

Full Length Research Paper

Consumer perceptions of private label brands within the retail grocery sector of South Africa

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This exploratory study serves to investigate the perceptions of fast moving private label brands in the South African grocery food sector. Successful positioning of these brands has been achieved globally, most notably in developed markets. However, in a South African context this does not appear to be the case. To this end, research has been undertaken in order to better understand the current position these brands occupy in the minds of South African consumers. Included in the study is the consideration of critical branding elements such as trust, availability, pricing, packaging, etc. The knowledge gained through this research should ideally facilitate the process of advancing private label brand research in an academic context and improving brand positioning, increasing market share and optimizing profit extracted from private label brands in a managerial context.

Key words: Private label, store brand, own label, supermarket, grocery, perceptions, South Africa.

INTRODUCTION

Private label brands, also known as store brands, refer to those brands that are owned by, and sold through, a specific chain of stores. These products are typically manufactured by a third party (contract manufacturer) under licence. The private label revolution was first observed in Europe and Canada. Private label brands then appeared in South Africa in 1956 when Raymond Ackerman introduced a no-frills brand to the market through his fledgling chain of Pick n Pay stores (Prichard, 2005). This range offered commodities to the market at lower prices than was possible through manufacturer brands. This served the purpose of defeating the regime of a small number of powerful retailers and suppliers who had been engaging in price fixing as the order of business.

Originally, manufacturer brands dwarfed retailer brands in size and, through extensive marketing, led sales by suggesting their brands were synonymous with "trust, quality and affluence" (Nirmalya, 2007). However, in the early 1970s the balance of power began to shift in favour of retailers. Due to rapid expansion, retailers seized this power advantage and the inevitable negotiating prowess. With this size advantage, private label brands began to gain a stronger foothold in the market.

Walker (2006) concedes that private label brands are often viewed as lower priced and hence inferior quality

alternatives to manufacturer brands. Verhoef et al. (2002), however, contend that this perception appears to be changing. Certain retailers are attempting to reposition their private label brands as premium offerings which aim to compete directly with manufacturer brands. The first successful attempt at introducing a premium private label brand was achieved by a talented group of food specialists in Canada when they developed the "President's Choice" chocolate chip cookie. They offered a premium product that no other retailer could imitate and thus consumers would come from all over the country to purchase these particular cookies. Owing to the phenomenal quality of these cookies, an entire range of "President's Choice" products was inceptioned. It is reported that "President's Choice" cola is the only private label brand to have out-sold Coca-Cola in a particular retail outlet (Loblaw's Inc, 2007).

Internationally, private label brands constitute an average of 19% of total retail market share, with some European countries (e.g. Switzerland and the United Kingdom) fast approaching a 50/50 split in market share between manufacturer and private label brands. In contrast, South Africa's private label brand penetration rate is a mere 8% (Planet Retail, 2008). The remainder of Africa fares even less favourably. Figures 1 and 2 illustrate the private label brand market share achieved

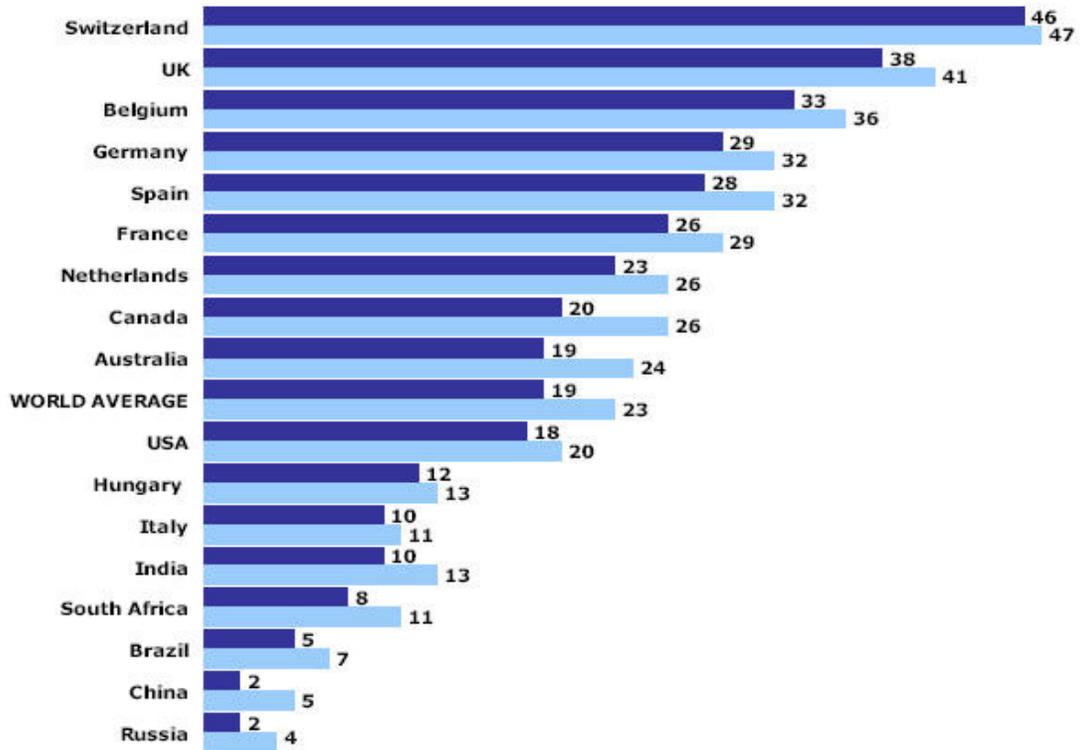


Figure 1. Private label share of market, by value in percentage terms – 2007e (dark) versus 2012e (light). Source: Planet Retail, 2008.

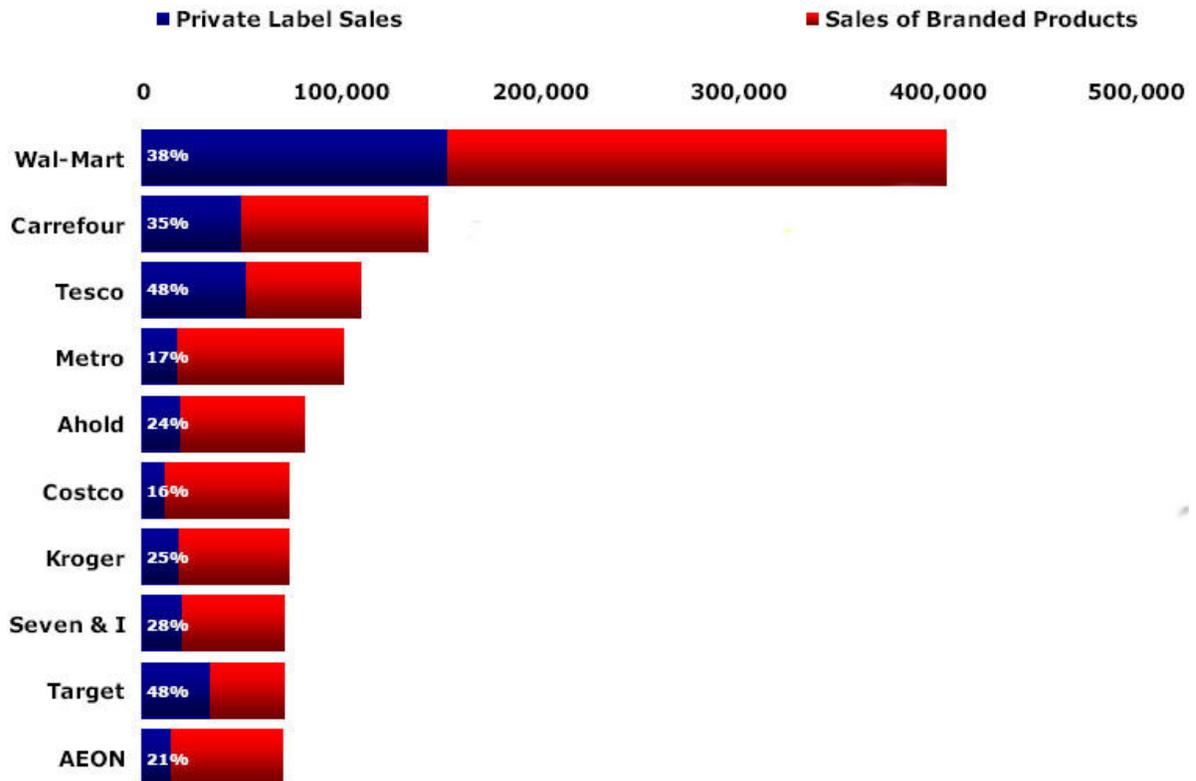


Figure 2. Share and volume of private label brand sales, as indicated by leading global retailers. Source: Planet Retail, 2008.

by a host of countries and the share of volume enjoyed by leading global retailers. It is clearly evident that European and North American retailers excel in this respect. Emerging markets such as South Africa, Brazil, China and Russia experience penetration rates below the international average and are therefore playing 'catch up'.

