

Determinants of Store Brand Share[☆]

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Abstract

Private labels or store brands have witnessed considerable growth in the last few decades, especially in grocery products. However, market shares of store brand vary considerably across categories, markets, and countries. A natural question of interest to academics and practitioners is what factors influence store brand market shares. Drawing on a utility framework, we develop 21 consumer, manufacturer, retailer, and product-market characteristics that can influence store brand share. We test the empirical generalizability of the effect of these determinants through a meta-analysis of data from 54 individual and aggregate market studies. Twenty of the 21 determinants show significant, empirically generalizable effects. We discuss the key findings, their implications, and directions for future empirical research.

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Introduction

Store brands (SBs) have been growing in sales across the globe over the last two or three decades. In the United States, supermarket sales of SBs increased 5.1 percent in 2011, pushing SB dollar share up half a point to 19.5 percent, a record high (Nielsen/PLMA 2012). By comparison, sales of national brands (NBs) gained only 2 percent over the same period in the U.S. SB unit share in 2011 rose to 23.6 percent, compared to about 15 percent in the 1980s. SB shares are even higher in Europe, and are also growing in Asia and Australia (Kumar and Steenkamp 2007). However, market shares of SBs are not uniform across categories or countries. For example, in 2012, SB market share for the United Kingdom was twice that for the U.S., and SB share in the U.S. was more than twice the share for most countries in Asia. Within the U.S., average SB share for all packaged foods was three times as much as in household goods and five times the SB share in personal care products (Euromonitor 2012). SB shares also vary by retailer and across geographic regions within

a country. This variation in market share raises an important question as to what factors influence consumer choice and thus aggregate market share of SBs.

Sethuraman (1992) and Hoch and Banerji (1993) were among the first to provide a comprehensive empirical analysis of the determinants of SB share. Since that time, a large body of empirical research has emerged addressing two questions: (i) At the individual or household level, what factors influence SB proneness and choice vis-à-vis NBs? and (ii) At the aggregate market level, what are the determinants of SB share? In this study, we attempt to draw empirical generalizations from this body of literature.

In particular, we identify 54 empirical studies that provide information on the antecedents of SB proneness, choice, and market share. These studies yield several directional empirical generalizations related to whether a particular factor, on aggregate, positively influences SB choice or share, negatively influences it, or does not have a significant influence. We then delve deeper into the data and the studies and offer additional insights into the strength of the relationship, the moderators of the effect, and other aspects of the relationship that can be gleaned from the meta-analysis data.

The rest of the paper is divided as follows. We first present a utility framework and identify potential determinants of SB share which we investigate in our meta-analysis. Next, we

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describe the procedure for compiling and meta-analyzing the data from published literature. We then present and discuss the results of our meta-analysis. We conclude by summarizing the key results and stating their implications, as well as offering directions for future research.

Framework

We draw on a consumer utility maximization framework to develop the potential determinants of SB share. Consumers will buy SBs if they perceive the SB to be of better value than NBs. Perceived value arises from non-price utility for the brand (owing to perceived quality and imagery) and (dis)utility for price. We identify 21 potential determinants of SB share from the drivers of price utility and nonprice utility, as represented in Fig. 1.²

Drivers of price utility

Price utility in the context of NB-SB competition is directly driven by the price of SBs relative to NBs, temporary price promotions offered for both NBs and SBs, and consumer price sensitivity. Generally, NBs are the higher-priced brands and SBs are the lower-priced options, so that the NB-SB price differential [$p(\text{NB}) - p(\text{SB})$] is generally positive. Hence, the higher the NB-SB price differential [$p(\text{NB}) - p(\text{SB})$], the higher the temporary SB price discounts and the lower NB price discounts, the higher the relative SB value and the greater the likelihood of SB purchase and the higher the SB share. Moreover, for a given price differential, higher consumer price sensitivity implies higher price disutility for NBs, resulting in larger SB share.

