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Study of Consumer Motives for buying Private Labels in India

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Abstract: According to a McKinsey report, organized retail sector in India accounts for 6 % of the total retail market. The organized retailers sell both, private labels and national brands. Going by the trends in the more developed markets of Europe and Asia, a private label strategy is seen to be a profitable one. It has been seen to enhance category profitability, increase negotiation power of the retailer and create consumer loyalty. The paper investigates the study of consumer motives for buying private labels in India. Secondary data for this study has been collected from various published reports and research journals. Primary data was collected through questionnaires from customers visiting organized retail outlets in Pune. Pune has a number of organized retail outlets in various formats and hence this city been chosen for the study. A sample size of 102 respondents belonging to different age groups through convenience sampling was taken. The results show that customers perceive private labels as cheaper substitute of national brands. They also expect to see co-branded products in the future. Cross-tabulation through SPSS data analysis shows that customers do not associate lower price of private labels with lower quality. It further shows that perception of cost has no impact on perception of trendiness. The paper has implications for retailers in terms of positioning their private labels in India.

Keywords: organized retail, private label, customer perception, branding, co-branding

1. INDIAN RETAIL INDUSTRY

India ranks as the most emerging destination for retail in the world ahead of Russia and China (A.T. Kearney's annual Global Retail Development Index, 2009). The organized retail market in India is expected to reach 637 \$ billion by 2015 (KSA Technopak Analysis). Mall space, from a meager one million square feet in 2002, was expected to touch 40 million square feet by end of 2007 and an estimated 60 million square feet by end of 2008 (Jones Lang LaSalle's third annual Retailer Sentiment Survey-Asia). In January 2006, the Union Cabinet approved a major rationalization of the policy on FDI in retail to further simplify procedures for investing in India and to avoid multiple layers of approvals required in some activities. To facilitate easier FDI inflow, FDI up to 100% was allowed under the automatic route for cash and carry

wholesale trading and export trading. However to protect the interests of Indian retailers, the FDI in retail was limited to 51 % in single brand retail only. Currently, the share of organized retail continues to remain at 6 % (A.T. Kearney & CII, 2006). Major concentration of retail has been limited to the urban markets. This is because 44 % of total villages in India have population of less than 500 and only 33 % of total villages are connected by proper roads (McKinsey survey, 2007). The rural market is highly heterogeneous besides having lower per capita consumption making it impossible for the retailers to make higher profits. India has presence of global retailers such as McDonalds, Pizza Hut, Dominos, Addidas and Nike to name a few.

2. LITERATURE REVIEW

Consumer perception is an important aspect of consumer behaviour studies. It relates to analyzing the external information and experience into meaningful interpretations. Consumers form perceptions about product attributes, quality, price, brand image of both products and stores. According to Sankar, (2006) consumers form different perceptions about global and local brands. Perceptions play an important role in influencing consumer choice of a store. Monroe (1990) notes that values are “the trade-off between the quality or benefits consumers perceive in a product relative to the sacrifice they perceive by paying the price”.

According to the prevailing paradigm in the satisfaction literature (Mano and Oliver, 1993; Oliver, 1993; Richins, 1997), consumption emotions are the affective responses to one's perception of the series of attributes that comprise a product or service performance. Voss *et al.* (1998) found that price perceptions do affect satisfaction. Fornell *et al.* (1996) also found that price perceptions affect customer satisfaction. The study of consumer perception about global retailers in Indian environment holds tremendous significance as India is seen as an emerging market for retail. The consumer perceptions will determine the type of strategy that global retailers need to adopt in India.

There is a vast difference between the perception and position of private label in the developed markets as against a developing market like India. Going by the trends in the more developed markets of Europe and Asia, a private Label strategy is seen to be a profitable one. It has been seen to enhance category profitability, increase negotiation power of the retailer and create consumer loyalty. While the Private Label strategy in developed markets has matured into a key differentiator, in India, it is just the beginning or rather the realization has just happened. The challenges posing Big Bazaar and the Spencers are different as compared to Wal-Mart and the Tesco. Though in both the cases, the retailer has to give a quality assurance to the consumer, but in India, the population doing their shopping from the modern retail stores is very small. Also, the supply chain of the latter are much more established as compared to the former.

