

An empirical study of international private label branding in the food sector in Hungary

Abstract: Private label branding strategies differ to that of the manufacturer. The study aims to identify optimal private label branding strategies for (a) utilitarian products and (b) hedonistic products, considering the special factors reflected in consumer behavior related to private labels in Hungary. The issue of House of Brands and Branded House strategies are discussed and evaluated in the light of retail business models. Focus group interviews and factor analysis of the survey found differences in branding strategies preferred by consumers for the two product categories. The study also outlines a strong trend in possible private label development based on consumer's changing attitude in favor of national products.

Keywords: private label, store brands, branding, consumer behavior, Hungary

1. Introduction and literature review

Private labels are a phenomenon that manufacturers cannot oversee anymore. In the food sector the share of private label brands in Hungary was 22% in 2010 according to Nielsen (2010). The main decision making factor is the perception of consumers about private labels and manufacturer brands. Therefore the analysis of consumer attitude is vital to understand the driving forces of private label consumption and their effect on branding.

Private labels are consumer products that are produced by/for the retailer and are sold only in its stores (Morris, 1979; Keller, 2003; Bauer, Berács, and Kinsey 2007; Lincoln and Thomason, 2008). The concept has developed more sophisticated in the last decade forming three basic categories: value, copycat and premium. For the discount model a new category has been created, called value-innovators (Kumar and Steen amp, 2007). Beside these price based categories, also trend focused product lines have been introduced serving the niche segments. Retailers that focus on their private label assortment include these special micro segments in their private label offers as well (Koen de Jong, 2009). The success of private label penetration is heavily category dependent (Sethuraman and Cole, 1999) and influenced by the strength of the manufacturer's brand within the sector (Sethuraman, 2008). The basic success factor for retailers building their store brands, is whether they are able to build trust and loyalty through their branding strategies. Kapferer (2007) identifies three main branding strategies for private labels:

1. umbrella branding, by using the store's own name
2. banner branding is also umbrella branding, but without using the store's name
3. using own brand names, which are phantasy names.

Another approach by Aaker and Joachimsthaler (2000) was adopted by Kapferer (2007) results in two main branding approaches: „Branded House” and the „House of Brands”. The „House of Brands” approach is mainly used by discount stores, and hypermarkets mostly adopted the „Branded House” approach. When the retailer wants to enhance its image, it uses its store name as an umbrella brand, guaranteeing the quality of the products, while discount stores do not want to transfer their store image to their products (Burt, 2000), so they use phantasy (own) labels.

In Hungary the development of the hypermarket and discount retail model was much faster than in western countries. Consumers and professionals of Central-Europe had only few years to accustom themselves to the private label phenomenon versus decades in western countries (Vida, 2000). Extant marketing literature fails to provide comprehensive insights into the region's private label brand management practices. Therefore the analysis of consumer behavior towards private labels in Hungary is essential for defining whether the „European” approach is adequate. The present study aims to provide recommendations on optimal branding strategies for the different retail models in Hungary by examining consumer attitudes toward private labels in (a.) hedonistic product categories, (b.) utilitarian product categories; by evaluating the current brand image of the different private label brands.

2. Methodology and development of hypotheses

The two most important retail models have been chosen as the basis for the analysis of the research: hypermarkets and discounters. Tesco and Spar for the hypermarkets, as only these retailers had multilevel private label activity in Hungary at the time of the start of the research; and Aldi, Lidl for the discounters. For the analysis of customer behavior, consumer attitude, and private label branding strategies in general, exploratory and descriptive methods have been used. The aim of the focus group interviews was to better understand coherences between consumer attitude towards private labels and their branding strategies. The two group interviews have been conducted in November 2009 with 20 people. Each interview lasted 1,5 hours including blind tests of manufacturer's and private label products. The two focus group interviews have mostly found that (a) there is prejudice towards private labels in general, (b) participants considered only those brands as private labels that carried the name of the store, and discounter's brands were considered unknown manufacturer's brands. The reason behind the prejudice was based on the earlier launch of the Tesco Value brand under the name Tesco Gazdaságos. Tesco followed its international strategy to position its brand as a value alternative to manufacturer brands on a low price level. The main problem was that these products had very weak quality, and soon the Tesco Gazdaságos brand became known as the „pejorative” label to any products that had inferior quality, with a certain spillover effect on private labels in general. Therefore the definition of private label by the consumer may have a great effect on branding decisions, considering the „prejudice” towards store brands, especially among hedonistic product groups. Based on the literature review and insights from the focus group interviews, we have developed the below hypotheses:

