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Understanding premium private labels: A consumer categorisation approach

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ABSTRACT

Worldwide premium private labels (PPLs) are a new and rapidly growing phenomenon. However to date, little is known about consumers' perceptions of these newer entrants relative to other brand types. Therefore it is difficult for marketers to understand the opportunities and threats created by this new generation of brands. This study examines the ways in which consumers categorise PPLs compared to more traditional value private labels (VPLs) and national brands (NBs) on the three dimensions of quality, value for money and trust. The data includes seven packaged goods categories in three countries, the United States, the United Kingdom, and Australia. The findings show that PPLs sit on a separate island, in between VPLs and NBs in consumer memory. While consumers generally view PPLs as a separate subgroup of brands, PPL are connected to other subgroups in that they are perceived to have the value characteristics of VPLs but quality characteristics of NBs. Finally, consumers with past experience with VPLs have a stronger ability to categorise PLs into distinct brand tiers.

1. Introduction

Retailers own and selectively distribute private labels or store brands (herein referred to as PLs) in their stores (Kumar and Steenkamp, 2007). Currently a permanent feature of competitive retail landscapes worldwide, the latest growth predictions for PLs suggest that their global share will reach 50% by 2025 (Freeman, 2012). These PLs are now a major competitor for national brands (herein referred to as NBs), particularly at the medium and value end of the spectrum. This growth and competition is particularly evident in the grocery sector, with packaged goods at the forefront of PL innovation.

While the majority of packaged goods PLs are the traditional 'value' type, the fastest growing PL type is the premium PL (herein referred to as PPL), such as Sam's Choice (US) and Tesco Finest (UK). PPLs are classified as identifying with the top-quality tier, rather than value products, as they differ from value PLs across several dimensions that can impact consumers' perceptions of these brands (Geyskens et al., 2010; Martos-Partal and González-Benito, 2011). The first of which are the names, which include words that imply premium, such as *Finest*. The second dimension is the investment in extrinsic cues such as packaging and advertising, to signal to consumers the quality of the product (Lincoln and Thomassen, 2008). Finally PPLs prices are equal or even above that of NBs. As such, the importance of PPLs to retailers has increased. For example, Tesco, one of the leading supermarkets in the PL space, the reported annual revenue from their PPL Tesco Finest portfolio was £1bn in 2010, against £800m delivered by their value private label (VPL) brand Tesco Value (Warc, 2010). However, while PPLs can command more revenue, this does not guarantee profitability, as there are greater production and marketing costs. Higher costs also put pressure on PPLs to be successful.

A common rationale for PPL introduction is to create a point of differentiation from other retailers (Corstjens and Lal, 2000). Kumar and Steenkamp (2007) describe retailers' move to PPLs as "escaping commoditisation", to overcome the equivalence of VPLs offered by every retailer. However to succeed, PPLs must gain sales. This means that in-store, there are two direct targets for PPLs. The first is the mid/premium manufacturer brands on the retailer shelves. Therefore while aimed at nullifying competition from other retailers, PPLs create more competition from NB manufacturers. This may backfire for retailers who rely on NB manufacturers' support for funding store advertising and promotions. The second direct target is the retailers' own VPL. This opens up the risk of cannibalisation, and the reduction in overall PL profitability, given the higher costs associated with PPLs. Therefore, understanding the relative perceptions of PPLs vis-à-vis VPLs and NBs is key to developing strategies directed at the major competition that might affect the viability of packaged goods PPLs. It is important to note that packaged goods PPLs are sold in the

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same retail outlets and, often, sit next to VPLs on shelf. This differentiates packaged goods PLs from PLs in other categories such as fashion (e.g., H&M (value) versus COS (premium) or Zara (value) versus Massimo Dutti (premium)). If there is no explicit brand name or retail outlet link between the brands, it is unlikely consumers will make comparisons between the two tiers. Therefore the question of spillover of PL image is less relevant in these categories.

A final factor that motivates this study is the strategic risk of retailers losing focus by diverting attention toward managing a portfolio of brands, away from achieving store traffic. Retailers need to ensure that the main goal of getting shoppers into the store is not compromised by placing more attention on what consumers buy when in-store. Most retailers have at least one PL tier on offer, and the introduction of a PPL creates a more complex portfolio. Portfolio management is a challenge for even experienced manufacturers, but for retailers often a major competitor is their own VPL line. Therefore the challenge of dealing with cannibalisation could be greater if there is close perceptual alignment between VPLs and PPLs. As PPLs differ from traditional PLs in key marketing mix elements, the contrasting information about PPLs may stimulate a revision of the knowledge organisation consumers have about PLs and brand types. However, past research (e.g., Morrin, 1999) has shown that if consumer knowledge about a domain is strong and well anchored as is evident for PLs, it could resist revision. Currently the continued influence/halo of VPL on PPLs image is unknown.

The objective of this research is to examine how consumers perceive packaged goods PPLs vis-a-vis VPLs and NBs. To test for generalisability of any findings, the data covers 28 PLs in seven packaged goods categories across three countries (USA, UK, and Australia).