Previous studies shows that retailers like PLB because of their potential to increase store loyalty, chain profitability, control over shelf space, bargaining power over manufacturers, and so forth (Richardson *et al.*, 1996). One advantage that most private labels give over the rest of the brands is their lower prices than the other branded products. However the low price is not a guarantee of success of the private labels. On the contrary it is the quality of the private labels which determines whether the consumers choose the private labels over the brands in the store (Hoch and Shumeet, 1993).

3. RESEARCH METHODOLOGY

A primary research was carried out to understand consumer views with regard to private labels. The research commenced with an exploratory research that was carried out to identify key issues that pervade the consumer mind with regard to private labels. Based on the parameters that were identified in the exploratory research, a questionnaire was prepared in the form of statements. Respondents were asked to provide their responses to the questionnaire on a 5 point likert scale, where 1-Strongly Agree and 5-Strongly Disagree. Sample of 50 respondents was collected through convenience sampling. The sample for the survey included people in the age group of 21-30 years, residing in Pune.

Use of statistical tools

Since ordinal scale was used and the data was non normalized, chi square technique was adopted to find the relation between the variables under study. The variables identified for study were

1. Product range
2. shortage
3. trendy
4. sales promotion
5. quality
6. low price (cheaper)

However, Chi square test was used to find out whether there is an interrelation between price, quality, trendiness

Reliability and Validity of the instrument

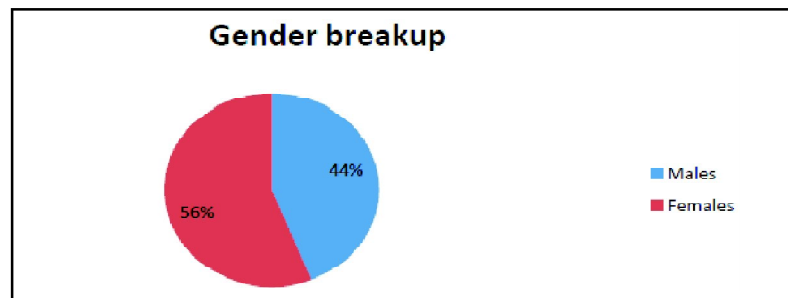
The instrument used was a structured questionnaire. The content validity was tested through review of literature and validation by experts from retailing.

Reliability of the instrument

The reliability was tested using Kendall's coefficient of concordance. The value obtained was 0.85 which is an indication of good reliability and adequacy of data.