- H1. The Hungarian consumer considers only those brands as private labels, which carry the name of the retailer.
- H2. In utilitarian product groups consumers prefer umbrella branding versus own (phantasy) labels.
- H3. In hedonistic products consumers prefer own labeled products.
- H4. In hedonistic product groups categories consumers prefer national brands over private labels.
- H5. Hungarian consumers have a positive buying attitude towards Hungarian „Fair Trade” products.

To test the above hypotheses we formed a questionnaire that included ten questions with non comparative scaling techniques (Likert scale of 1-5). Participants in the survey have been selected randomly. 584 questionnaires were filled out in November-December 2009 in Budapest. 61 % were female and 39 % male mainly under 35 years old. Data analysis was made by SPSS 14.0 program.

3. Results and conclusions

With regard to the definition of private label, 91% of the respondents identified only those brands as private labels that carry the store's name or logo, and only 8% identified them as directly related to the store, thus supporting hypothesis H1.. Discount store brands were considered unknown, -not "no name"- manufacturer brands. Figure 1. depicts the results that support H2.

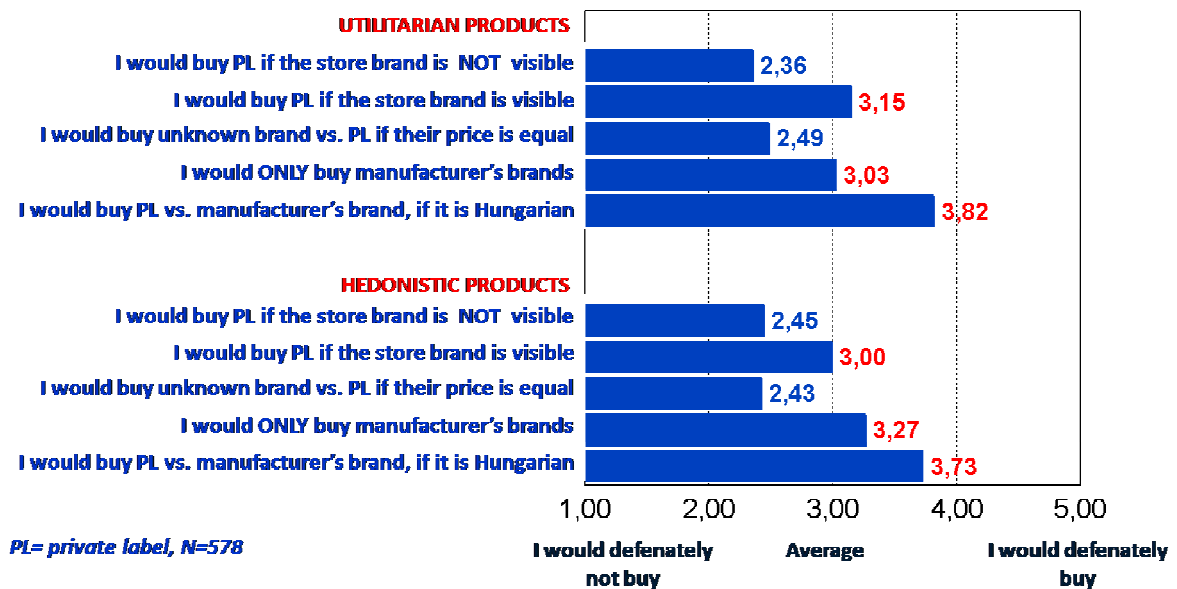


Figure 1.: The effect of branding strategies on consumer decision making in utilitarian and hedonistic product categories