Two anomalies present themselves in terms of penetration of private label brands in South Africa (Nielson, 2006). Firstly, it has been concluded that retail concentration (essentially an oligopoly scenario in the retail sector) is highly correlated with success of private label brands. Yet, in South Africa, despite high retail concentration enjoyed by the major supermarket chains, private label brands have not achieved the successes of their global counterparts. Secondly, lower income groups tend to be the most common purchasers of private label brands due to higher levels of affordability. In South Africa, despite a much larger population of lower income consumers, it is the higher Living Standards Measures (LSM) categories, particularly LSM 6-10, which appear to purchase these brands (*ibid*). Research suggests that as consumers become increasingly affluent, they are more willing to try various alternatives to trusted brands (Mawers, 2006). In general, consumers with limited financial resources are likely to purchase trusted (that is manufacturer) brands in which quality is well established and thus confidence is high (Rusch, 2002). Another factor contributing to this phenomenon has been identified as accessibility. In South Africa, lower income groups frequently do not have direct access to the large retail stores where private label brands are available. This leads these consumers to shop at local 'spaza' outlets which are similar to convenience stores, albeit present in the informal sector (that is township) areas. These stores tend to charge higher prices due to their location, as well as not being able to benefit from larger economies of scale (Klemz et al., 2006). It is estimated that between ten and twenty percent of fast moving consumer goods, sales are estimated to occur through the informal sector (Blotnitz, 2007), therefore representing a lost opportunity for private label brands.

RESEARCH STATEMENT

This paper aims to uncover current consumer perceptions of, and attitudes towards, private label brands in the South African grocery sector. In doing so, the research will ascertain the impact of various demographic factors (with particular reference to ethnicity, gender and income) on consumption of private label brands. Furthermore, it aims to shed lights on the effect that pricing, accessibility, packaging, retail communications, shelf positioning and in-store promotions have on shopping behaviour with reference to purchasing food-based private label brands.

LITERATURE REVIEW

Brand building fundamentals

According to Dick et al. (1997), consumers base judgement of brand quality on direct and indirect factors. Direct attributes include ingredients, taste and texture, whilst indirect factors are represented by price and brand name. Direct factors are usually difficult for consumers to test without consuming the product, or completing various tests. Hence, reliance on indirect quality indicators such as brand name and price are more heavily relied upon. The authors thus suggest that a thorough understanding of how these indirect cues impact different consumer groups in their purchasing decisions may help retailers to improve success of private label brands. Through further investigation, they identified brand, package and advertising as indirect factors which impact consumer perceptions and hence influence purchasing decisions.

The success of a brand in the long term is not based on the number of consumers that buy it once-off, but on the number of consumers who become regular buyers of the brand. Thus, repeat purchases and customer loyalty are prioritised by retailers (Odin et al., 1999). Chaudhuri and Holbrook (2001) suggest that consumers become brand loyal when they perceive some unique value in the brand that no alternative can satisfy. This uniqueness may be derived from a greater trust in the reliability of a brand or from a more favourable experience when a customer uses the brand. Schoenbachler et al. (2004) take this further, stating that not only does the brand loyal customer buy the brand but (s)he also refuses to switch, even when presented with a better offer. Bayus (1992) proposes that maintaining brand loyalty is becoming a critical component in the development of competitive strategy, thus highlighting the importance of developing methods to measure and evaluate brand loyalty.

Davis (2002) identified further positive repercussions resulting from a strong brand other than simply increased sales. Effective brands have been correlated with increasing market share; lending credibility to new product developments; giving a clear, valued and sustainable point of difference as well as commanding a premium. Most importantly, consumers appear less price-sensitive and more trusting towards these brands.

Private label branding

Private label brands are available in a multitude of formats. There are, essentially, three varieties of private label brands. The first being a representative brand, which is a private label brand that through its name and packaging announces that it is produced and solely owned by the retailer. The second being an exclusive private label brand, which is owned and produced by the retailer, yet this fact is not explicitly conveyed to the

consumer through brand name and packaging. The last type is confined labels. These are brands that are not owned by the retailer but are found exclusively in their stores. This type of private label brand has not been incorporated in this research study. Manufacturer brands on the other hand are controlled and produced by manufacturers and sold through a plethora of retailers. In terms of branding, the general consensus appears to be that private label brands are considered “every bit as much a brand as manufacturer’s” (Murphy, 1987).

Ailawadi and Keller (2004) identify at least four tiers of private label brands. These include low quality generics; medium quality private labels; somewhat less expensive but comparable quality products; and premium quality private labels that are priced in excess of competitor manufacturer brands. Whilst the nature of a store’s private label brand(s) should be guided, first and foremost, by its target market, the authors suggest that successful retailers will adopt more than one tier of private label brand if they are to achieve wide scale market coverage.

According to Kumar and Steenkamp (2007), half of private label brands are copycat brands. These brands essentially attempt to imitate the packaging and content of first tier manufacturer brands. Retailers analyse the contents of leading brands, and then re-create the product, through a process known as reverse engineering (*ibid*). Thus, since there are minimal research and development costs, and the retailers have already recognised that there is a potentially lucrative market available, these products are more often than not successful. The retailers use in-store promotions to aggressively promote the brands, using a “me-too at a cheaper price” strategy (Kumar and Steenkamp, 2007). This type of strategy involves producing an almost identical product and offering it at a reduced price relative to competitors. As the examples in Figures 3 and 4 reveal, packaging is nearly indistinguishable from competitor brands.

The copycat strategy is not without complications – pursuing this approach may well result in legal tussles. Actions of trademark infringement and “passing off” because of consumer confusion, unfair misappropriation of brand owners’ intellectual property can have legal implications (Mitchell and Kearney, 2002).

Benefits and drawbacks of selling private label brands

Fernie et al. (2003) have identified various advantages to retailers for the development of a private label brand: (1) increased profitability through cost saving and increased margins; (2) increased store loyalty and creation of a distinct corporate identity; (3) opportunities to seize new market ventures; and (4) increased bargaining leverage with suppliers.

The first relates to potential increases in profitability, which stems from the higher average price margins these brands generate for retailers. These price margins could be higher due to the fact that private label brands require minimal advertising expenditure; lower research and development costs; reduced costs of testing products prior to launching nationally; and, usually, reduced packaging costs. Furthermore, according to Herstein and Gamliel (2006), private label brands can assist in developing loyalty to a retailer and in the creation of a distinct corporate identity for a business. Veloutsou et al. (2004) support this view, yet emphasise that as a result, careful managerial practices for these brands should be implemented in order to maintain retailer brand equity. Consumers tend to associate the retailer with its respective private label brand. Therefore negative perceptions of the retailer may impact negatively on its fascia (that is store) brand and vice versa (Ailawadi and Keller, 2004).

Labeaga et al. (2007) contend that private labels assist building loyalty by differentiating the retailer. These brands are available at one retailer exclusively whilst manufacturer brands are available at many competing outlets. Regular consumers of private label brands are confronted with psychological costs when switching retailers as their preferred private label choice is no longer available. As a result, consumers who change retailers undergo demanding cognitive processes by evaluating other brands, including unfamiliar store brands, in choosing a new product. Thus, research indicates that consumers who purchase private label brands regularly do not only become loyal to that particular brand but also to the retailer through which it is sold (Collins and Burt, 2003).