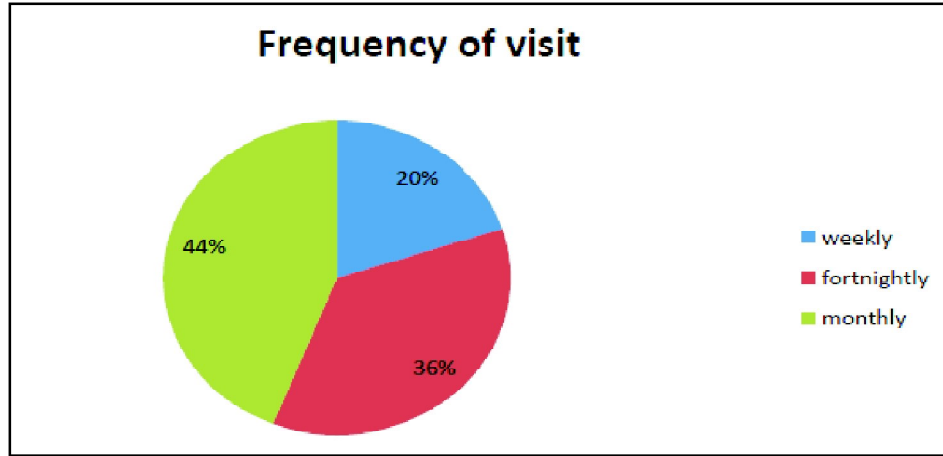
4. DATA ANALYSIS AND INFERENCE

Exhibit 1

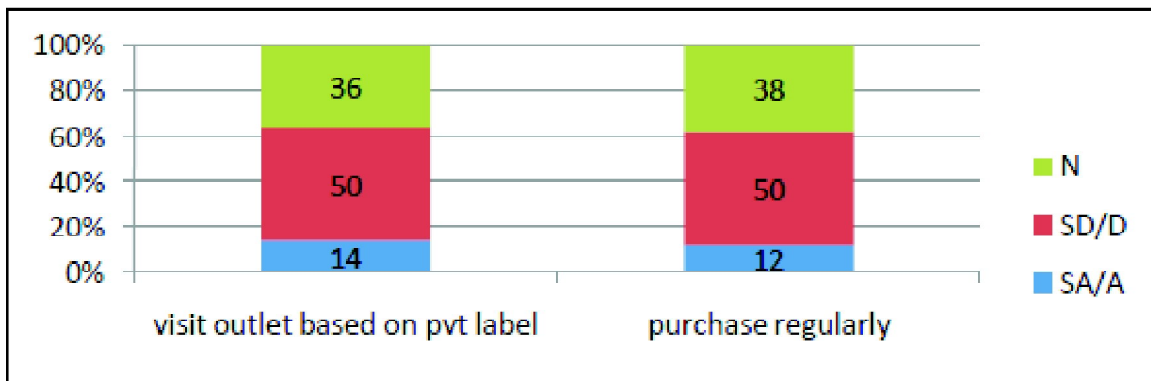


The frequency with which the respondents visited the outlets

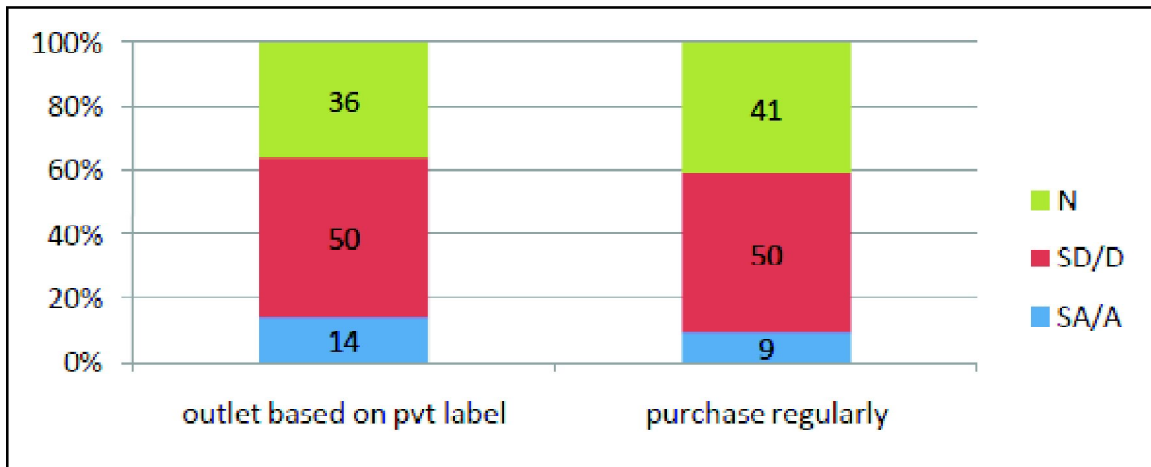
Exhibit 2



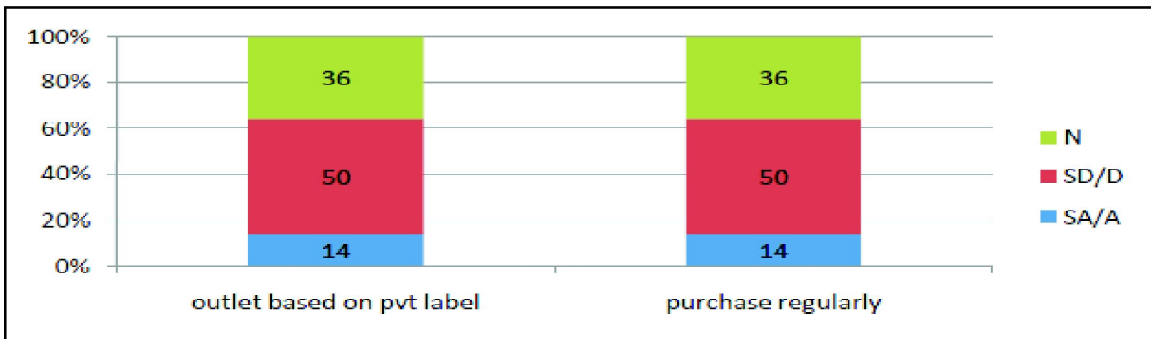
4.1. Overall (Male & Female combined)