The paired samples T-test (0,05 significance level) shows significant differences among product categories. In the case of retailers, that use a „House of brands” branding strategy it is recommended to use that approach in the case of utilitarian products, as customers do not trust unknown brands, and if they would consider an alternative to a manufacturer's brand, they would prefer products with the name of the store. There is a trend in adopting hybrid branding approaches, which is driven by the strong competition by discounters. Tesco introduced its „Discount brands at Tesco”, -branded as Tesco Családi (Family) in Hungary-. The aim of such a strategy is to create a little Aldi within Tesco (cited by Rohwedder, 2009). This may confuse consumers, because the products under this new brand have phantasy names, and thus are not related to Tesco. In the case of hedonistic products, consumers prefer more their manufacturer's brands thus supporting H4., but if they would try an alternative, they would trust the store branded private label over own labeled ones, resulting in rejecting H3. Hence there is no reason that supports the decision for a hybrid private label branding strategy to be used instead of a consequent Branded House strategy. There is also a visible trend among Hungarian customers in the direction of national product consumption. In 2000, out of 15 nations Hungarian consumers preferred the least their nations' products (Malota, 2003). H.5. was supported, as consumers agreed that they would purchase private labels over manufacturer brands if it had a national origin in line with findings of 2009 by Szakály and Szente (2009). This changing trend predicts the possibility for a niche private label brand with the value of „Hungarian origin” emphasizing the „fair trade” background of the brand.

Within the frame of the survey we have asked respondents to rate the quality of the most important private label brands, including the brands of discount stores (Figure 2.).

