

CHAPTER I

INTRODUCTION

1.1 Background

As private label brands are well recognized in developing countries, big retailers from industrialized countries have entered global markets for a number of reasons, including: mission to search a better economic scale and scope, a need to diversify risk, and a need to find new market when a retailer becomes too big for its home market (Corstjens and Lal, 2010). It is not surprising that retailers from more advanced countries bring their private label brands to Indonesia just about recently. The power of choice caused by numerous retailers' stores operating in Indonesia makes Indonesian consumers have more choices of products with low prices on a daily basis. Market expansion, economic crisis and inflation in some ways have encouraged Indonesian shoppers to be actively searching for values for money and Every Day Low Price (EDLP) promotions for private label brands.

Despite private label brands are perceived as a poor relative to manufacturer brands with a small share of the overall market, European main retailers are starting to identify the benefits of using private label brand to differentiate themselves and drive store traffic. In the U. S. and many countries in Europe private label brands have outperformed manufacturers' brands in all but one of the last ten years and accounted for 20% (and seems to get a lot stronger) in retailers (Kumar and Steenkamp, 2007).

AC Nielsen report (Media Post News, 2009, in thought of food) shows that the majority of societies have private label brands in their repertoire (cited in Nenycz-Thiel, 2010). Via Electronic Point of Sale (EPS) information, loyalty programs, and e-commerce they gathered information to develop a unique private label product that will become a tough competitor for manufacturer brand (Lepir, 2001).

In his book 'Private Label Strategy' Kumar and Steenkamp (2007) pointed out that private label brands have dominated sales in food and non-food categories, i. e.: milk, eggs and bread (in thought of food); toilet tissue, cups and plates and trash bag (non-food). According to Private Label Manufacturers Association (PLMA, cited in Beverage Industry, 2003) nearly \$50-billion segment of the retailing business that is achieving new levels of growth every day in the U. S. and another report by Beverage Industry (2003) private label foods and beverages are continuing to increase the pressure on the bigger name of manufacturers when it comes to price and positioning.

AC Nielsen's blog website (*Global Private Label Report: The Rise of the Value Conscious Shopper*, 2011, accessed on 19 November 2012) informed findings from a 2010 Nielsen global online survey, measured more than 27,000 respondents across 53 countries. The results show that private label brand phenomenon is slow but steady and gradually it grows bigger. In his study AC Nielsen report (2012) found that private label brands grow bigger but at a steady pace in Asia. Growth of private label brands was highest in Taiwan, Korea and Indonesia, with sales increasing by over 20 percent. But yet, consumer's from Asia remains strong not to buy private label brands even

though the promotion activity gets pretty heated. In D. I. Yogyakarta the number of minimarts and supermarkets has been increasing many retailers compete to get more profit and drag a customer to shop even more by giving them more brand portfolio to choose.

Table 1.1 Private Label Brand: Country and Market Share

Country Name	Market Share (%)	Country Name	Market Share (%)
Switzerland	46	Australia	14
United Kingdom	43	Poland	14
Germany	32	Greece	12
Spain	31	Turkey	12
Slovakia	30	Argentina	8
Austria	28	Chile	7
France	28	Columbia	6
Belgium	27	Russia	5
Portugal	25	Mexico	5
Netherlands	25	Hong Kong	5
Canada	24	Brazil	5
Czech Rep.	24	Singapore	3
Sweden	22	Malaysia	2
Denmark	22	Venezuela	2
Norway	20	Taiwan	2
Hungary	20	South Korea	2
Finland	19	Thailand	1
New Zealand	18	Indonesia	1
U. S. A.	17	China	1
Italy	15	Philippines	1

Source: AC Nielsen (2011)

The Indonesian Retailers Association (Aprindo) considers that private label brand had been a common practice among big retailers in Indonesia since it was introduced 10 years ago (Sipahutar, 2013). Giant retailer in Indonesia which is Carrefour Indonesia will expand its private label products. Carrefour Indonesia was seeing a 5 to 10 percent growth in their demand every year. There are 12 food items on its best-selling list, including rice, soy sauce, cooking oil, sugar and meat floss. The company has begun offering its private label products since 2003. It currently partners with 300 small and

medium scale enterprises to supply all of their private label brand products.

But, quality standards remain a problem in Carrefour Indonesia.