4.4.1. Males



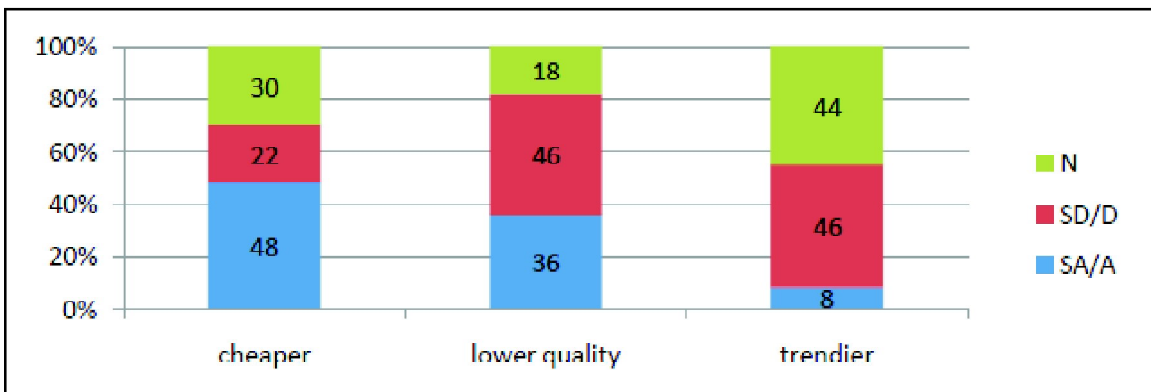
4.1.2. Females



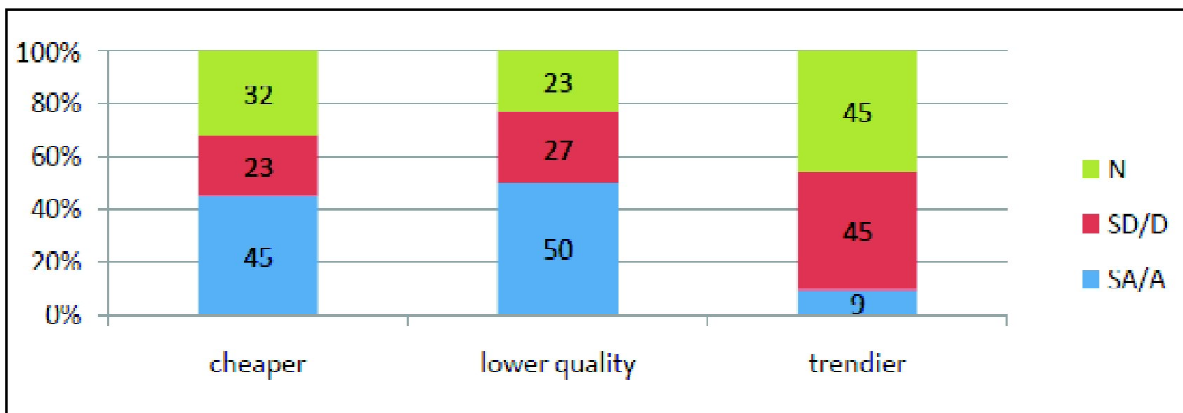
Inference

1. Respondents do not visit an outlet solely due to the private labels on offer.
2. An abysmally low percentage of respondents purchase private labels on a regular basis.

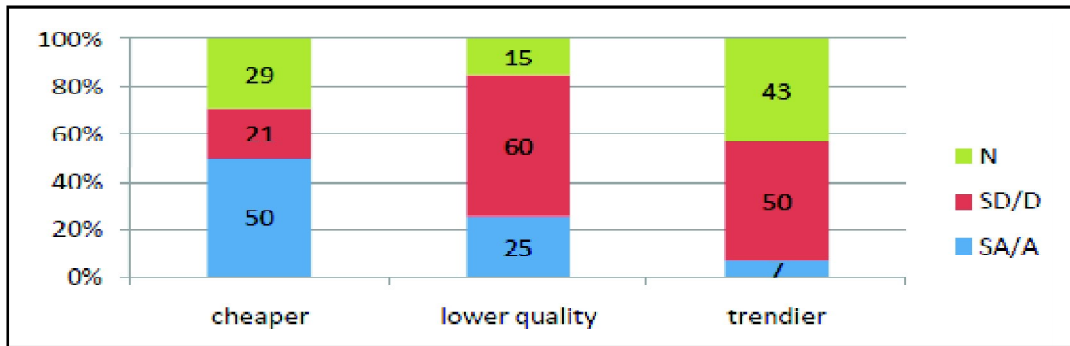
4.2. Overall (Male & Female combined) – quality, low price, trendy



