumer Behaviour*, 12(6), November/December, pp. 423-435.
- Sinha, Indrajit, and Rajeev Batra (1999) "The Effect of Consumer Price Consciousness on Private Label Purchase." *International Journal of Research in Marketing*, 16(3), pp. 237-251.
- Sudhir, K., and Debabrata Talukdar (2004) "Does Store Brand Patronage Improve Store

- Patronage?" *Review of Industrial Organization*, 24(2), March, pp. 143-160.
- Tifferet, Sigal, and Ram Herstein (2010) "The Effect of Individualism on Private Brand Perception: A Cross-Cultural Investigation." *Journal of Consumer Marketing*, 27(4), pp. 313-323.
- Weber, Elke U., Ann Renee Blais, and Nancy E. Betz (2002) "A Domain-Specific Risk-Attitude Scale: Measuring Risk Perceptions and Risk Behaviors." *Journal of Behavioral Decision Making*, 15(4), October, pp. 263-290.
- Weijters, Bert, Maggie Geuens, and Niels Schillewaert (2009) "The Proximity Effect: The Role of Inter-Item Distance on Reverse-Item Bias." *International Journal of Research in Marketing*, 26(1), March, pp. 2-12.
- Zielke, Stephan, and Thomas Dobbelstein (2007) "Customers' Willingness to Purchase New Store Brands." *Journal of Product and Brand Management*, 16(2), pp. 112-121.