Raju et al. (1995) assert that retailers have become more proficient at managing their private label brands. Kumar and Steenkamp (2007) add that over the last decade, private labels have become omnipresent and have achieved enormous success, thus providing a base for the improvement in branding activities. The authors contend that private labels have changed from inferior generics to brands in their own right with value beyond functional attributes. Figure 5 demonstrates examples of premium quality private label tea brands that are available at Woolworths. The attractively packaged items are, arguably, addressing consumer needs of esteem and status. According to the retailer, it aims to make its brand synonymous with innovation, excellence and value for money, pitching it as being of the highest quality, equivalent to (if not better than) the category leaders.

Retailers should also acknowledge potential pitfalls in offering private label brands. Firstly, such brands in many product categories may expose the retailer to undue business risk. This essentially arises from the retailer extending its reach into unfamiliar markets with established competitors (Fernie et al., 2003). Secondly, the private label brand’s reputation may tarnish consumer’s



Figure 3. Manufacturer 'copycat' brands. Captured: Pick n Pay, Pinelands, Cape Town.



Figure 4. Private label 'copycat' brand. Captured: SPAR, Rondebosch, Cape Town.



Figure 5. Premium tea brands at Woolworths. Captured: Woolworths, Pinelands, Cape Town.

perceptions of the retailer if it fails (Veloutsou et al., 2004). Thirdly, the profitability per square metre generated by private label brands may not be on a par with that of manufacturer brands. This may be attributable to the fact that most private label brands are priced below their manufacturer brand counterparts (Kumar and Steenkamp, 2007). Consumers who are heavy purchasers of private label brands may not prove to be more profitable in the long run (ibid). This could be accredited to the fact that these consumers may be substituting a more expensive manufacturer brand with the less expensive private label option. The authors argue that this is sometimes considered an outdated theory as pricing differentials between private label and manufacturer brands have been reduced. In the past, private label products tended to be lower priced generics. However, more recently, sophisticated private label products have become available and relative prices have increased accordingly. A local example of this is the Pick n Pay Choice brand which, according to Prichard (2005), is usually priced only marginally below most manufacturer brands.

Consumer perceptions and private label brand proneness

Jin and Yong (2005) note that the success of private label brands is dependent on factors such as the country's retail structure, the level of retailer concentration, the advertising rate of manufacturer brands, economies of scale, management, and even imagination. Baltas (1997) notes that whilst past behaviour, demographic variables, socio-economic factors as well as personality traits have been found to influence private label brand purchasing behaviour; perceptions, attitudes and behavioural variables are more effective in this regard. Richardson et al. (1996), as cited by Baltas (1997), identified familiarity, extrinsic cues, perceived quality, perceived risk, perceived value for money and income level as the primarily influencing factors of private label proneness. Interestingly, younger consumers appear to have a more favourable view towards private label brands than older generations (Veloutsou et al., 2004). Moschis (2003) echoes this sentiment, suggesting that older consumers are more brand loyal and are likely to prefer brands with which they are more familiar. Younger consumers, on the other hand, are more willing to try new or unfamiliar brands and products.

Walker (2006) suggests that due to relatively lower prices, consumer quality perceptions are negatively impacted. Private label brands are thus frequently seen as inferior quality alternatives. This is reiterated by De Wulf et al. (2005) who suggest that consumers perceive manufacturer brands to be superior to private label brands. Yet, Verhoef et al. (2002) present a contrasting opinion on consumer quality perceptions of private label brands, contending that consumers do indeed foster a

positive attitude towards these brands. Smith and Sparks (1993) appear to view the situation in a similar light, proposing that the perceptual gap between private label and manufacturer brands is narrowing. Whilst debate is certainly present in the literature with regards to trends in consumer perceptions of private label brands, these brands do seem to represent value to hard pressed consumers. According to Quelch and Harding (1996), private label share is inversely related to economic strength. Therefore, when the economy is thriving, a smaller proportion of private label brand products are purchased. Additionally, Nandan and Dickinson (1994) inferred that during economic recessions, popularity of private label products increases. Lamey et al. (2007) note, however, that the effects of economic fluctuations are non-symmetrical in terms of growth versus contractions. By way of explanation, the authors comment that the rate at which consumers adopt private label brands during a recession is faster than the reverse process which occurs after the economic downturn has ceased. Thus, once the economy has stabilised, consumers do not rapidly change consumption habits that were created during the recession. The authors highlight that levels of private label consumption do not return to the levels that existed before the advent of the recession.

Pricing and in-store promotion of private label merchandise

Price represents an extrinsic cue and provides one of the most important forms of information available to consumers when making a purchasing decision (Jin and Sternquist, 2002). According to the authors, price constitutes 40% of the average consumer's information search. Avlonitis and Indounas (2005) underline the importance of pricing decisions in terms of a company's long term profitability. The authors emphasise the flexibility of pricing – pricing strategies can be adapted more quickly than other marketing facets. As alluded to previously, this is particularly applicable with regard to private label brands as they are under full control of the retailer, and are free from the manufacturer's pricing strategies and considerations (Uusitalo and Rokman, 2007).

Manufacturer and private label brand prices tend to vary among different retailers and certain products types. Davies and Brito (2004) suggest that although price elasticities have a large effect on pricing decisions, generally the price advantage of private label brands is inclined to have approximately 20 to 44% higher gross profit margins. A variety of reasons are suggested as to why private label brands tend to be more cost effective. Firstly, as previously mentioned, this can be attributed to private label brands often being imitations of manufacturer brands. Thus the limited associated research

and development costs result in the retailers' ability to charge a reduced price (*ibid*). Furthermore, the authors argue that new private label brand products can be at a lower cost by test marketing in a few of their own retail stores. This again contributes to lower research and development costs. In addition, packaging of private label brands tends to be marginally less expensive, as the raw materials used are often of a slightly lower quality. However, the factor that has the greatest impact on overall variable costs is the reduction in advertising expenses. Field (2006) concur that the majority of retailers have little or no advertising expenditure with respect to their private label brands.

Kumar and Steenkamp (2007) note that over use of promotions by manufacturer brands may condition consumers to become price sensitive and this may, eventually, result in a "trade down" to a private label item. Therefore deal seekers become regular purchasers of private label brands over time. Putsis and Dhar (2001) contrastingly note that promotions of manufacturer brands based on price are more likely to attract sales away from lower quality private label competitors, whilst the price promotion of private label brands does not seem to have an equal level of success in this regard.

Advertising of private label brands

In the case of supermarket retailers, communications are becoming an increasingly important tool for product differentiation (Uusitalo, 2001). These retailers operate in a slow-growth market and products are becoming increasingly homogenous, hence the importance of communications as a means of distinguishing one retail brand from another.

According to Kim and Parker (1999), it is difficult to measure the success of private label brand advertising. This is attributed to the manner in which advertising costs are internalised within the retailing organisation. Berry (2000) adds that brands, such as private labels, which fall under the "umbrella image" of a company, are essentially promoted in conjunction with all company promotions. For example, based on Berry's argument, it would appear that Pick n Pay No Name brand is promoted through all Pick n Pay advertising and promotions due to the manner in which these brands are associated with one another by consumers.

Figure 6 illustrates an advertisement for "Pick n Pay's" foremost private label - No Name brand. The blue and white colour theme clearly brings to mind associations for both fascia and private label brands.