4.2.1. Males



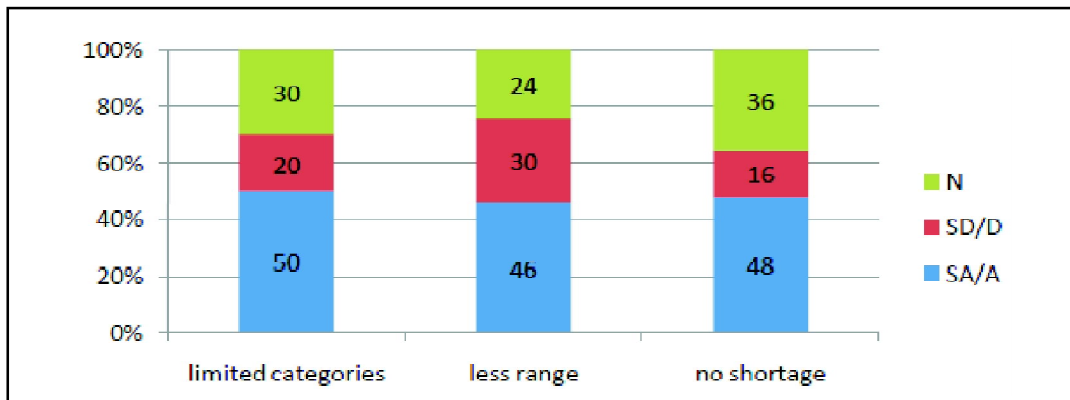
4.2.2. Females



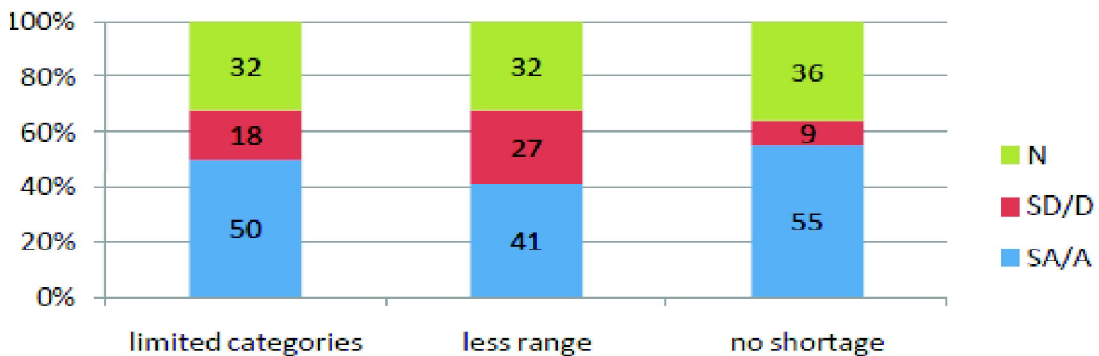
Inference

1. Almost half the respondents feel that private labels are cheaper substitutes to brands.
2. There is a strong perception among males that private labels are of a lower quality than brands, whereas females overwhelmingly disagree on the same attribute.
3. The respondent base does not consider private labels to be trendier than brands.

