

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

This chapter studies the earlier research related to the definition of private label brand, the importance of private label brand and former studies of private label brand. The information was collected from several sources such as journals, books, and other trustworthy source from the internet. Factors that influence attitude towards private label brand preference (i.e., demographic, product attributes, price loyalty, belief and perceptions of private label brands, and private label brand names recognition) as the measurement influences would be studied here.

2.2 Defining Private Label Brand

Private label brand products existed in Indonesia as the result of the market expansion by the European, Asian and American retailer. Marketing expert Kotler and Amstrong (2012) define private label brand as brands which made and owned by retailers. Usually these brands are only available at the specified chain store only (for instance, brand labeled as Carrefour Discount only for sale at Carrefour chain store).

Private label brands have characteristics which noted by Lupton et. al. (2010) with no packaging promotion such as advertising and the quality of the products are mostly perceived as inferior quality compare to manufacturer's brand. Hyman et. al. (2009) has found that private label brand appeared more

than a century ago and more popular in countries with high retailer concentration (Hyman et. al., 2009; Nenycz-Thiel, 2011).

Private label brand meaning formulated by Hoch (1993) product that is exclusive, included in retailer programs, it can be developed by third parties, and private label brands can be a measurement of exclusivity to the retailer that runs it. And Hoch (1996) explains why private label brand as a brand can offer local exclusivity for the retailer that carries (De Wulf, 2005; Nenycz-Thiel, 2011), it is because some retailers bring private label name that provides trademark, e.g.: Carrefour private label brand name either Carrefour or Carrefour Discount.

Furthermore, from explanation above the researcher agreed that private label brand is a brand which cost less than national brand or even international brand. Schiffman and Kanuk (2010) reveal that this happens because the producers or the retailer wants to create a customer value. As both of them explain that the customers' perceived benefits (economical, functional and psychological) and resources (money, time, effort and psychological) to get those benefits creates customer value.

Therefore, Dhar and Hoch (1997) says elaborate private label brands existence in more categories will increase the private label brand perception and validate the investment and resources dedicated to private label. And they pointed out that the retailers guarantee the store brand because named after the product using the chain store name, in hope that it will reduce consumer perceived risks of trying products with unknown manufacturing origins.

Meanwhile, as described in Corstjens and Lal (2010), retail's pattern of expansion is puzzling, for instance Wal-Mart doesn't operate in either Europe or Japan. Carrefour, the world's second largest retailer from France, doesn't have a presence in the U. S., Japan, or Germany. Britain's Tesco, the world's third largest chain, has no longer in the European line of work and lately developed a small presence in Japan and the United States.

Nevertheless, together these marketing and retailing professors in their article wrote that every retailer has tastier successes and failures in other regions. Wal-Mart has succeeded in Canada and Mexico, but had to eliminate their existence in Germany and South Korea. Tesco has shown in South Korea and Malaysia, but missed to establish its brand in France or Taiwan. Germany's Metro businesses flourish in Poland and Romania, but its missions in the UK and Denmark ended in disappointment. Carrefour has gone out for more than a few markets in Europe, including Austria, the Czech Republic, Norway, Portugal, Slovenia, and the UK. But it has broken through in others, such as, Spain, Belgium, Greece, Italy, Romania, Poland, and Turkey during the same period.

Moreover, Hoch (1996) sets out that private label brands are the only products for which retailer absorbs all marketing and inventory investments. This fundamental difference from national brands internalized the retailer's decision making process. With a national brand the retailer has little or no influence over product quality, advertising and brand image, packaging, and wholesale cost.

Thus, according to him retailers can have more control but at the same time take a bigger risk which is cost inventory. On the other hand, retailers can choose a quality level and investment levels for other mutually dependent marketing activities. Private label is guaranteed full distribution and better shelf placement. Retailers usually sign long-term sourcing contracts with private label suppliers at specified quantities, prices, and committed to the retailer in the development of the product.

Private label brands are brand (Kumar and Steenkamp, 2007). Brands give meaning. In societies, brand in some way defines individuals whether they are seeing as 'the have' or just ordinary people by the brand they use or wearing. Any product that is not considered as brand will make persons reluctant to buy. For the reason mentioned before to be considered, brand is not always manufacturer brands.

Pricing policy of private label brand. A traditional view on private label brands is that it has been priced 20%-30% below national brands (Hyman et. al., 2009). The price difference caused by the retailer savings including: not spending money on advertising, tiny amount of investment in product innovation and the use of plain packaging (Nenycz-Thiel, 2010).

