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The nature and incidence of private label rejection

Magda Nenycz-Thiel *, Jenni Romaniuk [1]

School of Marketing, University of South Australia, GPO Box 2471, Adelaide SA 5001, Australia

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ABSTRACT

This paper examines the incidence of consumers' rejection of private labels (PLs) of different price-quality tiers and the underlying reasons for this rejection. The rejection of PLs is compared to the rejection of national brands (NBs) in five food product categories across the UK and Australia. The findings indicate that only 8% of PL non-users in the UK market, and 20% in the Australian market, actively reject PLs. This rejection incidence is higher for PLs than for NBs in three of the five categories. The reasons for brand rejection differ between PLs and NBs. PLs are rejected due to a perception of low quality inferred from extrinsic product cues. In contrast, NBs are rejected primarily because of a negative past experience with a brand. The findings highlight the importance of extrinsic cues for PLs to minimise the incidence of consumer rejection. The generally low rejection of PLs implies that PLs are a real threat to NBs. This paper extends the rejection literature to PLs and quantifies the rejection levels and reasons.

1. Introduction

Brand rejection happens when a consumer claims no desire to buy the brand in the future (e.g., Narayana and Markin, 1975; Abougomaah et al., 1987; Lee et al., 2009a). Understanding the nature of brand rejection is important, as it can help identify current barriers to customer acquisition, as well as provide ideas for future marketing tactics to overcome, or minimise, this rejection. The focus of most brand rejection studies is on national brands (NBs). To date, the literature has largely ignored one of the largest areas of growth in the grocery sector: private label brands. Private labels (PLs) are brands sponsored or owned by retailers and sold exclusively in their stores (Bushman, 1993; De Wulf et al., 2005). PLs are being introduced by more retailers and span more categories, with penetration growing at a far greater pace than manufacturers' brands (Baltas and Argouslidis, 2007; Lincoln and Thomassen, 2008). This makes them of greater strategic importance to retailers and an increasing threat to NBs.

Traditionally, PLs differ from NBs in many of the core elements of the marketing mix, including branding, labelling, price, distribution, and the level of advertising. However, with greater investment comes a change in strategy (Kumar and Steenkamp, 2007). Today, PLs have changed their position, moving from cheap "me too" brands, to brands offering a quality alternative (De Wulf et al., 2005). The price gap between PLs and NBs has also decreased (Sheinin and Wagner, 2003), which should weaken the negative price-quality inferences. Retailers innovate and invest in packaging development and in-store promotion (Marian, 2010). Retailers now use the same brand-building techniques for their PLs as used for NBs (Lincoln and Thomassen, 2008). As such, the role of retailers has had to change. They are no longer simply managers of retail chains, but are also managers of their own brands, stretched across many categories and several price-quality tiers. At the same time, managers of NBs are challenged by the growing sales of strongly supported PLs (Steenkamp et al., 2010).

In this challenging environment, this paper explores the nature of PL rejection compared to that of NBs in more detail. Adding to the existing brand rejection studies, which are descriptive in nature (e.g., Lee et al., 2009b), this research compares and contrasts the incidence and underlying reasons for rejection across the two types of brands. This research also considers different price-quality tiers of PLs.

Findings from this exploratory research provide important managerial implications for both retailers and manufacturers. Knowledge about the levels of rejection and its underlying reasons allow PL marketers to assess how much of their effort needs to focus on changing perceptions and attitudes about PLs, in order to win new customers. For NB marketers, this research may be used to more accurately understand the real threat that PLs pose to NBs, and offer insight into how to compete against this growing threat by targeting the reasons for which consumers reject PLs.

We now review the relevant literature on brand rejection. On this basis, we formulated eight research hypotheses relating to PLs and NBs.

* Corresponding author. Tel.: +61 8 830 29172; fax: +61 8 830 20442.
E-mail addresses: Magdalena.Nenycz-Thiel@unisa.edu.au (M. Nenycz-Thiel), Jennifer.Romaniuk@unisa.edu.au (J. Romaniuk).
[1] Tel.: +61 8 830 20706; fax: +61 8 830 20442.

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2. Background

Brand rejection is a conscious decision not to buy a brand. This differs from the behaviour of simply not buying the brand, which can be due to a lack of awareness, resources, or availability. When a consumer rejects a brand, they are actively deciding against buying it. Therefore, they must have formed a negative opinion or belief about the brand, which acts as a barrier to purchasing.

2.1. Reasons for brand rejection

We have identified five reasons for the formation of negative brand beliefs: (1) a negative past experience with the brand; (2) moral rejection; (3) information from extrinsic cues, such as pricing, advertising, brand name, and packaging; (4) high perceived risk; and (5) spillover effects.

