



# Will they return? Getting private label consumers to come back: Price, promotion, and new product effects



Carmen Abril\*, Joaquin Sanchez

Complutense University, Faculty of Economics, 28223 Madrid, Spain

## ARTICLE INFO

### Article history:

Received 28 July 2015

Received in revised form

25 March 2016

Accepted 27 March 2016

Available online 8 April 2016

### Keywords:

Private labels

Store brands

Switching

Hazard Model

## ABSTRACT

Using a hazard model specification with two years of consumer panel data, this study simultaneously quantifies the effects of price gaps, non-monetary promotions, and new products on consumer switching from private labels back to manufacturer brands. The research focuses on the switching phenomena, rather than choice, such that time is a relevant variable. According to the results, non-monetary promotions and new products are more effective for recovering consumers than price gap reductions. These findings underscore the importance of understanding how consumers perceive the value of manufacturer brands.

© 2016 Elsevier Ltd. All rights reserved.

## 1. Introduction

The concept of private labels is often used interchangeably with terms such as “store brands” or “own brands” (Semeijn, Van Riel and Ambrosini, 2004; DelVecchio, 2001). Although the definition of private labels is not uniform in prior literature (Burt, 2000), this research adopts a particular view of private labels as brands owned by a retailer or distributor, sold exclusively in their own stores (Kumar and Steenkamp, 2007). Similar to prior literature, private labels thus can be opposed to manufacturer brands, which are owned by firms whose primary objective is to manufacture and commercialize products.

Private labels are notable concerns for consumer packaged goods (CPG) companies, having reached a 20% market share in the United States and 35% in Europe (PLMA, 2013).

As these market shares of private labels grow, national manufacturers face serious challenges to recover consumers. However, it remains difficult to regain share from private labels (Baltas et al., 1997), largely because the perceived quality of private labels benefits significantly when consumers try these brands (Sprott and Shimp, 2004). That is, private labels initially emerged as low quality, low price brands, but consumers have developed significantly improved perceptions about their price/quality ratio.

Consumers react differently to marketing mix efforts for a manufacturer brand in comparison to efforts for a private label. For example, several studies acknowledge different effects of price

reductions and promotions on market share, depending on whether the brand is a private label or a manufacturer brand (Bronnenberg and Wathieu, 1996; Cotterill and Putsis, 2000; Srinivasan et al., 2004).

The risk that consumers perceive when choosing private labels also is higher than that when consumers choose manufacturer brands (Rubio et al., 2014). Therefore, the reasons for choosing a manufacturer brand versus a private label likely differ (Baltas et al., 1997). Many studies in the literature on private labels have focused on the factors that drive consumers to purchase private labels and the ways that manufacturer brands can prevent private label growth. An equally relevant research question however is what kind of marketing activities manufacturer should deploy to convert consumers that already have switched to private labels. Recent studies draw on the consumer utility maximization framework to study the determinants of market share for private labels (Sethuraman and Gielens, 2014). This framework is also relevant in understanding consumer switching behavior between manufacturer brands and private labels. Consumers will return to manufacturer brands if they perceive them to be a better value than the private label they are currently purchasing. This change in perceived value arises from the non-price utility for the brand (for example non-monetary promotions and product innovation) and utility for the price. However, the most efficient initiatives to recover manufacturer brand consumers may differ from the strategies used to retain current consumers and prevent private label growth.

### 1.1. Rationale for the study

Empirical research on optimal recovery strategies is rather scarce (Mills, 1999; Sayman and Raju, 2007; Sethuraman, 2009;

\* Corresponding author.

E-mail addresses: [cabril@ccee.ucm.es](mailto:cabril@ccee.ucm.es) (C. Abril), [joaquins@ucm.es](mailto:joaquins@ucm.es) (J. Sanchez).

Verhoef et al., 2002). To recover consumers who have switched to private labels, manufacturers can reduce their prices or adopt non-price-based strategies to maintain their competitiveness (Mills, 1999; Sethuraman and Cole, 1999). Some authors use aggregated store data to study the effects of different marketing mix variables on the share of private labels, competitive dynamics, and profitability (Gielens, 2012). However, aggregated variables, such as market share, can limit understanding of individual consumer behavior. Sethuraman and Gielens's (2014) meta-analysis research on the determinants of store brand share shows that the results of price utility and non-price utility variables depend on whether the dependent variable is choice or market share. Therefore, this research seeks to measure the effects of different marketing mix decisions—price, non-monetary promotion, and new product introduction—on consumer switching behavior from private labels back to manufacturer brands. In so doing, it focuses on what Laaksonen and Reynolds (1994) call third-generation private labels (neither premium nor generic), because most available private labels belong to this generation (Anselmsson and Johansson, 2009; Gielens, 2012).

Unlike extant literature, the current study (1) focuses on the individual consumer level; (2) analyzes switching phenomena rather than choice, with time as a relevant variable; (3) focuses on consumer behavior after consumers have tried private labels, in a longitudinal study, to investigate the simultaneity of demand and competitive interactions among players; (4) considers manufacturer price and non-price strategies simultaneously; and (5) uses a hazard model to measure brand switching, because traditional logit or probit specifications lack some capacity to address brand choice and time in longitudinal studies.