Intrinsic cues and extrinsic cues of private label brands. If intrinsic cues or physical characteristics of the product (size, color, flavor, and aroma) are unavailable, consumers would likely to use extrinsic cues to judge the quality of product. Extrinsic cues make the influence of consumers' perception of

product quality and cues related to the external things of the product, such as: *price*, store image or *brand image*.

However with private label brands, there is some evidence that extrinsic cues influence consumer judgment even when intrinsic cues are available. As noted by Richardson et. al. (1994) he found that extrinsic cues influence consumers' judgments of (private label brand) quality above the product ingredients. This has most likely happened because of private label brand low price strategy. This low price-low quality reaction occurs even when a list of ingredients is given to customers (Nenycz-Thiel and Romaniuk, 2011). Since private label brands are usually priced lower than national brands, are not as seriously advertised, and have less good-looking packaging makes lower perceived quality is more common in purchasing private label brands than national brands.

Private label brand development. Retailers are in control for private label brand development for circulation over pricing, warehousing, merchandising and marketing going-on (Dhar and Hoch, 1997). There are three reasons why the relationships between supermarket and brand image is more relevant for national brands (Nenycz-Thiel and Romaniuk, 2012); (1) *Selective distribution*. For instance, customers can come upon private label brands only in conjunction in the supermarket. (2) *The majority of private labels includes the supermarket name or logo*, in the brand or on the packaging. (3) *Private label brand rarely receives supermarket independent advertising* that would allow the brands develop their own identity free from the image of the supermarket.

Deal prone consumer. Burton et. al. (1998) sees it from many literature notes that being made by him which led to an idea where deal proneness has a specific type to attract consumers. According to his summaries there are two 'deals', (1) *lower purchase price* using discounts and coupons for promotions and (2) *no direct price incentives* for instance, free gift and lottery. Deal prone consumers can also make categorization of product into expensive and inexpensive and it is called as *categorical reasoning*. In his study Chernev (2012) have found categorization influence on how an individual judging product. His research demonstrates that categorization might not always work every day. When an expensive item is bundled with a cheap product this kind of bundling will lead to unwillingness to purchase by the customers.

Transaction utility is defined by Burton et. al. (1998) as the need or unhappiness coming from the transaction associates with the regular price that being paid. Transaction utility indicates efforts performed by a person related to *mental arithmetic*. Mental arithmetic is a method to judge the importance of purchasing a product. This action will lead to a '*smart shopper*'-minded individuals, the characteristics are: take a pride in their decision making skill, not easily influenced by the ad campaign, less impulsive on buying things, and can make logical choices between numerous brand choices without being drawn by national brand product images. This kind of action occurs when that person makes a hard work by comparing prices between manufacturer brands and private label brands, then result in positive-private-label-attitude.

Private label purchase as smart shopping (Kumar and Steenkamp, 2007).

The past few years private label brands were produced directed to people who are coming from a low income household. But today, even though people who are reflected as poor still buy the private label brand, however, more individuals who are considered as the ‘the have’ become more and more eager to buy a private label brand for their repertoires. It happens because private label brand products offer value for money. As a result, buying private label brand or “smart-shopping” is for the reason that the comparable quality in a much lower price rather than high-priced manufacturer price.

Perceived risk and familiarity. Perceived risk according to Stone et. al. (1993, cited in Sheau-Fen et. al., 2012) is a theory used by consumer behavior academics to describe consumer perceptions of uncertainty and costs that should be considered for buying a product or service. In other hands, familiarity reveals consumers’ understanding of a product and the information available to the consumer (Baltas, 1997).

Harmonizing to Baltas, Alba and Hutchinson (1987, cited in Sheau-Fen et. al., 2012) pointed out familiarity is accumulated learning of brand over consumption experience or marketing communication. Product familiarity has proven to be one of the most important factors concerning the differences between store brands and national brands (Mieres et. al., 2006 cited in Sheau-Fen et. al., 2012). As summarized by Sheau-Fen et. al. (2012) consumers are more likely to purchase store brand products when they are familiar with the store brands and consequently perceive store brand quality.

Rejection on using private label brand. Janakiraman et. al. (2009, cited in Nenycz-Thiel and Romaniuk, 2011) showed that consumers are likely to transfer consumption familiarities across comparable products. **The umbrella branding** of private label brands within a store, where private label brand's offerings across different categories have the same or similar brand name (commonly happen to private label brands). That makes a bad/ good perception of private label brands in one category to spread across other categories.