2.1.1. Rejection based on negative past experience with the brand

There are many theories that explain why consumers may be dissatisfied with a product post-experience. One of these is the theory of expectancy disconfirmation (e.g., Oliver and DeSarbo, 1988; Wu et al., 2006). According to this theory, consumers are dissatisfied with a brand because post-experience with the product did not match pre-formed expectations. In a two-stage process, consumers use "better than" or "worse than" heuristics to compare the actual and expected performance levels of a product. The theory suggests that negative past experience with a product (i.e., disconfirmation of expectations) will lead to dissatisfaction, which in turn is likely to cause future rejection of the brand. This is supported by Winchester and Romaniuk (2008), who found that lapsed users had the greatest propensity to hold negative beliefs about a brand. This type of rejection is likely to be manifest among both PLs and NBs.

H1. Rejection based on past experience will be manifested equally for PLs and NBs.

2.1.2. Moral rejection

Consumers can reject a brand if they do not agree with the policies of the brand's company, and/or believe that these policies have a negative impact on society (Holt, 2002; Lee et al., 2009a). This is referred to in the literature as moral rejection (Lee et al., 2009a). In the case of PLs, the strong link to the store via the name and selective distribution mean that consumers can extrapolate any unfavourable associations with the store to the store's brands (Beckwith and Lehmann, 1975). As an example, if consumers do not agree with the way in which certain retailers import ingredients rather than using local suppliers, they may reject the PLs of that store. Moral rejection can also happen for NBs for the same reasons. Therefore, this type of rejection can happen for both NBs and PLs.

H2. Rejection based on moral reasons will manifest equally for PLs and NBs.

The next three reasons for rejection may be more prevalent for PLs.

2.1.3. Rejection based on low perceived quality inferred from extrinsic cues

There is evidence that negative beliefs can cause rejection prior to purchase, specifically in the consideration or selection stages of the consumer decision-making process (e.g., Narayana and Markin, 1975; Moorthy et al., 1997). These negative beliefs can form via extrinsic cues, such as advertising (Kirmani, 1990), price (Rao, 2005), and the brand name itself (Dawar and Parker, 1994). However, consumers do not need to use the brand to experience extrinsic cues. In contrast, intrinsic product cues, such as taste and aroma, typically involve some form of product consumption (Jacoby and Olson, 1977).

When intrinsic cues are unavailable, consumers are likely to utilise extrinsic cues in making quality judgments. However, with PLs there is some evidence that extrinsic cues influence consumer judgment even when intrinsic cues are available. Richardson et al. (1994) found that extrinsic cues influence consumers' judgments of PL quality over and above the actual product ingredients. This is most likely to be because of the low price strategy of PLs. In the absence of advertising, lower prices lead potential customers to infer low quality in PL products. This low price – low quality response may also occur even when objective evidence is given to customers, such as product label listing the same product ingredients as NB to counter this inference. Drawing from the attribution theory (Sawyer and Dickson, 1984), the strong reliance on price as a quality signal for PLs is due to consumers attributing this low price to some problematic aspects of a product (Garretson et al., 2002). Since PLs are usually priced lower than NBs, are not as heavily advertised, and have less attractive packaging, *low perceived quality* is likely to be a more common dissuader for purchasing PLs than NBs.

H3. Consumers are more likely to reject PLs due to low perceived quality than NBs.

2.1.4. Rejection based on high perceived risk associated with the purchase

The difference in perceived risk between PLs and NBs has been the object of a number of studies (see Batra and Sinha, 2000; Mieres et al., 2006a,b). In their study, Batra and Sinha (2000) found that consumers can perceive a high social risk in buying PLs. This is evident in reported refusals to buy PLs for a gift or for when guests are present (Batra and Sinha, 2000). Mieres et al. (2006a) provided evidence that there are significant differences in perceived risk between NBs and PLs, with PLs being considered more risky, which negatively impact PL trial, consumption intensity and future purchase intentions. In their next paper, the same authors found that perceived quality of the PL is the best variable in explaining the difference in perceived risk between PLs and NBs (Mieres et al., 2006b). The above review suggests that high perceived risk associated with purchase is more likely to be a reason for PL rejection than NB rejection.

H4. Consumers are more likely to reject PLs due to high perceived risk than NBs.

2.1.5. Rejection based on spillover effects

Janakiraman et al. (2009) showed that consumers are likely to transfer consumption experiences across similar products. There are two spillover aspects, specific to PLs, which may influence the incidence of PL rejection. The first of these is the umbrella branding of PLs within a store. Umbrella branding, where PLs' offerings across different categories have the same or similar brand name, is common to PLs. Therefore, perceptions of PLs in one subcategory are likely to spillover to perceptions of PLs in other subcategories. The second cause of a spillover effect is the perception of PLs as a homogenous subcategory of brands across stores. There is evidence that consumers perceive PLs from different stores as a single subcategory of PLs, with very low differentiation between brands (Richardson, 1997; Nenycz-Thiel and Romaniuk, 2009). Therefore, perceptions of PLs in one store are likely to spillover to perceptions of PLs in other stores.