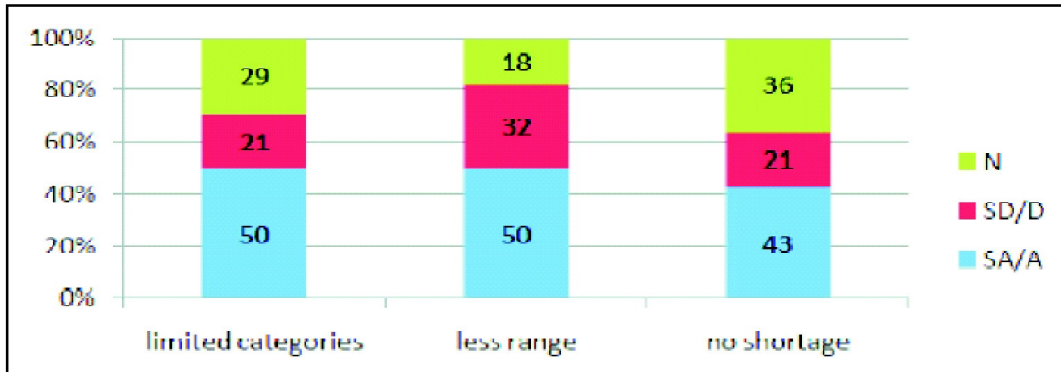
4.3. Overall (Male & Female combined) – range, shortage



4.3.1. Males



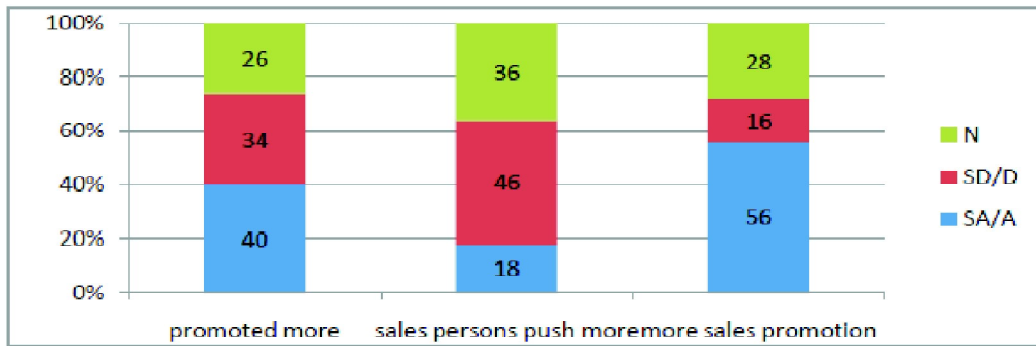
4.3.2. Females



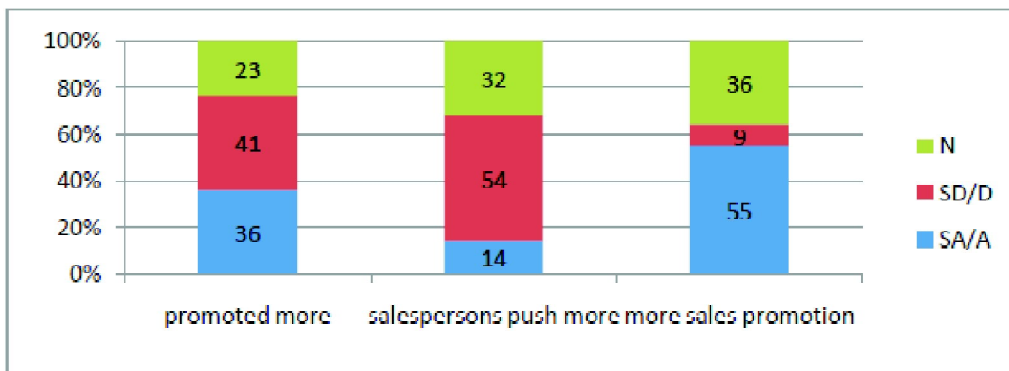
Inference

1. Half the respondents feel that private labels are available in limited product categories.
2. A higher percentage of women feel that private labels have less range for a product than brands.
3. More than half the males feel there is no shortage of private labels at outlets, whereas 43% females feel the same.