Nevertheless, Nenycz-Thiel and Romaniuk (2011) explains that the most common reasons for brand rejection on private label brand relates to a bad past experience. After a bad past experience, the most common reasons for rejection were low product quality, with the main judgments based mainly on the extrinsic cue of low price (cheap means low quality product). Private label brand rejection mostly happens before the product trial rather than after a brand experience and because of lower product quality perception and negative opinion. As a result, before many people try the product they are already have a bad image for private label brand, even before they use the product.

Price Sensitivity and Perceived Quality. Steenkamp and Kumar (2007) divide buyers into four types (main buyers are those who are in the gray areas). These are the four types of buyers:

- a. Random buyers are not generally price sensitive and see little difference in quality.

- b. Brand buyers are consumers who have low price sensitivity and realize the quality difference between manufacturers' brands and the store brand. They will buy a manufacturers product.

Figure 2.1 Four Types of Buyers

Consumer price sensitivity	Low	Random buyers	Brand buyers
	High	Private label buyers	Toss-ups
		Small	Large
		Perceived quality gap with manufacturer brand	

Source: Steenkamp and Kumar (2007)

- c. Private label buyers are price sensitive consumers who notice quality similarity between manufacturer brands and the store brand. They will purchase store brand.
- d. Toss-ups are a consumer who is high price sensitivity and identifies quality differences between manufacturer brands and the store brand.

Random buyers are usually more attracted to in-store cue such: shelf facings, shelf tag-ons, and end-of the aisle displays. However, the toss-ups prefer to purchase manufacturer brand since they believe that quality is more important than others. Furthermore by Kumar and Steenkamp (2007), there is some consideration; store loyalty is lower in personal care than in household care and food and beverages. Personal care is typically much higher on imagery to motivate a consumer to do purchase action on the brand and item they like.

2.3 The Importance of Private Label Brands to Retailers

Retailers face a tight competition based on the number of retailer rivals and similar product offers in their market shares (Dhar and Hoch, 1997). For example, in European food retailing, some retailer uses store brands to differentiate themselves from the big competition.

Table 2.1 The Value of Private Label Brands to Retailers

No.	Aspects to Retailers	Description
1.	Increase overall profits in product category	<ul style="list-style-type: none"> • Attractive private label brand and price promotions can grow big demand and increase national brand sales • Private label brands can increase retailer's profits in a low cross (NB) and high cross price (NB&PLB) sensitivity • Low-cost effect is better than the higher price-sensitivity effect
2.	Gross margin higher on private label brands than national brands	<ul style="list-style-type: none"> • Lower marketing costs than national brands (Retailers spend less on R&D, product promotion, selling and image-building for PLBs) • Wholesale price for PLB lower than wholesale price for NB (produce in bulk-size) • PLB less possible to have intra-brand competition, which tends to shrink NB manufacturer's retail margins
3.	Increase bargaining power relative to NB manufacturers	<ul style="list-style-type: none"> • Increase margins for NB when PLB introduced in product category • At lower cost, retailer can create me-too PLBs with similar image to NBs (packaging) • Threat of PLB introduction may persuade NB manufacturer to give a price reduction
4.	Less risky than carrying marginal NB on the deal	<ul style="list-style-type: none"> • Retailers waste marketing mix resources if NB flops • Increased numbers of PL goods may contribute to higher sales of each PLB goods
5.	Differentiate competing chain stores from one another	<ul style="list-style-type: none"> • With high-quality PLBs, can help build an exclusive-positive store image • Avoid direct price competition because PLB is unique
6.	Boost store loyalty	<ul style="list-style-type: none"> • PLB customers are more store-loyal • PLB boost sales and build good will
7.	Attract priced-sensitive and deal-prone consumers	<ul style="list-style-type: none"> • PLBs tends to be priced lower than NBs; price sensitive consumers tend to buy PLBs • Value-conscious consumers are less NB-loyal and motivated to switch brands or buy PLBs • PLB customers spend less in product category • PLBs popular during economic downturns

Source: Hyman, et al. (2009)

Furthermore, De Wulf et. al. (2005) investigated the importance of private label brands to the retailer is on the way to increase overall profits in product category. The effect of lower cost is greater than the effect of higher price sensitivity. It can express that the retailers use private label brands to promote limited products and set apart the store image to the customers. Baltas (1997) describes in his study that at a lower price the retailers can create threatening me-too (store) brands with similar images to manufacturer's brand and more benefits for the retailers is that private label brands can attract price sensitive and deal prone consumers.