Table 1.2 Private Label Brands in Indonesia

Retailer	Brand Name	Product Category
Alfamart	A	Home care products, household equipment, sanitary, toiletries, mineral water, sugar, pudding, eggs,
	Scorline	Underwear
	Paroti	Toasted cakes, bread
Carrefour	Carrefour Carrefour Discount	Daily needs, household equipment, fresh products, condiments, and textile
	Bluesky	Electronic product
	Harmonis	Clothes, sandals, bags and many more
Hypermart	Value Plus	Household equipment, home care product, toiletries, sanitary, mineral water, snacks, foods (raw), and condiments.
Giant	Giant First choice	Household equipment, home care product, toiletries, sanitary, mineral water, snacks, foods (raw), and condiments.
Yogya/ Yomart	Homy	Fragile goods
	Yoa	Electronics
	Yamura	Snacks and foods
Indomaret	Indomaret	Home care products, household equipment, mineral water, rice, sugar
Lottmart	Lottmart Save Prime	Home care products, household equipment, mineral water, rice, sugar
Superindo	Superindo Superindo 365	Home care products, household equipment, mineral water, rice, sugar

Source: Hidayat (2009)

It is hard to maintain a quality standard from vast product quality that been running by the retailers. Consumers might keep questioning the quality of the product, will it be as good as manufacturer brands or why the price is cheaper? People tend to relate quality and price as a tied couple. If it is cheaper then the quality is poor and in the other hand if the price is sky rocket the quality must be good. Is that so? Kem Chicks supermarket chains owned by Bob Sadino price their product quite high. Bob Sadino the owner believed that people

believe when the price is high the quality must worth the dime (www.kompasiana.com).

Retailers must understand what makes people choose private label brand is that just because of the name (brand) or price and quality perceptions. Another AC Nielsen research (2012) identifies the key trends on market shifts in the grocery sector in Asia Pacific. The grocery price remains a point of argument for consumers across Asia Pacific.

Table 1.3 Private Label Growths in Asia Pacific

Name of The Country	Private Label Brand Growth (%)
Hong Kong	17
Singapore	5
Taiwan	23
Malaysia	8
Thailand	10
Korea	22
Indonesia	28
Philippines	18

Source: AC Nielsen (2012)

1.2 Problem Formulation

Based on the background stated earlier this study does research on the subject matters of: “Consumer Perception of Private Label Brands among Young Consumers in D. I. Yogyakarta. Zikmund et. al. (2010) pointed out that a problem is any situation when a gap exists between the actual desired ideal states, while problem definition is a clear and precise of the questions or issue that is to be investigated with the goal of finding an answer or solution. From the explanation in the problem identification can be formulated as follows:

1. What are the important attributes for young consumers when they purchase food-related product (in terms of private label brands)?
2. What are the beliefs and perceptions of private label brands among the young consumers?
3. How accurate do young consumers recognize private label brand names?

Based on the problems mentioned above, the formulation of the problem is what are the demographic background, product attributes, beliefs, perceptions and recognition of private label brands on a young consumer in D. I. Yogyakarta?

1.3 Research Objectives

Based on the problem formulation mentioned above, the research objectives that will be done as followed:

1. To examine which product attributes that contribute to private label brand purchase decision among young consumers.
2. To investigate the beliefs and perceptions of private label brands among young consumers.
3. To analyze how accurate young consumers in recognizing private label brand names.

1.4 Research Scopes

Research scopes were set to conclude the aims of this study. The scopes of this research are:

1. This study replicated a previous study by Lupton, Rawlinson and Braunstein (2010) who investigated a research paper of “Private Label Branding in China: what do U. S. and Chinese students think?” in a university located in the western part of U. S. and a large university in Hefei, China.
2. Descriptive study is used to explain the individual selections of private label brands.
3. Indonesia has been chosen because it is one of the Asian countries which private label brands share grows bigger (AC Nielsen, 2011).

1.5 Potential Academic Contribution

There are three contributions of the study:

1. The study of Lupton, Rawlinson and Braunstein (2010) was conducted in a university located in the western part of the U. S. and a large university in Hefei, capital city of Anhui province in China. The current study took place in D. I. Yogyakarta, Indonesia. Therefore, the present study may provide a comparison of consumer perception of private label brand between the original context (U.S.A. and China) and the current study’s context (Indonesia). It can be examined whether the same findings are found or extended to the Indonesian context.

2. At the managerial level, this research can provide an important insight for retailers that work on private label brands, with the concern of demographic background, beliefs, perception of private label brands and private label brand name recognition.
3. Furthermore, these two studies (the original work of Lupton et. al. (2010) and the current study) will give a comparison of the differences and similarities of personal preference for private label brands.

1.6 Research Structure

This study arranges in a systematic writing, as follows:

Chapter 1: Introduction

This first chapter states the research proposal of “Young Consumers’ Perception of Private Label Brands in D. I. Yogyakarta”. Background part explains the background of the study and the following part clarifies the contribution of the research.

Chapter 2: Literature review

The second chapter tells about the theories, journals, books, and trustworthy source of the internet that being used. Literature review strengthens the idea of private label brands itself.

Chapter 3: Research Methodology

The third chapter communicates in detail about the research method such as data, data collection methods and tool to explain. This part becomes important because in this the step of data collection.

Chapter 4: Analysis and Findings

The fourth chapter is the main chapter. It connects the data collection to the analysis and research findings. The research findings give the idea to draw conclusions and managerial implications.

Chapter 5: Conclusion and Managerial Implication

The fifth chapter is the last chapter and it sums the components from the first chapter up to the fourth chapter to conclude the research. The managerial implication will show the benefit and limitations of the research in order to encourage more people to do the future research.