Abe (1995) queries whether high quality producers should advertise more than low quality producers or if low quality producers should advertise more in order to compensate for their relative product disadvantage. Private label brands are generally assumed to be of an inferior quality to manufacturer brands and thus represent

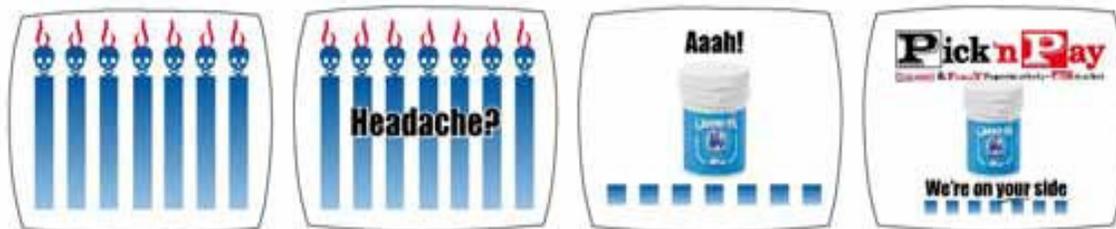


Figure 6. Pick n Pay branding advertisement. Source: Pick n Pay website.

these two quality alternatives for the purposes of this argument (De Wulf et al., 2005). Advertising accentuates predilections for a brand, thus differentiating it from competitors. It would appear that increased advertising does not increase sales at a rate that would make this expenditure more lucrative for private label brands. Therefore, Abe (1995) asserts that private label brands' potentially inferior quality does not necessitate a larger advertising budget than manufacturer brands in order to compete. Baltas (2003), on the other hand, suggests that manufacturer brands cannot often compete with private label brands in terms of pricing and thus advertising plays a vital role in product differentiation for manufacturer brands. Retailers are therefore challenged to promote their range of private label brands without large scale advertising. This is often achieved through placement of one or two private label products – alongside their manufacturer-branded counterparts – in a newspaper insert or the co-branding of both fascia and private label brands in a television advert. Nonetheless, retailers are mindful that private label brands need to be self promoted to some degree and that excessive advertising thereof is almost certainly unwarranted.

The effect of packaging

Underwood et al. (2001) state that there has been an emerging trend to use packaging as a brand communications vehicle. The authors describe the primary role of product packaging as a means to captivate consumer attention by breaking through the competitive clutter. According to Ampuero and Villa (2006), packaging plays a crucial role, especially from the consumer's perspective. This is due to the fact that a product's packaging is what first attracts a consumer. The author asserts that as self-service sales environments have increased, the role of packaging has gained momentum. Thus, packaging has become the "salient salesman" as it informs consumers of the qualities and benefits of a product. This substantiates Fielding's (2006) argument that packaging plays the lead role in building a private label brand. The author takes this one step further, suggesting that packaging has a long-lasting effect in the minds of consumers and is thus a manner in which to blur manufacturer brands' distinctiveness.

Building upon this, Ampuero and Vila (2006) consider packaging to be the most important communications medium for the following reasons: (1) it reaches almost all buyers in the category; (2) it is present at the crucial moment when the decision to buy is made; and (3) buyers are actively involved with packaging as they examine it to obtain the information they need. It is interesting to note that, according to one particular study, nine out of ten purchasers occasionally buy on impulse, and these unplanned purchases are generally as a result of striking packages or in-store promotions (Nancarrow et al., 1998).

Meyer and Gertsman (2005) argue that differences in packaging between private label and manufacturer brands have been reduced over time. Quality improvements and decreases in price differentials between private label and manufacturer brands have led to an increase in the importance placed on packaging – the authors identify this form of communication as a key source of product and brand differentiation. According to Nogales and Gomez (2005), packaging by private label brands is specifically selected in order to facilitate product comparison. "Pick n Pays" No Name brand is immediately identifiable by its blue and white packaging, and likewise for Checkers' Housebrand through its teal, white and magenta packaging.

Halstead and Ward (1995) highlight the fact that retailers have re-evaluated the importance of packaging for their private label brands. Thus retailers are placing more emphasis on adding colour or modifying packaging to appear more like competing manufacturer brands. Furthermore, in some instances, packaging quality is of an excellent standard (Suarez, 2005), making it somewhat difficult to distinguish between private label and manufacturer brands on shelf. Copy-cat branding often involves utilizing the colour of the brand leader in the category. For example, private label cola brands are often featured in red to associate themselves with Coca-Cola.

Apportioning shelf space

Amrouche and Zaccour (2006) describe shelf space as "one of the retailer's most important assets". This vital resource is limited and therefore allocations can play a

key strategic role. Retailers ultimately hold this trump card with respect to negotiations. Allocations to private label have been known to be as sizable as twice that apportioned to manufacturer brands (Nogales and Gomez, 2005). In addition, Suarez (2005) notes that retailers purposefully allocate their private label brands to more advantageous positions on the shelves, such as placing their own brands directly to the right of the manufacturer brands they are competing against. This being due to the fact that 90% of the population are right handed and are thus theoretically more likely to reach for the private label alternatives (ibid).

According to Hwang et al. (2004) the level on which the product is displayed has a significant effect on sales. For instance, a product which is located at eye-level falls within the average consumer's line of vision, attracting his/her attention, and hence increasing the likelihood of the product being chosen. De Wulf et al. (2005) concurs with this premise and emphasises the influential role that shelf positioning of a private label brand can play with regard to sales of these products.

METHODOLOGY

Insights into the industry were gleaned through four experience interviews with marketing professionals across the retail and supply platforms. This included representatives from the two largest supermarket groups in South Africa. The findings from these interviews informed the quantitative research design.

A non-probability, convenience sampling technique was used to administer a consumer survey. Although predefined quotas were not strictly set, the researchers endeavoured to obtain a sample which was somewhat representative of supermarket shoppers in South Africa. 163 questionnaires were deployed using the self-administered, mall intercept method at local shopping centres in Johannesburg, Durban, Limpopo and Cape Town. This approach was adopted so as to facilitate expedient questionnaire completion. A preliminary check was done in the field, to identify and remedy any inconsistencies, omissions or obvious mistakes with the questionnaire. A central office check was thereafter performed to alleviate less glaring errors. An online questionnaire was also setup, from which a further 178 respondents contributed their views. This administrative method was extremely efficient as respondents were unable to electronically submit the questionnaire if there were any technical errors at the time of completion. The data from both online and self-administered questionnaires was then captured, cleaned, coded and analysed. Finally, the data was tested for normality and this was confirmed to be in order.

EMPIRICAL FINDINGS

Composition of the sample

The sample is deemed to be somewhat representative of the urban supermarket shopping population in South Africa. In terms of gender, slightly more females (55.1%) completed the questionnaire than males (44.9%). The predominantly comprised black and white respondents with a 41 and 39% share, respectively. Coloured, Indian

and Asian consumers constitute the remaining 20%. The majority of the sample falls into the 26 to 35 year old age category, reflecting 42% of respondents. The 16 to 25 and 36 to 45 year old age categories represent similar numbers of respondents with approximately 19% each. Individuals of 46 years of age and older constitute the remainder (20%) of the total sample. Thus, a relatively broad spread of age categories is achieved. However, representation is skewed towards the younger segments. Over half of the sample is currently married, whilst approximately 44% are unmarried. Less than 4% of the sample is either divorced or widowed. The majority of the sample (52%) lives in households consisting of between three and five people. A further 38% live with two or less people and a mere 10% live with more than six people in their homes. The majority of the respondents (55%) speak English as their mother tongue. Xhosa-speaking individuals represent a further 24% of responses with the remaining 21% are spread between Afrikaans, Sotho, Zulu and other language groups. The largest proportions of employment represented in the sample are clerical, casual and executive with 22, 16 and 17% respectively. A mere 6% of the sample is unemployed, a further 9% are students and 2% are retired. Hence, a total of 17% of the sample are currently not actively working.

The sample is largely in keeping up with 2008 All Media and Product Survey (AMPS) data with respect to urban supermarket shoppers in South Africa. However, it is acknowledged, that the sample is slightly biased towards higher income earners, in part due to the completion of a number of questionnaires online. Nonetheless, this was not seen as a serious impediment to the credibility of the study.

Quality and price perceptions of private label brands

The proportion of private label brand purchasers in the sample is notably high with 84% of respondents confirming that they have purchased these brands before. This would suggest that there is a substantial potential market for private label brands in the South African environment. Furthermore, this serves to authenticate the perceptions and attitudes revealed in the survey as the majority of respondents have experience in this respect.