As a result, from the side of economies scale Dhar and Hoch (1997) give details that large retailers are better positioned to build scale economies than smaller ones. Huge retailer thought of private label brands are lower printing cost of packaging and better prices from suppliers in line for bigger production runs (cheaper) and these scale economies allow the retailer to provide better value for the money to the customers.

Table 2.2 The Value of Private Label Brands to Manufacturers and Retailers

No.	Aspects to Manufacturers and Retailers	Description
1.	Increase category expenditure	<ul style="list-style-type: none"> • PLB and NB price and non-price promotions can increase category expenditures • When NB manufacturer supplies retailer with comparable quality of PLBs, and both have market power, product category prices are higher.
2.	May increase profits and market shares for both NB and PLB	<ul style="list-style-type: none"> • When advertising combined, increased expenditures for either or both leads to expand consumer demand for NBs and PLBs. • PLB and NB prices higher when PLB of high quality
3.	Allows segmentation of consumers by price sensitivity	Unadvertised, quality equivalent PLB allows price discrimination between customers who wants versus do not want an advertised NB.

Source: Hyman, et al. (2009)

Hence, the advantage of the existence of private label brand is both for retailers and manufacturers can allow price sensitive consumers to make segmentation. Hyman et. al. (2009) explains why, it is because unadvertised brand (store brand) and the quality (manufacturer brand) that can be comparable. It makes private label brands allow price perception among consumers who are willing versus unwilling to pay for a premium price that designed for an advertised brand and all this leads to greater overall category prices (Mills, 1995; Dhar and Hoch 1997 cited in Hyman et. al., 2009).

2.4 The Importance of Private Label Brands to Manufacturers

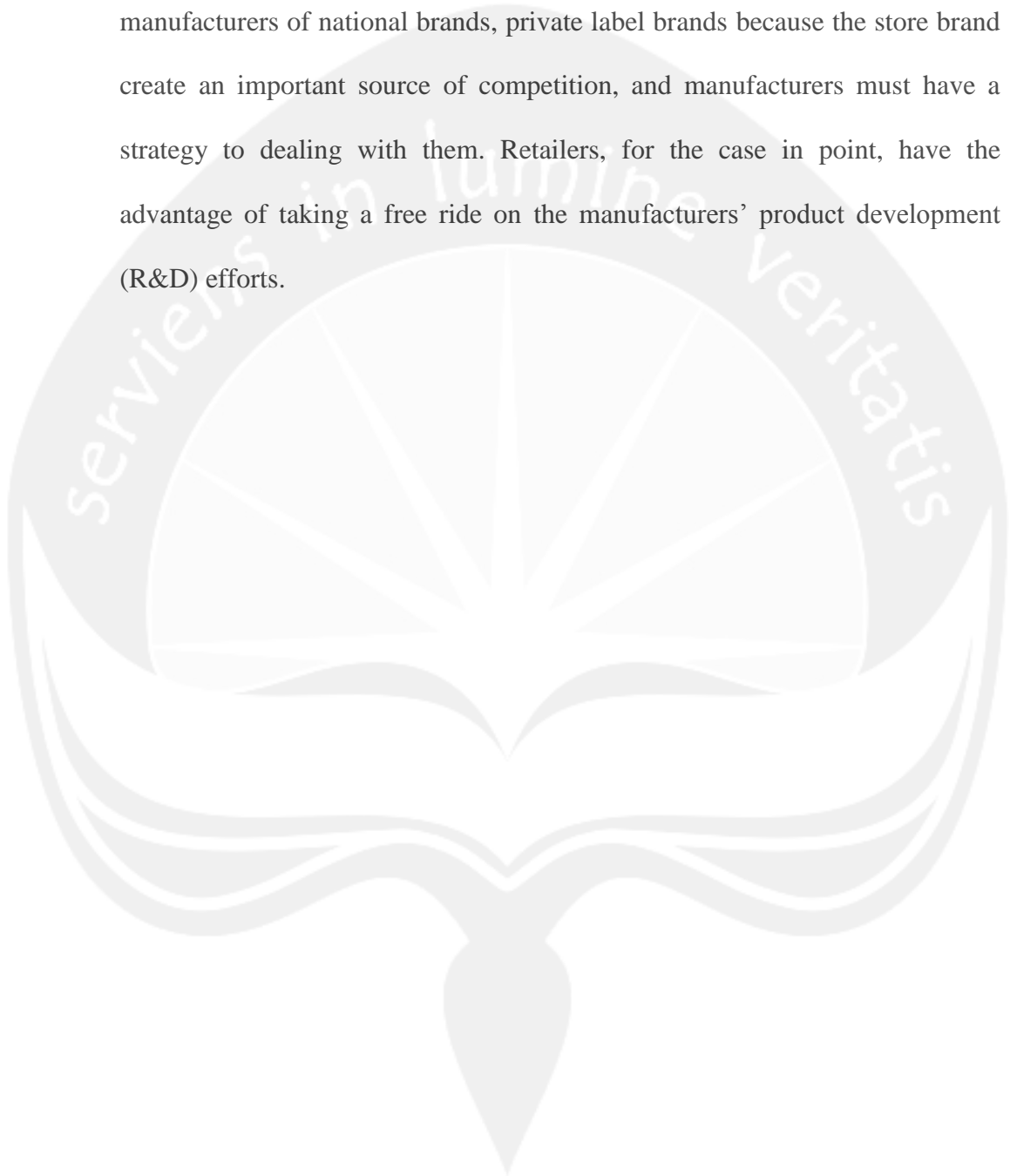
Private label brand's production can increase profits. Manufactures could gain more profits from the sales of lower cost product. But also losses may occur from the cannibalization of consumer who devoted to national brands (Tarzijan, 2004 cited in Hyman et. al., 2009). National brand manufacturers can use private label brands to skim price-insensitive consumers from the market (Wedel, 2004 cited in Hyman et. al., 2009).

