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Effects of pricing strategies and product quality on private label and national brand performance

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ABSTRACT

Using product test ratings and panel data from more than 35,000 participating households in Germany, this study addresses the impacts of price, quality, and promotion shares on the market shares of different products, including national brands and private labels, as well as food and non-food products. The results of a path analysis reveal important differences across the four segments, as well as insights regarding the use of everyday low price and high–low retail pricing strategies. The findings also lead to key implications for manufacturers and retailers.

1. Introduction

In the German consumer goods market, concentration and crowding at the retail level has proceeded steadily over time, leading to greater sales consolidation among a few, large retailers (Anders, 2008; Olbrich and Grewe, 2013; Weiss and Wittkopp, 2005). The underlying concentration process parallels several developments related to price, product, and product range policies (Lamm, 1981; Olbrich and Grewe, 2009, 2013; Olbrich et al., 2009). For example, regarding the ranges of products, some retailers have chosen to adopt dual roles, offering their own products and services (i.e., private labels), often at a lower price than comparable national brands (Méndez et al., 2008; Olbrich and Grewe, 2009), rather than solely distributing goods produced by the branded goods industry. The resulting proliferation of private labels invokes strong price competition (Connor and Peterson, 1992; Olbrich and Grewe, 2013; Olbrich et al., 2009, 2014).

This study investigates the impact of price, pricing strategy, and product quality on the overall market share of a particular product, in an effort to answer two key research questions:

RQ1:What impacts do product price, pricing strategy, and product quality have on the market shares of different product and brand types?

RQ2:What differences arise between national brands and private labels? Between food and non-food products?

We address these questions in the dynamic German retailing sector and thereby make several substantive contributions to literature. Even as retail market conditions continue to change rapidly, current marketing literature lacks an up-to-date analysis that relies on actual purchasing data or product quality information (Anders, 2008; Groeppel, 1993; Machek, 2012). We seek to close this gap by analyzing the determinants of market share according to German panel data that reflect reports by more than 35,000 households. In addition, we account for product quality information as one possible determinant of market share. Instead of surveys or experiments, which are common in prior research, we investigate actual purchasing behavior using a broad, representative database. In so doing, we address potential differences across expressed attitudes, intentions, and behavior (Belk, 1985). Furthermore, we differentiate between national brands and private labels at the product level (brand type) and between food and non-food products at the commodity group level (product type). Thus, we are able to highlight differences among the four segments.

To reach these insights, we start with a foundation in research that shows that consumers tend to link the perceived quality of private labels with their view of the retailer. Private-label product quality thus is particularly important for defining the retail brand and establishing store attractiveness, and retailers seek sufficiently high quality to avoid negative carryover from their private label to their retail brand (Olbrich and Jansen, 2014; Vahie and Paswan, 2006). Unlike prices, product quality is difficult to change and cannot be adjusted quickly. For national brands, product quality also has the critical task of justifying any price premium and ensuring a competitive advantage (Steenkamp et al., 2010).

Yet the prevalence of private labels continues to increase, in turn creating greater price competition between private labels and corresponding national brands, as well as among the various private labels offered by different retailers (Blattberg and Wisniewski,

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1989; Olbrich and Grewe, 2013). Therefore, retailers actively seek different pricing strategies to establish unique profiles (Ellickson and Misra, 2008). For example, a retailer that adopts a high–low (HiLo) promotion strategy tries to stimulate customer demand through time-limited price promotions. Price-based special offers aim to attract consumers to the store while also signaling price competency for the assortment. In contrast, a retailer with an everyday low price (EDLP) strategy largely eliminates price promotions and offers products for a consistently low, non-varying price (Pechtl, 2004).

All these competitive factors—prices, price strategies, and product quality decisions—also depend on the product type, such as whether the offering is a food or a non-food product (Böhm et al., 2007; Olbrich and Jansen, 2014). Food invokes habituated purchasing behavior; consumers generally use non-food products for longer periods. Non-food products also are associated with greater expenses, perceived purchase risk, and involvement in the decision process. Accordingly, retailers can and should strategically adjust several factors to succeed in competitive retail environments: their pricing policies (price levels and pricing strategy), the quality of the products in their assortment, and considerations of the differences between national brands and private labels, as well as between food and non-food products. To highlight the necessity of such considerations, Fig. 1 details the notable revenue shares of private labels of food products in several countries (METRO AG, 2015). For example, in Germany, private labels enjoy an average market share of 34.5 percent.