Walker (2006) revealed varying perceptions in the literature with regard to the quality of private label brands. However, for the most part, these were empirically found to be negative. According to the survey findings, the majority of consumers (66%) were either relatively neutral or negative in their attitude towards private label brand quality levels. Only one in three respondents expressed a positive view concerning their perceptions of private label brands. This is depicted in Figure 7. It is clear that South Africans are still somewhat sceptical about the quality of private label brands which may partially explain why

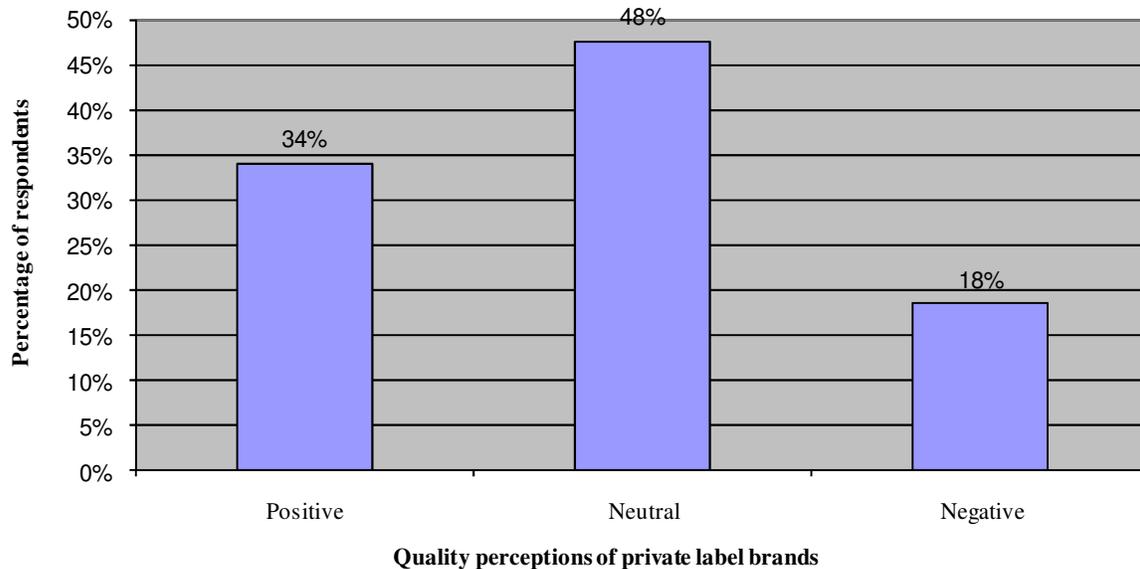


Figure 7. Quality perceptions of private label brands in South Africa.

penetration of private label brands in the grocery sector is relatively poor. The silver lining here may be that 60% of respondents felt that private label brands had improved in quality since their introduction. Should advancement of such brands persist, perceptions may well be radically different in the future.

Respondents did however display an association between quality and price. To this end, price does appear to be a leading indicator of quality. Figure 8 suggests that low prices and low quality are paired, as are medium quality and medium prices.

Somewhat surprisingly, high quality and high prices are not strongly associated. This may be due to the nature of private label brands which offer favourable quality to consumers and, due to being more competitively priced than mainstream manufacturer brands, offer superior value for money. Additionally, the clustering of high quality, low quality and low price may be attributed to variability in the market whereby some private label brands offer much better value than others. This is investigated below.

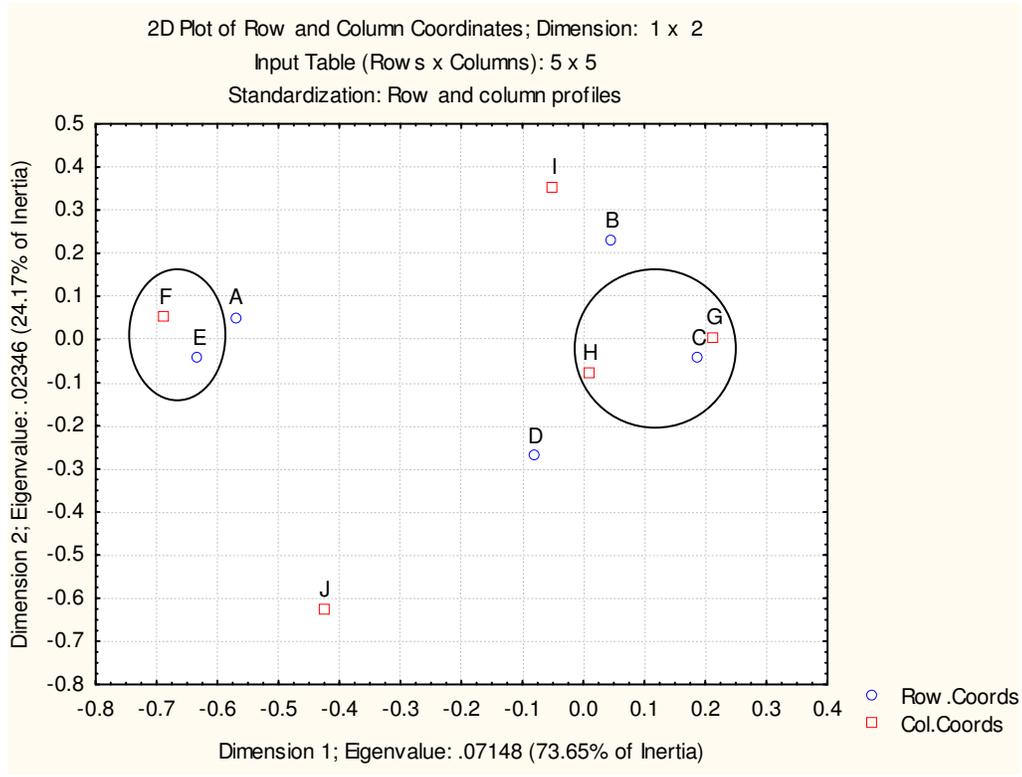
Figure 9 represents the analysis of a comparison of each retailer in terms of their customers' views towards their range of private label brands. Respondents with positive perceptions, as would be expected, purchase greater quantities of these brands in most cases. Respondents who consider private label brands as good quality tend to purchase the Woolworths (78%), Pick n Pay Choice (67%) and Pick n Pay No Name (70%) brands. It is interesting to note that these retailers cater predominantly to the LSM 6 to 10 market segment. Shoprite 'Ritebrand' is the only brand with converse results - respondents who indicated negative quality associations purchased more of this brand than those

with positive quality connotations. It appears that Shoprite shoppers (LSM 4-7) do not purchase the 'Ritebrand' out of preference, but rather necessity. Retailer profiles may be found in the appendix.

These findings are congruent with the split between manufacturer and private label brands sold by the respective retailers. This is represented in Figure 10 on the following page. Just over half the numbers of respondents (52%) who shop at Pick n Pay are consumers of their private label brands. And eight out of ten Woolworths shoppers (78%) purchase their own label products. Shoprite, Checkers and SPAR feature far less prominently in this respect. Again, this underscores the fact that higher LSM shoppers are more inclined to buy private label brands when available. It may be inferred that their propensity for risk is somewhat higher than less affluent shoppers, who may not be in a financial position to make a 'mistake' with an unfamiliar (or less trusted) brand.

T-tests were conducted to ascertain whether purchasers of private label brands tend to perceive these brands differently to non-purchasers. The results are included in Table 1.

Perceptions around quality, price and reliability differed remarkably between purchasers and non-purchasers. These attributes were all highlighted at the 1% significance level, revealing a very high degree of significance. Location and packaging were not seen as differentiating factors between purchasers and non-purchasers. The former is unlikely to be a differentiating factor as the major supermarket chains have achieved ubiquitous coverage of South African urban areas. All supermarket retailers included in this study stocked at least private label brand, therefore making these



- | | |
|---|--|
| <p>Blue</p> <ul style="list-style-type: none"> A = high quality B = medium to high quality C = medium quality D = medium to low quality E = low quality | <p>Red</p> <ul style="list-style-type: none"> F = low price G = medium to low price H = medium price I = medium to high price J = high price |
|---|--|

Figure 8. Correspondence map - quality versus price perceptions.