To achieve these contributions, the next section presents the proposed conceptual framework. After outlining the hypotheses, this article describes the methodology and data, followed by the empirical results. The conclusion notes both managerial implications and limitations of this study.

## 2. Price, promotion and new product effects on consumers brand switching

Most studies of brand choice analyze relationships between consumer brand choice behavior and variables assumed to influence this choice behavior. Cross-sectional studies explicitly or implicitly assume that consumer choice behavior is constant over time (Popkowski Leszczyc and Timmermans, 1997). Many existing choice models assume a constant marginal utility of consumption of each brand (Allenby and Rossi, 1991). Therefore, they do not contemplate different consumer preferences that might vary with time, inertia, variety seeking, and other important variables (Leszczyc and Bass, 1998). In addition, most models do not allow switching from low to high quality brands (Allenby and Rossi, 1991). However, academic literature suggests that in their purchase decisions, consumers engage in substantial store and brand switching (Sloot and Verhoef, 2008); it also highlights the differences between brand choice and brand switching and between store choice and store switching (Leszczyc et al., 2000). In particular, since marketing activities have changed since the last purchase, the effects of the marketing instruments are not constant over time (Wedel et al., 1995). For instance, in the case of private labels, if consumers become more familiar with them through trial or inspection, then they will be more likely to purchase private labels in the future (Richardson et al., 1996).

Private labels form a subgroup in consumers' memories, with specific categorization cues (Nenycz-Thiel and Romaniuk 2009; Nenycz-Thiel et al., 2010), such that choice of a private label may be influenced by learned behaviors.

Manufacturer brands can win back consumers from private labels by cutting prices, offering promotional benefits, or developing new products (Ailawadi et al., 2001; Garretson et al., 2002; Kumar and Steenkamp, 2007; Sethuraman and Mittelstaedt 1992; Sethuraman, 1995). We will develop hypotheses about the expected effects and the comparative effects of these three different manufacturer brand initiatives.

### 2.1. Development of hypothesis

The development of hypotheses from this work draws on the consumer utility maximization framework (Lancaster, 1966) to develop propositions related to price utility, non-monetary promotions, and new product innovation in the context of the switching dynamics between private labels and manufacturer brands. Recent studies have used similar approaches to describe the conclusions related to determinants of the share of private labels that have been obtained from previous private label studies (Sethuraman and Gielens, 2014).

First, many studies describe the impact of different pricing decisions that have been made by manufacturer brands versus private labels (Blattberg and Wisniewski 1989; Bontemps et al., 2008; Cotterill et al. 2000; Fong et al., 2010; Kamakura and Russell 1989; Méndez et al., 2008; Sayman et al., 2002). Specifically, the cross-elasticity is higher among manufacturer brands and lower between manufacturer brands and private labels. This is because price reductions by manufacturer brands draw more consumers from rival manufacturers than from private labels (Baltas et al., 1997; Gielens, 2012).

Several empirical studies (Hoch and Banerji, 1993; Sethuraman, 1995; Cotterill et al., 2000; Steenkamp and Geyskens, 2013) and utility theories support a positive relationship in the price gap between the manufacturer brands and private labels and the share of private labels. Therefore, manufacturer brand managers should still expect a traditional demand relationship with a price reduction (Akabay and Jones, 2005), such that they can recover some lost consumers. This positive effect will be more evident with a more aggressive price reduction (Cotterill et al., 2000).

Therefore,

**H1.** Reducing the price gap between manufacturer brands and private labels has a positive effect on consumer switching from private labels back to manufacturer brands.

Second, manufacturer brands offer promotions to deliver value to consumers (Ailawadi et al., 2001), and an interesting debate surrounds the effects of promotions on brand switching (Ailawadi and Neslin, 1998; Van Heerde, Gupta and Wittink, 2003). Promotions also can serve defensive or attack purposes, in that a common response to private labels has been for manufacturer brands to increase their promotional investments and halt the migration of value-conscious consumers to private labels (Garretson et al., 2002; Lal, 1990; Quelch and Harding, 1996). Academic research shows that when consumers are exposed to promotions (e.g. feature and display) they develop brand awareness and more positive associations (Zhang 2006). Some researchers claim that promotions can be effective at deterring private label penetration and limiting private label growth (Blattberg and Neslin, 1990; Lal, 1990; Quelch and Harding, 1996; Sethuraman and Mittelstaedt, 1992), though others state that significant and frequent promotional activity actually erodes brand loyalty (Gedenk and Neslin, 1999; Sriram et al., 2007).

In another line of investigation, researchers focus on how promotional intensity affects private labels' product category share (Hoch and Banerji, 1993) and how manufacturer brands' promotions might accelerate purchases relative to private labels (Sivakumar and Raj, 1997).

Download English Version:

<https://daneshyari.com/en/article/1028743>

Download Persian Version:

<https://daneshyari.com/article/1028743>

[Daneshyari.com](https://daneshyari.com)