Table 2.3 The Value of Private Label Brands to Manufacturers

No.	Aspects to Manufacturers	Description
1.	PLB production may increase manufacturer's revenue	<ul style="list-style-type: none"> •May result in lower unit production costs, non-production of PLBs by competitors and retailer cooperation •Non-leading-rather than leading-manufacturers best served by producing PLBs
2.	Excuse to raise NB price	<ul style="list-style-type: none"> •Controlling for product-quality, positive relationship between PLB introduction and NB prices •For premium-priced but not second-tier NBs, lower long-term price sensitivity and higher revenues
3.	Can reduce inter-manufacturer competition	Introduction of PLB by one manufacturer signals commitment not to engage in promotions, thereby decreasing incentive of other manufacturers to engage in promotions

Source: Hyman, et al. (2009)

Meanwhile, Dhar and Hoch (1997) conclude that that brand competition such national brands influence private label brand performance directly with the customers. Hoch and Banerji (1993) express concern about the manufacturers of national brands, private label brands because the store brand create an important source of competition, and manufacturers must have a strategy to dealing with them. Retailers, for the case in point, have the advantage of taking a free ride on the manufacturers' product development (R&D) efforts.



2.5 Types of Private Label Brand

There are several types of private label brand according to Steenkamp and Kumar (2007).

Table 2.4 Types of Private Label Brands

	Generic Private Label Brands	Copycat Brands	Premium Store Brands	Value Innovators
Examples	No name, black and white packages, bread and shampoo.	Carrefour Discount	Body Shop	IKEA
Strategy	Cheapest – undifferentiated	Me-too brand at cheaper price	Value added	Best performance – price ratio
Objectives	Provide consumers with a low-price option to enlarge customer base	Increase negotiating power against the manufacturer and increase retailer share of category profits	Provide added-value products, differentiate store, increase category sales	Provide the best value, build customer loyalty to store, and generate word of mouth
Branding	No brand name	Umbrella store brand (same name for all product categories) or category specific own labels	Store brand with sub brand or own label	Meaningless own labels to demonstrate variety
Pricing	Large discount, 20%-50% below brand leader	Realistic discount, 5%-25% below brand leader	Close to or higher than brand leader	Large discount, 20%-50% below brand leader
Category coverage	Basic functional product categories	Originates in large categories with the strong brand leader	Image-forming categories, often fresh products	All categories
Quality to brand leader	Poor quality	Quality close to branded manufacturers	Quality on relatively good or better, advertised as better	Functional quality same with brand leader but with no “useless” features and imagery
Product development	None; product put up for contracts to manufacturers with lagging technology	Reverse engineered using manufacturers with similar technology (Free ride on manufacturer’s investments in research, product development, and advertising)	A considerable effort to develop better products with similar or better technology	Considerable effort and innovation in terms of cost-benefit analysis
Packaging	Cheap and minimal	As close to brand leader as possible	Unique and source of differentiation	Unique but cost efficient
Shelf placement	Poor; less visible	Next to brand leader	Prominent eye-catching positions	Normal as all over store
Advertising/promotions	None	Frequent price promotions	Featured in advertisements but limited price promotions	Store not own label advertising, normal promotion schedule
Customer proposition	Sold as cheapest-priced product	Sold as same quality but lower price	Sold at best products to market	Sold at best value-price of generics but the objective quality on par with brand leaders