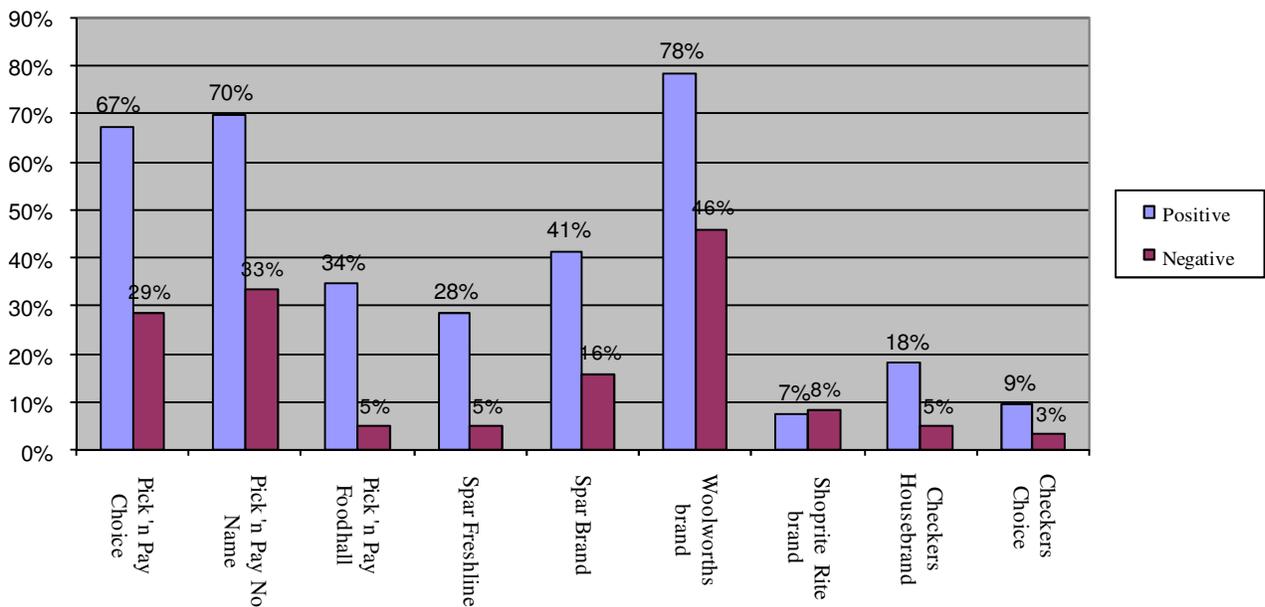


Figure 9. Retailer comparison - percentage of purchasers by perception classification.

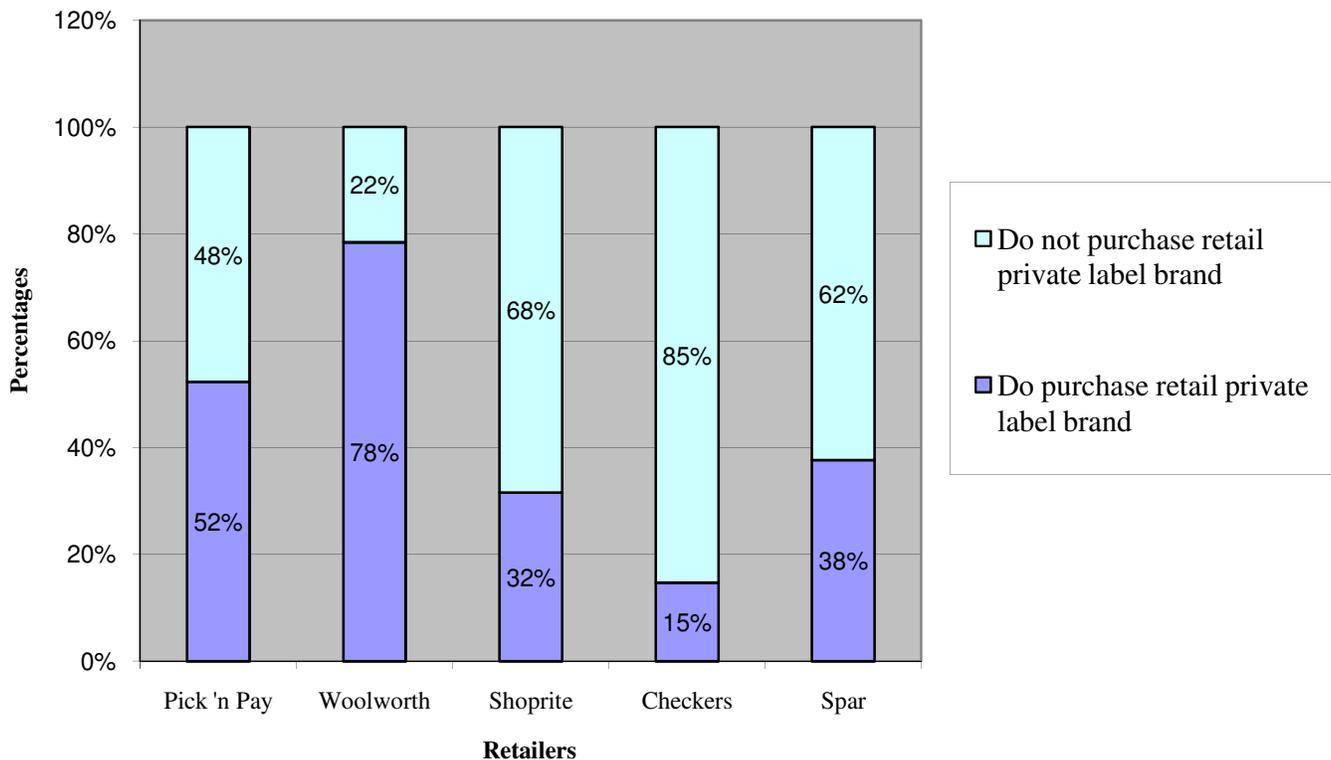


Figure 10. Retailer comparison - share of manufacturer versus private label brands.

Table 1. T-tests determining differences in perceptions between private label brand purchasers and non-purchasers.

Variable	T-tests; Grouping: do you purchase private label brands?		
	t-value	df	p
Quality	-5.72436	339	0.000000
Price	2.70262	339	0.007226
Reliability	-3.34567	339	0.000913
Attractive packaging	-0.26027	339	0.794813
Location	-1.17171	339	0.242138

easily accessible. As explained later in this discussion, packaging was found to be substandard, across the board, therefore reducing its impact as a differentiating factor between purchasers and non-purchasers of private label brands.

The most important criteria in the purchasing of private label brands were probed. Here, respondents were asked to indicate the most important aspect in the decision process. The ranked results are displayed in Table 2 below, along with the percentage of respondents who indicated that to be the case.

Perceived quality of the product was considered to be of the utmost importance, followed by accessibility of the

product, trust in the brand and, thereafter, the price tag. This illustrates that consumers are not completely fixated with the price charged and therefore points of differentiation do exist beyond this single criterion.

Demographic variables affecting loyalty to existing manufacturer brands

The majority of respondents (77%) preferred to visit retailers where their brands of preference were readily available and well stocked. Brand loyalty towards leading manufacturer brands was probed on a demographic

Table 2. Key factors in the private label brand decision process.

Rank	Factor	Percentage of respondents
1	Perceived quality	30%
2	Accessibility of products	21%
3	Trust in brand	20%
4	Price charged	12%
5	Various other	17%

Table 3. Levels of brand loyalty with respect to ethnicity.

	Black (%)	White (%)	Coloured (%)	Indian (%)
Yes	80.00	72.73	91.43	74.19
No	20.00	27.27	8.57	25.81
Total	100.00	100.00	100.00	100.00

Table 4. Levels of brand loyalty with respect to gender.

	Male (%)	Females (%)
Yes	74.03	80.21
No	25.97	19.79
Total	100.00	100.00

Table 5. Levels of brand loyalty with respect to income.

	1 less than 100 (%)	2 1000-3000 (%)	3 2001-3000 (%)	4 3001-5000 (%)	5 5001-7000 (%)	6 7001-10000 (%)	7 10000-20000 (%)	8 20000+ (%)
Yes	82.35	78.05	84.44	72.97	74.19	76.92	76.19	70.59
No	17.65	21.95	15.56	27.03	25.81	23.08	23.81	29.41
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

basis in order to ascertain the likelihood of these consumers converting to, or at least trialling, a private label brand alternative. The demographic variables were each considered so as to establish which segments classified themselves as loyal with respect to a particular brand. The question was therefore posed: "When you visit a retailer is it important to you that specific brands are offered at that store? For example do you choose one store above another based on the availability of your preferred brands?" The results are displayed in Tables 3, 4 and 5.