In general, market share represents an important economic figure for decision makers (Buzzell et al., 1975), because it reflects the firm's own position in relation to competitors'. In this sense, market share provides an indicator of the likely long-term success of a company. The cutthroat competition in the consumer goods sector also has moved market share into a central position as a target outcome for many companies. Yet empirical literature often fails to measure market share or its underlying consumer behaviors and focuses instead on preferences, purchase intentions, or queries to proxy for recent and current purchasing behavior, generally due to a lack of available data (e.g., Anselmsson and Johansson, 2009; Sinha and Batra, 1999; Walsh and Mitchell, 2010). Yet actual retail market conditions, including intensified competition among retailers competing for market share by offering national brands and private labels in food and non-food sectors, indicates the powerful need to identify the primary determinants of market share.

From our empirical findings, we also derive managerial implications for manufacturers and retailers. In particular, the results of our multigroup path analysis reveal the impacts of price, pricing strategy, and product quality on market shares. By calculating critical ratios for differences, we compare both brand and product types and find that in the food sector, a higher price results in a lower market share for both national brands and private labels, whereas in the non-food sector, the reverse is true. For all four segments, higher product quality leads to more market share. However, for the pricing strategy, the results are more controversial. That is, for national brands, a HiLo pricing strategy seems appropriate, because it increases market share for both food and non-food products. For private labels though, an EDLP pricing strategy is preferable; the increased use of price campaigns for private labels goes hand-in-hand with reductions in their market share.

In the next section, we present the theoretical background on pricing strategies and product quality, from which we derive several propositions regarding food/non-food national brands/private labels. After outlining the data and method for our empirical study, we discuss the results and present managerial implications for manufacturers and retailers, while also noting some limitations of our study.

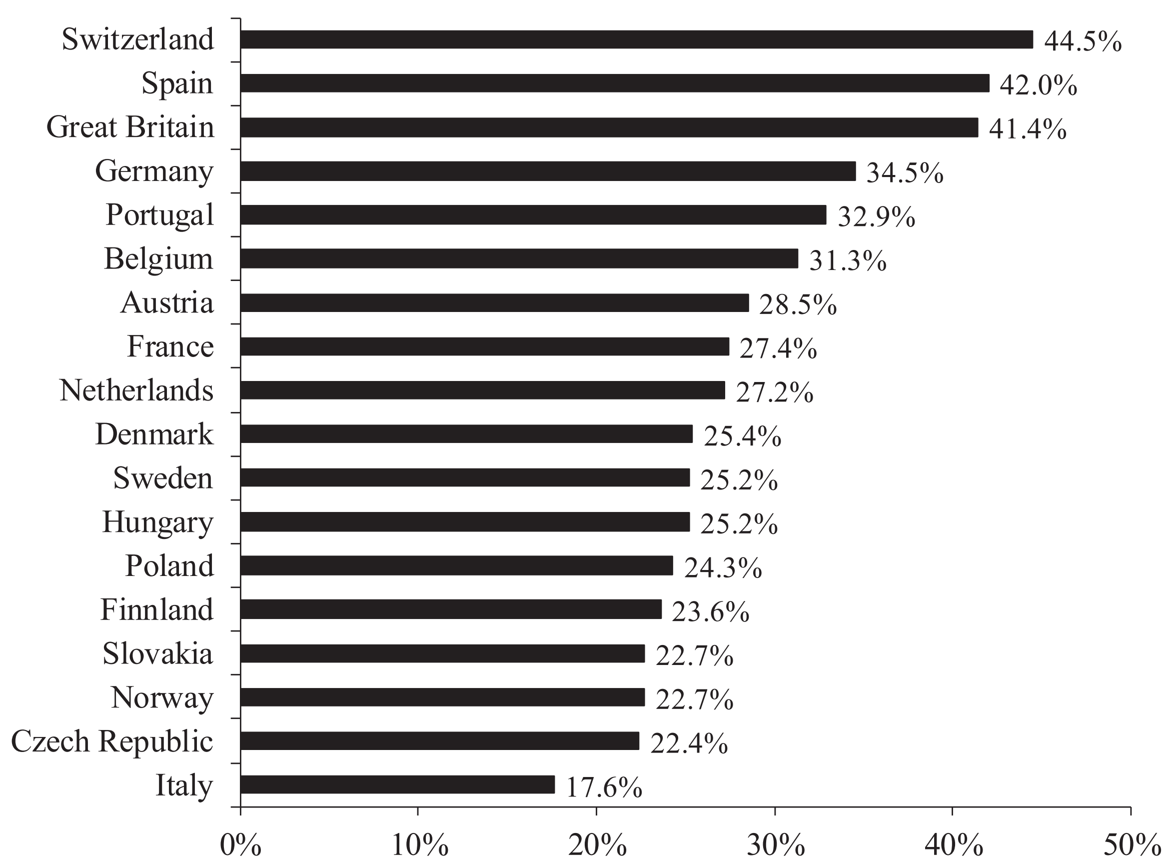

Fig. 1. Revenue Share of Private Labels in 2014.

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