Source: Steenkamp and Kumar (2007)

2.6 The Measurement Factors of Private Label Brands

The current research is a modified replication of Robert A. Lupton, David R. Rawlinson and Lori A. Barunstein's study (2010); the following measurements were adapted from the original study. Based on the previous study review the variable consists of: demographic, product attributes, price loyalty, belief and perceptions of private label brands, and private label brand name recognition.

2.6.1 Demographic Factors

Aliawadi et. al. (2001) follows the seven demographic characteristics (income, employment status, children in the household, type of residence, age, gender, and education) to identify demographic characteristic, the benefit and cost of store brand and deal. However, the this study is a modified replication of Robert A. Lupton, David R. Rawlinson and Lori A. Barunstein's study (2010) and the participants were college students, so the following characteristics are: age, gender, university, overall GPA, majority and hometown.

The role of demographic characteristics as noted by Urbany et. al. (1996) and Aliawadi (2001) *Age* links not only for entertainment but also self-expression. *Gender*, gender associates not only to self-expression but also exploration. *Education* links not only to thinking costs but also product quality.

2.6.2 Product Attributes

Packaging. In his book Schiffman et. al. (2010) stated that packaging must express the image of the brand to buyers. The perceptions and familiarity can define the brand. Kumar and Steenkamp (2007) pointed out that private label brand somehow removes the elements of manufacturer images like the expensive packaging and unimportant features of it. The packaging simply combined the store name with a huge capitalization with one or two pops of color (red, blue or the color used on the store logos).

Quality of the product. Perceive quality of a product is how well the product performance related to its function. Store brands are not always competing with famous national brands only on price. Evidence of Hoch and Banerji (1993) study has shown that product quality is more important than price in store brand buying behavior. They view quality as positively related to store brand market share across 180 product categories.

Moreover, in their study Hoch and Banerji found that quality is more important than price in shaping the success of the store brand. Anyway, private label brand with low product quality in the U. S. (Based on Consumer Report Magazine cited in Kumar and Steenkamp, 2007) Winn-Dixie's chocolate ice cream taste better than Breyers; Wal-Mart's Sam's Choice is more preferable than Tide detergent; and Krogers Potato Chips claimed tastier than Pringles. Semeijin et. al. (2004, cited in Sheau-Fen et. al., 2012) made a statement that national brands beat store brands because consumers cannot see any symbol of perceived quality in the brand.

Also, Richardson et. al. (1994) viewed quality consciousness can hold back the consumers from using store brands because the brands are perceived as inferior in quality. Perceive quality of the product has intrinsic and extrinsic cues. Schiffman et. al. (2010) mentioned the intrinsic cues are the color, flavor, and size of the product. Because, consumers are likely to believe what they see, taste and feel can make them choose the brand wisely (whether they want to take it or not) and makes them feel better at choosing the product (because they including their senses to pick the product). And the extrinsic cue is the brand. Many studies reported that when someone's got blind test, he cannot figure out which one tap water and which one mineral water from high mountain glacier. The point is that it does not matter what kind of taste the water but more like a pleasure one's felt when he taste the product.

Pricing of the product. Attitudes to private label brands are related by a consumer orientation to perception of product price (Burton et. al., 1998). He expresses three distinct consciousnesses:

1. ***Price consciousness***, the desire to pay low prices-the consumers may see a positive thing in private label product because the price is 20-30% below the manufacturer one;
2. ***Value consciousness***, willingness in using a ratio to compare the quality received for the price that being paid;
3. ***Price-quality schema***, some customers might think that price is one of the best indicator to determine the quality of a product.

Thus, according to Aliawadi (2001) price savings are important among consumers who are price conscious and perceive themselves as having

financial difficulties. And Schiffman et. al. (2010) noted that perceived price should reflect the value that consumers receive from the purchase. As described in his book “Consumer’s Behavior” perceptions of over-priced affect consumer’s perceptions of product value and eventually the willingness to use a product.