In terms of gender, a marginally greater degree of brand loyalty was observed in females. In terms of ethnicity, Coloured respondents appeared extremely loyal to manufacturer brands, followed by black, Indian and white respondents. A trend was evident when considering brand loyalty based on income levels. Here, less affluent consumers (earning below R 3 000 per month) recorded the highest levels of brand loyalty. A decrease in loyalty was evident as monthly income increased. The highest

earners (above R 20 000 per month) were also the least loyal to manufacturer brands. This finding supports the assertion of Frank Dell, a management consultant for retailers, wholesalers and manufacturers in the United States, who suggests that lower income earners are more inclined to buy a trusted brand than potentially waste money trying unknown brands (Rusch, 2002).. This reservation was likewise found to be true in this study.

Product packaging

Product packaging was highlighted in the literature as an important component of conveying a signal of quality to consumers. The following graph (Figure 11) illustrates that perceptions of private label brand packaging are most often negative. Almost two thirds of respondents (63%) felt that packaging was unattractive and a mere 16% responded positively with regard to this product characteristic. Furthermore, it would appear that the

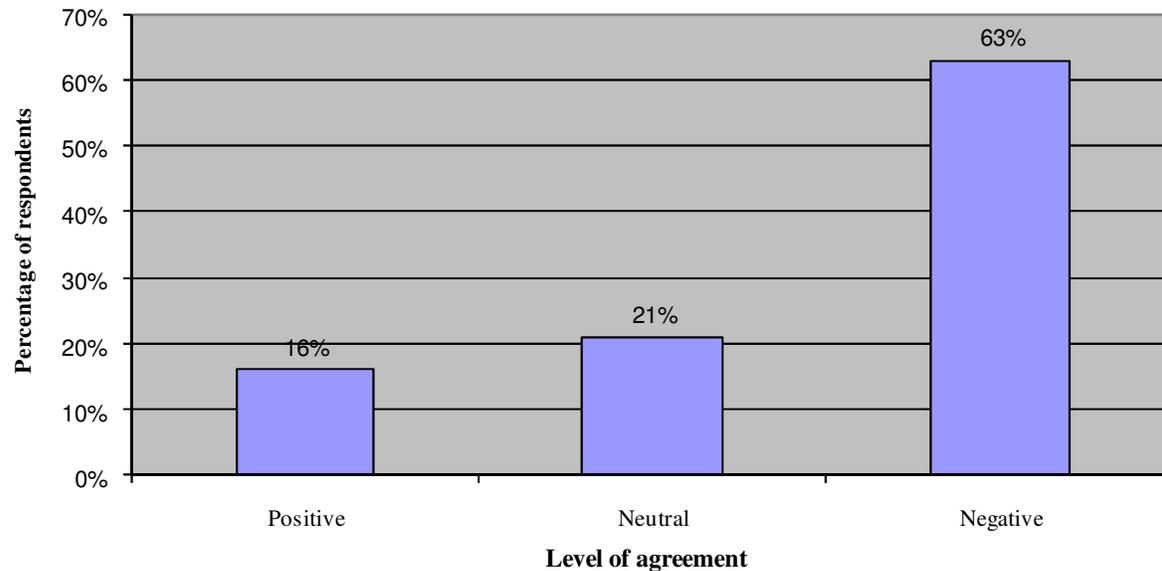


Figure 11. Packaging perceptions of private label brands.

majority of private label brand packages do not visually display the actual product contents. In a society with high rates of illiteracy, this may prove detrimental to product sales by failing to encourage conversion from the mass market.

Relationships between perceived quality of the product and the packaging thereof were investigated. The correspondence map (Figure 12) suggests strong associations between attractive packaging and inner product quality, as well as strong associations between unattractive packaging and low to medium quality inner contents.

It would therefore seem that attractive packaging is essential to persuade the target market that the core content is of similar quality to other manufacturer brands in that product category.

External influences affecting purchasing decisions

Purchasing of groceries in a supermarket is influenced by a number of extrinsic cues. As seen in Table 6, black and white respondents tend to rely considerably more on the opinions of family than do their Indian and coloured counterparts. On the other hand, Indian and coloured consumers are considerably more influenced by advertising than their black or white counterparts.

Respondents indicated that television, newspapers and pamphlets were the most effective means of communicating the benefits of private label brands to grocery shoppers. Table 7 illustrates that the majority of respondents consistently feel that television is the most effective way of communicating the advantages offered by these brands. The media found to be least effective at

conveying private label brand benefits were billboards, magazines and internet/online methods. It would therefore appear that the media that it is consumed within the home, the same environment in which grocery products are consumed, work best.

Conclusions

South African consumers seem hesitant to embrace private label brands to the full. There appears to be scepticism surrounding the quality of the entire spectrum of such brands, with significant heterogeneity between specific private label brands. South African retailers have taken varying stances in terms of positioning their private label brands, which can principally be categorised into two contrasting approaches. Firstly, private label brands can be positioned as premium quality products with price levels ranging from marginally below to above prices of category-leading manufacturer brands. Examples of these private label brands include the Woolworths and the Pick n Pay Choice private label brands. On the hand, retailers can position their private label brands based on pure value for money. This equates to average quality products at very affordable prices. Private label brand communication strategies have successfully reached a large proportion of the South African market. However, overall effectiveness in terms of influencing perceptions appears to be unsuccessful and the direct impact on volume share appears negligible. Home-based media, wherein grocery retailers are known to advertise their wares, were found to be the most effective in relaying the message to consumers. Demographic variables were largely ineffective in determining an individual's propensity

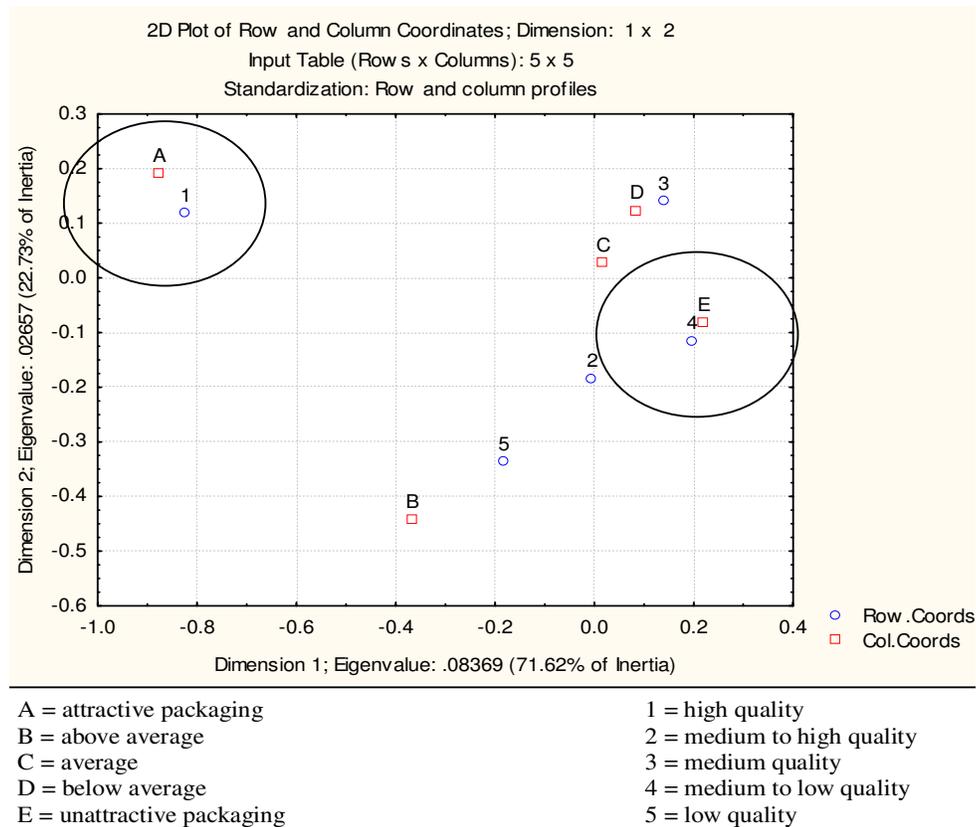


Figure 12. Correspondence map - product quality versus packaging attractiveness perceptions.