2. Theoretical background

2.1. Perceptual categorisation

Categorisation research posited that consumer knowledge formed schema-like structures in memory to enhance information processing efficiency (Cohen and Basu, 1987). Thus, objects with specifications similar to each other in terms of attributes they share or goals they meet grouped together in consumers' memory (e.g. Pan and Lehman, 1993). An example might be Diet Coke, Diet Pepsi, and Pepsi Max forming a Diet subcategory under the main category of soft drinks. This means that, if a consumer often needs to retrieve diet soft drinks, the presence of a subcategory cue makes the process simpler than if the consumer must retrieve and assess all soft drink brands for their 'diet' qualities.

The organisation of brand knowledge in consumer memory influences the encoding and retrieval of brand information as well as retrieval of the brand itself (Keller, 1993; Nedungadi et al., 2001). When consumers encounter a new object, they compare it to the existing structure. If the new object possesses similar characteristics, it will gain automatic, classification as a category member with minimal cognitive effort. However if it shares only *some* characteristics with *some* category members, it may combine with similar category members to form a subcategory.

Consumer retrieval of information also draws on this organisation because competition for retrieval means the consumer will retrieve the strongly and directly linked over the weaker or indirectly linked (Biehal and Chakravarti, 1986; Anderson and Bower, 1973). The presence of subcategories can facilitate the retrieval of members in such a group if the subcategory is an aspect of the retrieval cue (Nedungadi et al., 2001). However sub-categories can also inhibit retrieval of brands because they can weaken the direct link to the category cue. Therefore the categorisation of information in memory influences the brand's performance in the cognitive processes leading up to choice. This provides a strong argument in understanding the phenomena of categorisation (see also Yamauchi et al. (2002)).

2.2. Brand types and their categorisation

Currently, there are two main brand types sold at most of the retailers – national brand (NB), which is a brand that is sponsored or owned by a company whose primary business is production (Coke, Kleenex, Mars bar) and a private label (PL) sponsored or owned by retailers, wholesalers, or distributors and are sold exclusively in their stores (Tesco *Value*, Sainsbury *Taste The Difference*) (Schutte, 1969; Bushman, 1993).

Over the years PLs offer developed across the price-quality spectrum – economy (generics), standard (also referred to as a "copy cat") and premium. Generics, especially in the US, were cheap and nasty versions of manufacturer-owned brands (Fitzell, 1982). They were white-labelled product ranges with significantly lower prices, very poor packaging and no marketing support (de Chernatony, 1989b). Generics did not typically carry the name of the store. These products occupied categories associated with low risk (dog food, toilet tissue, plastic bags etc.) and were introduced only when the production technology was very uncomplicated (Cunningham et al., 1982). In the late 1980s generics started to lose their share to PLs that carry the name of the retailer (de Chernatony, 1988). The first PLs were simply 'copycats' of leading NBs (Kumar and Steenkamp, 2007). The packaging of a leading NB and a PL 'copycat' was so similar that many manufacturers had to sue retailers for unfair competition. The 'copycats' benefited from the quality assurance carried by NBs, and delivered decent margins to the retailers. Their prices were well below those of NBs. The risk of introducing a 'copycat' was very low, as the retailers imitated the NB leaders. The main reason for selling 'copycats' was to compete directly with NBs.

The next, most recent stage in the development of PLs was the introduction of PPLs. While, as noted above, the role of 'copycats' was to increase the competition between NBs and PLs, PPLs were invented to differentiate stores from each other (Corstjens and Lal, 2000). PPLs are exclusive to particular retailers and are not intended to substitute NBs but rather to complement the store offering (Kumar and Steenkamp, 2007). Under PPLs, retailers offer unique versions of products that can be found selectively in one particular chain.

PL research in the 1980s and early 1990s concentrated on the differences between NBs, PLs and generics with white-labelled product ranges, priced about 20% lower than private labels, which were precursors to today's PLs (de Chernatony, 1988). That research showed consumers perceived differences between NBs, PLs, and generics at the level of brand type, such as NB juice vs. PL juice vs. generic juice (e.g. Bellizzi et al., 1981; Cunningham et al., 1982; de Chernatony, 1989a). Consumers perceived NBs as superior to PLs and generics on attributes such as quality, appearance, taste, variety of choice, and attractiveness. In the UK market, de Chernatony (1989a) found that, while consumers perceived clear differences between PLs and NBs as well as generics and NBs, they viewed generics and PLs as similar. As the quality focus in PL marketing became more central, researchers faced the argument that "survey-based research had not been able to disentangle the real quality and image effect on consumers' perceptions of quality" (Richardson et al., 1994, p.29). A group of US based researchers conducted a number of experimental studies to uncover the importance of extrinsic cues to perceptions of PLs. Drawing on blind tests, they found consumers considered PLs similar to NBs in taste and performance; however, packaging, price, and the consequence