The NB-SB price differential is determined by the conduct of both retailers, who sell NBs and SBs, and manufacturers, who market their NBs through the retailers. In particular, if retailers increase the NB-SB price differential by increasing SB price promotions (e.g. temporary price discounts), then SB share will increase. If retailers or manufacturers increase NB price promotions, then SB share will decrease. Retailers' and manufacturers' price decisions with respect to NBs and SBs, in turn, depend on competitive and other marketplace factors. Raju, Sethuraman, and Dhar (1995a) show that when price competition or cross-price sensitivity among NBs is high, manufacturers and retailers reduce the price of NBs. The decreased NB price, in turn, depresses the price differential between NBs and SBs, resulting in smaller SB share. Price competition may also be

stimulated by the number of NBs. Other things equal, more NBs means less quantity sold of each brand and hence a stronger pressure to reduce NB prices. This in turn closes the NB-SB price gap, resulting in smaller SB share. Higher NB concentration can also lead to smaller SB share. Higher NB concentration implies that a few NB manufacturers garner a large share of the market, and thus market power, resulting in wider distribution and more price control. NB manufacturers may leverage this price control to influence the NB-SB price differential in their favor, resulting in lower SB share. Retail concentration (total share held by top retailers), on the other hand, works in the opposite direction and gives market power to retailers. If there are a few retailers who are very strong, these retailers can then use the power of their size to obtain better terms for NBs as well as develop their own differentiated SBs (e.g. Marks and Spencer in the U.K.) and hence manipulate the price differential in their favor and increase SB share.

Consumer price sensitivity, in turn, is posited to vary depending on (i) consumer demographics, (ii) perceived risk, and (iii) shopping trip/behavior. Consumer demographics often related to price sensitivity are household income and household size. For a given household size, lower income implies less affordability for the higher-priced NBs and greater price sensitivity. By purchasing lower-priced SBs, lower-income households may stretch their limited budgets. In a similar vein, for a given household income, the greater the size of the family, the tighter the monetary resources leading to higher price sensitivity and hence the propensity to purchase the lower-priced store brands (Richardson, Jain, and Dick 1996).

Disutility of uncertainty reflects both the likelihood of making a mistake and the consequences of making a mistake (Erdem and Keane 1996). Sinha and Batra (1999) propose that if the perceived risk of purchasing a brand in a given category is less, consumers are more motivated to find lower prices for greater monetary savings, exhibit greater price sensitivity, and are thus more likely to purchase the lower-priced SBs.

Perceived risk, in turn, is influenced by perceived quality variability and familiarity with store brands. Higher perceived quality variability in brands creates greater uncertainty as to whether the generally lower-priced store brand is of good quality, resulting in greater perceived likelihood of making a mistake, enhancing perceived risk (Batra and Sinha 2000). Increases in perceived risk will deter SB purchases and diminish SB share. Familiarity with SBs, on the other hand, reduces the perceived risk of purchasing SBs (Richardson, Jain, and Dick 1996). If consumers become familiar with SBs through trial or inspection, then perceived risk will be reduced and they will be more likely to opt for the store brand (Fitzell 1992).

Among the shopping trip characteristics, the average size of the shopping basket and shopping trip frequency play a role in influencing consumer price sensitivity and thus SB share. Consumers with high quantity requirements, which are related to both basket size and trip frequency, are more likely to shop for economical alternatives, which results in significant savings (e.g. Baltas 1997). Such consumers are thus more likely to buy the lower-priced SBs.

² The 21 drivers do not represent an exhaustive list of all variables that can potentially influence SB share. These variables were selected based on two criteria: (i) availability of sufficient data for meta-analysis and (ii) consistency with the utility framework. For example, NB-SB price competition potentially affects price disutility and increases SB share; however, we could not test the effect of that variable due to lack of data. Ethnicity is a potentially interesting demographic variable which may influence SB share; but we did not include the variable in the meta-analysis since there was no clear link between ethnicity and consumer utility. In the same vein, due to lack of data and/or theory, we do not highlight potential nonlinearities or (reverse) causal paths relating to the effect of the determinants in Fig. 1 on SB share.

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