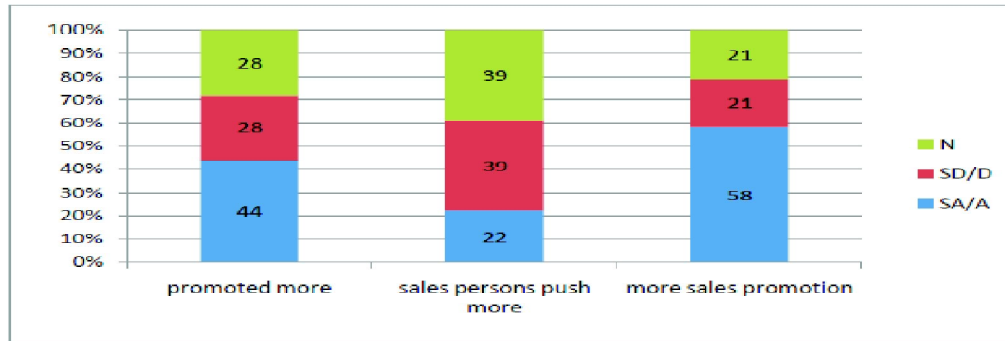
4.4. Overall (Male and Female combined) - promotion



4.4.1. Males



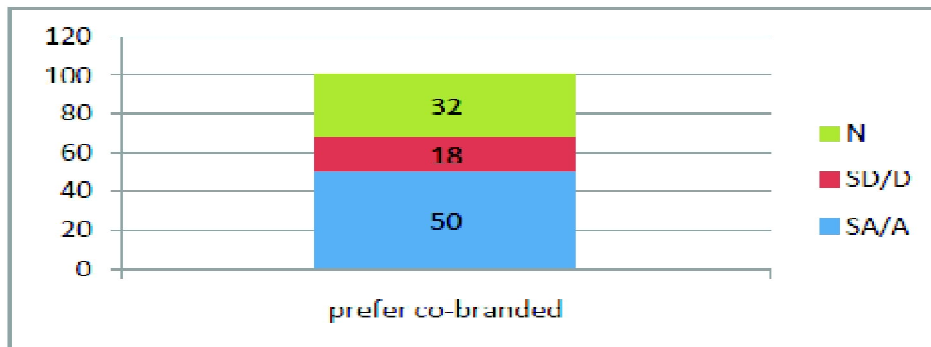
4.4.2. Females



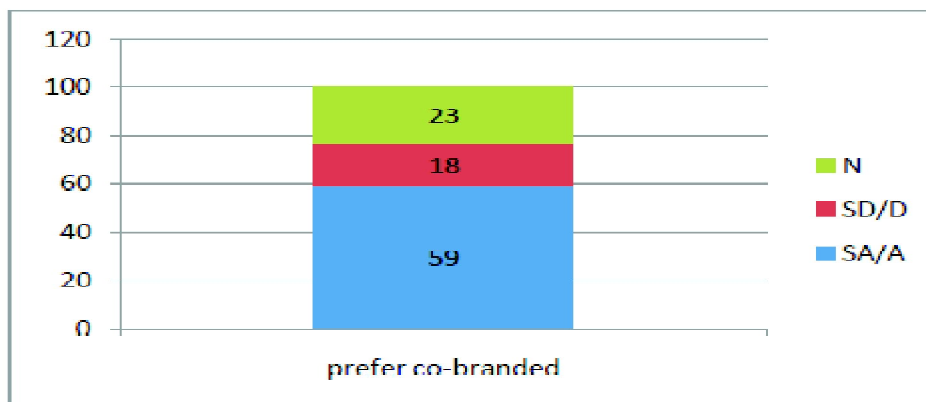
Inference

1. Opinion among the respondent base is split regarding whether private labels are promoted more by their outlets.
2. The respondents do not feel that sales persons push private labels over other brands.
3. More than half the respondent base – across genders - believes that private labels have more sales promotion offers than other brands.

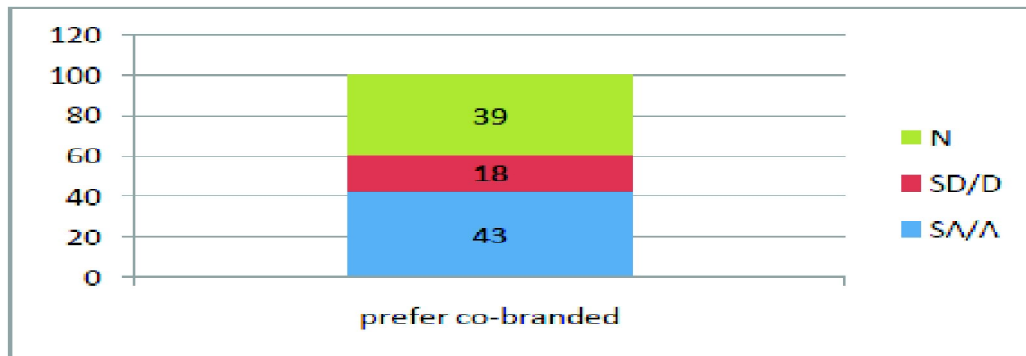
4.5. Overall (Male & Female combined) - cobranding