Table 6. Influencers based on ethnic profiles.

	Black (%)	White (%)	Coloured (%)	Indian (%)
Friends	10.30	13.01	7.69	8.79
Family	21.93	19.92	14.29	13.19
Sales personnel	5.32	5.69	7.69	7.69
In-store	8.97	6.10	9.89	12.09
Store atmospherics	8.97	6.50	9.89	10.99
Past experience	35.88	41.87	35.16	30.77
Advertising	8.64	6.91	15.38	16.48

Table 7. Advertising techniques deemed most effective for private label brands..

	Percentage of respondents	Percentage of respondents who considered the medium least effective
In-store promotions	19.06	10.19
Internet	9.68	20.18
Magazines	9.09	19.20
Newspapers	57.77	4.70
Television	74.49	3.92
Word of mouth	47.51	3.43
Direct mail	19.35	9.50
Billboards	5.87	25.86
Pamphlets	57.77	3.04

to buy private label brands. However, income was found to be the most prominent of all variables, revealing a direct relationship between income and affinity towards private label brands, although presumably premium private label options. Unfortunately, private label brand packaging was considered, for the most part, to be unattractive and failed to convey a sense of high product quality. Packaging is regarded by many marketers to be a 'salient salesman' and is thus thought to have evolved into an important facet of product differentiation. Sadly, South African retailers appear to lag behind their European counterparts rather drastically in this respect.

AREAS FOR FUTURE RESEARCH

This is an exploratory study which only scratched the surface of private label branding in the retail grocery sector. A number of pivotal issues did however come to the fore which were not explicitly covered in this study. These are listed below for possible further research projects.

The manufacturer-retailer relationship was revealed to be a hindrance to effective private label brand growth in the South African market. Due to a very limited number of major suppliers in South Africa (notably Unilever, Procter and Gamble, Nestle and Tiger Brands), retailers have limited bargaining power in persuading such manufacturers to supply content for their private label brands. Hence, this interaction should be further investigated in an attempt to uncover means through which both sets of parties can achieve a symbiotic relationship in the long term.

The black emerging middle class, who seemingly have exponential spending power, may present a future lucrative market for private label brands. Therefore, investigations into this rapidly growing market segment may reveal insightful and beneficial findings in order for retailers to effectively position and differentiate their private label brands.

The effectiveness of in-store promotions could be probed to determine how brand conversions may be achieved at the point of sale. This is a complex matter and certainly merits further investigation.

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Appendix – Retailer and private label brand profiles

Supermarkets are medium to large food-driven retail chains. The South African supermarket industry contains a handful of large supermarket chains which dominate the local retailing space. In this respect, Shoprite, Pick n Pay, Spar, Checkers and Woolworths are thought to control the supermarket trading environment in South Africa and are often referred to as the 'Big Five'. Each of these chains has one or more private label brands. In the case of Woolworths, the retailer traditionally only sold private label products but, since the turn of the millennium, has diversified into manufacturer brands as well. A brief overview of each chain is included below.

SHOPRITE

The Shoprite brand is well known throughout South Africa. It began as a small chain of supermarkets in 1979 and now operates 301 stores within South Africa. It draws its customers from the middle-income consumers in LSM 4-7 (Shoprite, 2009). It has two store formats, namely the supermarkets and the large-format superstores. Shoprite's slogan is: 'Lower prices you can trust!' (Shoprite, 2009). The Shoprite chain has been excluded from this student as the majority of its customers are not considered to be in the middle class.

Pick n Pay

Pick n Pay is a family controlled business that began in South Africa with four small stores in 1967. It has since grown into a powerful brand which offers customers food, clothing and general merchandise through its' various store formats. Pick n Pay is currently undergoing a strategy to expand Pick n Pay into LSM 4-7 as well to defend and continue to grow in LSM 8-10 (Fast-Moving, 2007). Pick n Pay's slogan reads: 'Inspired by you'.

Table 1. Characteristic breakdown of Pick n Pay private label brands

Private Label Brand	Target Market	Packaging	Characteristics
Pick n Pay 'No Name' Brand	LSM (5 - 7)	Simplistic blue and white. Emulates retailer's brand colours Consumers may assume that this design reduces variable costs	Value for money slogan Low price connotations
Pick n Pay 'Choice' Brand	LSM (8-10)	Generally a Copycat brand Packaging is of a higher standard and is similar to rival manufacturer brands	High quality Medium to high price
Pick n Pay 'Foodhall'	LSM (8-10)	Attempts to emulate a more premium private label, such as Woolworths	Health orientated Convenience focused Medium to high price High quality

Please note: In 2008, Pick n Pay amalgamated the PnP 'Choice' and 'Foodhall' brands into a single entity – the PnP brand.

Checkers

Checkers, whose slogan is "Better and Better!", is a fast moving consumer goods retailer that is currently owned by Shoprite Holdings. At present Checkers operates 24 Checkers Hyper Stores and 111 supermarkets within South Africa and employs over 16000 employees (Checkers, 2009). Checkers came about as a result of a split of the well-known ShopriteCheckers brand. The Checkers brand has recently been repositioned to cater for customers in the upper-income groups and targets living standards measurement 7 to 10. It focuses more strongly on fresh produce and offers a wider range of choice food items to a more affluent clientele. Today, this chain of supermarkets provides a product range suitable for the discerning shopper in a world-class retail environment (Checkers, 2009).

SPAR

SPAR is an international, leading global brand and is one of the world's largest food retailers. In 1963, a group of 8 wholesalers acquired the exclusive rights to the SPAR name, which allowed them to service 500 small retailers in South Africa. Spar has three store formats, which are SPAR which is designed for neighbourhood shopping; SUPERSPAR for one-stop, competitively priced, bulk shopping and KWIKSPAR for everyday convenience (SPAR, 2009). AMPS data for 2008 revealed that SPAR had a significant influence in both the LSM 5-7 and LSM 8-10 markets, with 13.9 and 32.4% of the market

(SAARF, 2009). Spar's slogan reads 'Good for you'.

Table 2. Characteristic breakdown of Checkers 'Housebrand' and 'Choice' brand

Private label brand	Target market	Packaging	Characteristics
Checkers Housebrand	LSM (6-7)	Simplistic colours and design Signifying retailer's brand colours Consumer may assume that this design allows for costs to be saved	Value for money slogan Low price connotations
Checkers Choice brand	LSM (7-10)	Generally a Copycat brand Packaging similar to product it is emulating	High quality medium to high Cost

Table 3. Characteristic breakdown of the 'SPAR' brand and the 'Freshline' brand

Private label brand	Target market	Packaging	Characteristics
SPAR Brand	Higher LSM (8-10)	Generally a Copycat brand Packaging similar to product it is emulating	High quality High cost All dry goods, such as tinned good, flour and sugar.
SPAR Freshline	Higher LSM (8-10)		Health orientated Convenience focused High price High quality



WOOLWORTHS

Woolworths commenced trading in South Africa in 1931. According to the Woolworths media office, since its inception, the Woolworths brand has become synonymous with innovation, quality and value for money. With their wide appeal, Woolworths' goods are now sold through 149 corporate stores, 51 international franchise stores throughout the rest of Africa and the Middle East and 69 South African franchise stores nationwide. Woolworths is a respected retail chain that offers men, women and children's clothing of exceptional quality and durability, a stylish and contemporary collection of home ware, an assortment of organic foods as well as a newly launched range of beauty products all under its own brand name (Woolworths, 2009). It offers shoppers a better supermarket experience with exceptional customer services, a limited variety of financial services, and an in-store restaurant (Farquhar, 2007). The Woolworths target market comprises of shoppers in the LSM 9 and 10 categories as well as aspirant shoppers from the LSM 6 to 8 markets (Noble and Davey, 2008). Woolworths' slogan is "The Difference" as the stores continually strive to make the difference in customers' lives (Woolworths, 2009).

Table 4. Characteristic breakdown of the 'Woolworths' brand

Private label brand	Target market	Packaging	Characteristics
Woolworths Brand	Higher LSM (8-10)	Elegant design Aspirational May be considered superior to manufacturer brands	High Price High Quality Lots of health orientated items Numerous Convenience food options Perceived as being of a higher calibre.