Loyalty of the product. The most important element for a private label brand in establishing loyalty is the brand’s ability to fulfill promises to its customer base (Pepe et. al, 2011). Consumers have a trend to be brand loyal thru numerous product categories, and it shows product development or consumer characteristic (Burton et. al., 1998). Increased customer loyalty, has two important effects to the retailers: First, it can lead to a gradual increase in the brand’s customer base which is necessary in a low sales growth area. Second, the longer the customer remains loyal to the brand, the larger profit they can carry out from each individual (Pepe et. al., 2011).

Schiffman et. al. (2010) expresses the loyalty from two different sides: (a) *Behavioral scientist* who believes that the loyalty of a product comes from a product sample that believed by the happiness of the customer that leads to repeated purchase. Behavioral definition perceived the loyalty of the product caused by a habit or because of the product is the only product that available in the store. (b) *Cognitive researchers* perceive the product loyalty comes from the mind. Because individual believes that the product preference as a superior product among all and the customer satisfied with the product. Retailers believe that the right private label brand offer may give point of

difference from competitors and help the product itself to build consumer loyalty (Aliawadi, 2001).

Brand Names. The two main possibilities for consumers to interact with brands are directly through brand and indirectly such as advertising and word-of-mouth. Individuals might believe differences from those who bought the private label brand (using word-of-mouth) and one who did not. Most of consumers' interactions with the brand, outside of consumption, are within the supermarket. So that the non-user of private label brands perceive private labels linked to their perception of the supermarket. Because, consumers who directly experience the brand they can develop a stronger association with the brand itself (Nenycz-Thiel and Romaniuk, 2012).

Purchase incentives. Purchase incentives use as an important indicator for estimating consumer behavior. For instance as quoted from his book Schiffman et. al. (2010) "consumers can be encouraged to try new product through promotional tactics as free samples, coupons, and sale prices".

2.6.3 Price Loyalty

Dick, Jain and Paul (1996) consider that consumers who come to store somehow expect that private label brands should be cheaper and offer value for money. Similarly Ellickson and Misra (2008, cited in Nenycz-Thiel and Romaniuk, 2012) explained that the perception of supermarket that offering value for money is important for its own success, as evidenced by the EDPL (Every Day Low Price) popularized by Wal-Mart.

Figure 2.2 Global Private Label Share and Price Gap

Price gap with manufacturer brands	Low ($<30\%$)	Snacks and Confectionery Cosmetics Baby food Alcoholic beverages	Paper, plastics and wraps Refrigerated food Frozen food Shelf-stable food
	High ($\geq 30\%$)	Home care Non-alcoholic beverages Personal care	Pet food Health care Diapers and feminine hygiene
		Low ($\leq 12\%$)	High ($> 12\%$)
Private label share			

Source: Steenkamp and Kumar (2007)

Meanwhile, Dhar and Hoch (1997) pointed out that private label brand can get a strong position by offering a smart alternative at cheaper price and but still qualified. Two gray areas (shows by table 2.5) illustrate when the price gap is high then the private label share is low and also vice versa when the price gap is low private label share goes up.

2.6.4 Belief and Perceptions on Private Label Brands

Dhar and Hoch (1997) explain when consumers have a high perception of a store image; it creates a positive effect on the brands that carried by the store. They both mentioned that store image influence the judgments of the private label image.

Therefore, when consumers are familiar with the brand, the store image is one of the factors for a quick judge of private label brand. If the store image is positive the more purchase intention would be made by the consumers.

2.6.5 Private Label Brand Names Recognition

Sayman, Hoch, and Raju (2002) explained if prices are the same, all consumers would prefer the brand with higher quality. Competition between private label brands and national brands is more likely competition between vertically differentiated brands (low price low quality, higher price better quality and durability).