4.5.1. Males



4.5.2. Females



Inference

1. A higher percentage of males would prefer co-branded products.

4.6. Analysis Using SPSS

Chi square using SPSS were done to analyze if perceptions of quality, price and trendiness had any impact on each other.

Low Quality* Trendly Cross tabulation

Count		Trendly				Total
		Agree	Neutral	Disagree	Strongly Disagree	
Low Quality	Agree	1	8	4	5	18
	Neutral	1	3	4	1	9
	Disagree	2	11	8	1	22
	Strongly Disagree	0	0	0	1	1
Total		4	22	16	8	50

Chi-Square test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.543a	9	.308
Likelihood Ratio	9.438	9	.398
Linear-by-Linear Association	.593	1	.441
N of Valid Cases	50		

The perception of quality has no impact on perception of trendiness at 90%_confidence level.

Confidence Level = 90% i.e. $P_{H_0} = 0.1$

From SPSS Cross tabs

$P_{obs} = 0.308$, Chi Square value = 10.543 $P_{obs} > P_{Ho}$,

Cheaper* Lowquali Cross tabulation

<i>Count</i>		<i>Lowquali</i>				<i>Total</i>
		<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>	
Cheaper	Strongly Agree	1	0	2	0	3
	Agree	8	5	8	0	21
	Neutral	6	4	5	0	15
	Disagree	2	0	5	0	7
	Strongly Disagree	1	0	2	1	4
Total		18	9	22	1	50

Chi-Square test

	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	17.514 ^a	12	.131
Likelihood Ratio	13.291	12	.348
Linear-by-Linear Association	1.518	1	.218
N of Valid Cases	50		

The perception of cost has no impact on perception of quality at 90%_confidence level.

Confidence Level = 90%

i.e. $P_{Ho} = 0.1$

From SPSS Cross Tabs

$P_{obs} = 0.131$, Chi Square value = 17.514 $P_{obs} > P_{Ho}$,

hence null hypothesis is accepted.

Cheaper* Trendier Cross tabulation

<i>Count</i>		<i>Trendier</i>				<i>Total</i>
		<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly Disagree</i>	
Cheaper	Strongly Agree	1	0	2	0	3
	Agree	2	10	7	2	21
	Neutral	0	7	5	3	15
	Disagree	1	4	0	2	7
	Strongly Disagree	0	1	2	1	4
Total		4	22	16	8	50

Chi-Square test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.209 ^a	12	.429
Likelihood Ratio	16.252	12	.180
Linear-by-Linear Association	1.147	1	.284
N of Valid Cases	50		

The perception of cost has no impact on perception of trendiness at 90%_confidence level.

Confidence Level = 90% i.e. $P_{Ho} = 0.1$

From SPSS Cross Tabs

$P_{obs} = 0.429$, Chi Square value = 12.209 $P_{obs} > P_{Ho}$,

5. CONCLUSION AND MANAGERIAL IMPLICATIONS

The research concludes that customers perceive private labels as cheaper substitutes of national brands. However, they also perceive that lower price of private label does not mean lower quality. SPSS analysis shows that perception of cost has no impact on perception of trendiness. Retailers may leverage this in their favour by positioning private labels as being fashionable brands at lower prices. Private labels can play an important role in enhancing the brand image of retailers. This can be done by positioning the inhouse brand as “preferred alternative” to national brands. The research also concludes that co-branding would have good acceptability amongst the customers. In the future, retailers can work in tandem with national brands to come out with co-branded products that will benefit the manufacturers as well as retailers in terms of enhancing each others brand image and sharing risk and rewards. Many customers agree that organized retailers stock a limited range of private labels. As retailers do not have to pay margins to any manufacturer for owing these private labels, the benefits can be passed on to customers in addition to ensuring good profit for the retailer. Hence, retailers will have to expand their range of labels to offer more choice to customers.

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