However, private label brand is the only brand that continues in store. No other brand name appears in many product categories. A consistent name strengthens the private label brand and creates a positive and negative effect as well and brand extension opportunities (Hoch, 1996)

2.7 Previous Studies on Private Label Brand

Quality related factor. (1) High quality private label brands help retailers to differentiate the store image (Richardson et. al., 1994). High quality private label brand can get benefit from various kinds of customers in case willingness to purchase. Hoch and Banerji (1993) they concluded that quality is more important than price in describing store brand success. Because in line with what Hyman et. al. (2009) goes on to argue, that unadvertised private label brands allow those who want and do not want to purchase over the advertised national brand. (2) *Consistent quality*, to maintaining private label brand sales, retailer better to standardize the quality of its product. Because what retailers often faced is that problems concerning quality standard (Sipahutar, 2013). (3) *Quality accessible from written description alone*. Experience characteristics lead to high perceived-quality variability and higher consequences of making a purchase mistake, which lower private label brand

purchases (Suarez, 2005 cited in Hyman et. al., 2009). Consumers who rely on quantifiable experience attributes tend to choose national brands, and consumer who focus on thinking rather than feeling tend to choose private label brands (Collins-Dodd, 2005 cited in Hyman et. al., 2009). Because, buying private label brand involve logical thinking (calculating and comparing the prices over national brand) but in the other hand manufacturer brand appeals to the feeling that may lead to impulsive buying behavior.

Price related factor. (1) Everyday low price position, Dhar and Hoch (1997) set out that the price differences between national brands and private label brands can accentuate private label brands more; since the private label brands priced 20-30% below the national brands, without promotion activity, and simple merchandising tactics. *(2) Narrow Assortment*. Everyday low price position also comes up with a typical store brand positioning which is narrow assortment.

Dhar and Hoch (1997) pointed out that this kind of product arrangement gives private label brand a special treatment. Consequently that the private label brand does not positioned next to the leading national brands. *(3) Price gaps and promotion*. Dhar and Hoch (1997) mentioned that the price gap between national brands and private label brands make more people willing to switch their product into private label brands.

Product category-related factors. (1) High variety in product category.

Retailers can create economies of scope and signal a good promise to a private label brand through varied private label brand offerings. In hope the customer would see retailers' passion in creating a qualified product in reasonable price (Sethuraman et. al., 1999 cited in Hyman et. al., 2009). ***(2) In low risk product category.*** Toiletries are not a big deal regarding to a baby food. An impact on choosing a wrong baby food can lead to a serious disease and impact on choosing a cheap toilet tissue is nothing (Hyman et. al, 2009). ***(3) In popular, high margin product category.*** Retailers more emphasize on popular product categories (Richardson et. al., 1994). For instance, Carrefour Indonesia best-selling private label brand products such as: rice, soy sauce, cooking oil, sugar, and meat floss (Sipahutar, 2013).

Retailer related factors. (1) Similar positional strategy to national brand.

Private label brand or store brand often imitates the category leader, to signal a quality but at a lesser price (Schmalensee, 1978 cited in Sayman, Hoch, Jagmohan, 2002). Some retailers adopt imitating strategy over shelf close location and similar packaging to make consumer purchase private label brand. In their study Sayman, Hoch, Jagmohan (2002) describe where brands are positioned closer to each other it reveals higher cross-price sensitivity; for instance, positioned a private label brand next to national brand results in higher price sensitivity between the two brands. Thus distance position determines the cross price sensitivity between the private label brand and national brand. ***(2) Many private label brands in diverse product categories.*** Extending a private label brand into various product categories signals

expertise, trustworthiness and commitment to the market, which in turn induces a positive brand image (Putsis, 1999 cited in Hyman et. al., 2009).

Consumer related factors. (1) **Many lower income households.** Lower income consumers are more price sensitive when a high national brand to private label brand gap exists. Starzynski (1993, cited in Dhar and Hoch, 1997) found that heavy private label users had lower incomes and larger blue collar households with part-time female heads of households. For the reason of that the typical private label brand sold is inferior goods at a cheap price and indeed purchased most frequently by price sensitive shoppers (Dhar and Hoch, 1997). (2) **Many customers who rejected the price quality relationship.** The most common reasons for rejection were low perceived product quality, meaning cheap worth low quality product (Nenycz-Thiel and Romaniuk, 2011). (3) **Many private label brand prone consumers.** Proneness is related to private label brand familiarity. Baltas (1997) pointed familiarity reveals consumers' understanding of a product and the information available to the consumer. (4) **Many price conscious customers.** Store brands obtained a higher share when the trading area contained more elderly people, lower housing values and lower incomes, more large families, more working women, and higher education levels (Dhar and Hoch, 1997). For the reason that these kinds of people are willing to purchase private label brands and considered as a price conscious customer. Besides, Hoch (1996) himself initiate that stores with larger category price elasticity had higher private label share; moreover, there were systematic differences due to the demographic characteristics of a store's trading area.