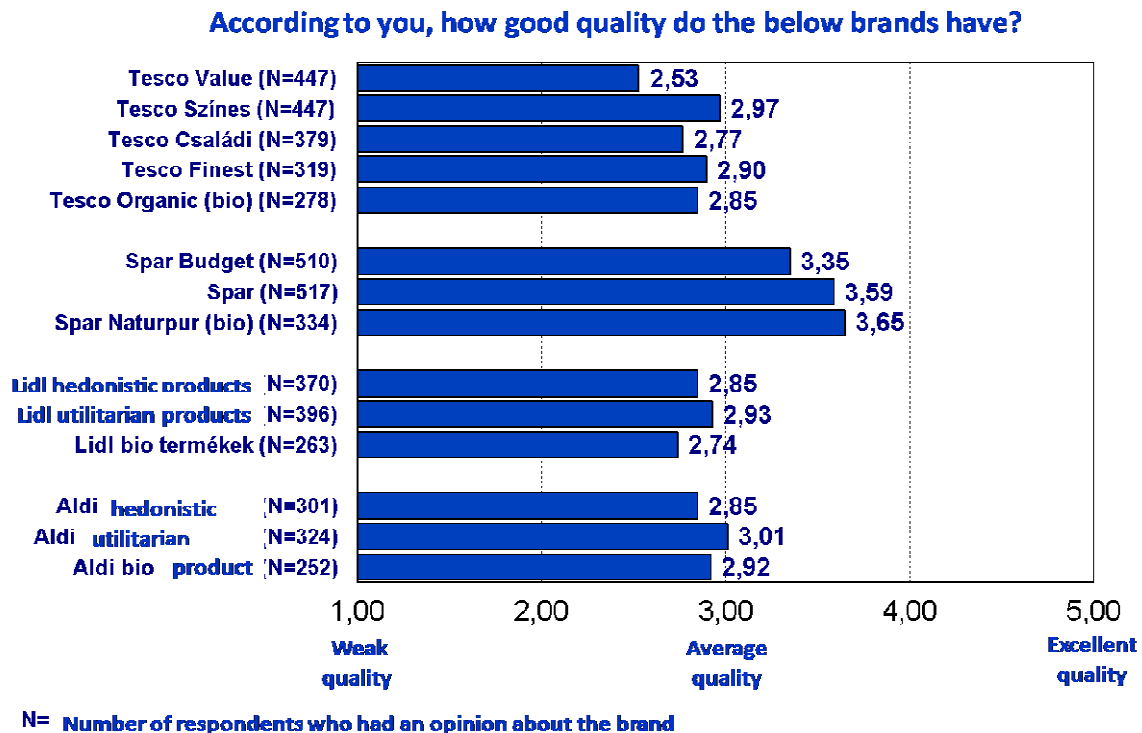


Figure 2.: Quality rating of different store brands

The best quality perception is attached to Spar private labels. Spar consequently based its private labels' value on quality. Tesco private label quality perceptions are on average, except the Tesco Value brand that has mostly weak quality, and still suffers from the historic bad image of Tesco Gazdaságos, despite the rebranding. Aldi and Lidl product quality is on average, supporting their good price-value ratio positioning, and in line with their value innovator branding strategy. The Anova report showed significant differences comparing the means by gender between the bio private labels: Tesco Organic (f: 2,98 vs. m: 2,66), Spar Naturpur (f: 3,82 vs. m: 3,35), Lidl bio (f: 2,96 vs. m: 2,39) and Aldi bio (f: 3,14 vs. m: 2,58) products. Female respondents rated these products significantly higher than male respondents. Other demographic variables did not contribute to a significant difference between the means. Factor analysis was completed using principal components analysis and VARIMAX rotation, while the correlation of variables was confirmed by calculating KMO values. The number of factors was determined on the basis of the „eigenvalue greater than 1” criterion. The KMO value is appropriate (0.78) the software produced four factors (Fig. 3.) which explains 74 percent of total variance. Sample data yielded a Cronbach's alpha of 0.88 as an indicator of the scale's reliability. MSA values in the anti-image matrix were between 0.65 and 0.88 thus all variables were included in the analyses.

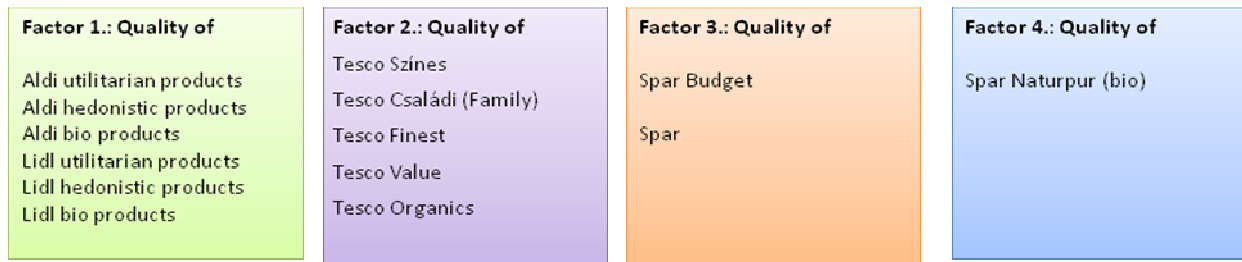


Figure 3: Results of the factor analysis

The discount stores' branding strategy could not differentiate Aldi and Lidl. Both brands are considered in the same way. They both use own labels, which are not considered private labels in the eyes of the consumers. Therefore their differentiation power is lower as well. Tesco brands formed Factor 2. Customers do approach the retailer differently, but they do not consider their premium Tesco Finest, or even their Tesco Organics brand significantly different from Tesco Value and Tesco Színes brands, although their quality must substantially be better. The case is different in case of Spar. This retailer succeeded in building a strong company image, and customers do not only separate it from other retailers, but also make a difference within its private labels. Spar's bio store brand: Spar Naturpur formed a separate factor, strengthening the idea, that a consequent private label strategy -that is based on quality and store image- can be an optimal strategy to differentiate the retailer and build customer trust.

The conclusion of this study is twofold, and oriented to practical adoptability by the industry. For retailers adopting a Branded House strategy, it is recommended to use that strategy throughout all private label brands in both hedonistic and utilitarian groups. For the former as an endorsement brand. Spar private labels high rating scores, and their separate factors have proved that building a strong retail name is the key to have a successful private label activity. Discount stores have the advantage of the House of Brands strategy, as consumers do not consider these brands as private labels, thus they do not have a „prejudice” against them. The second contribution is the specification of the changing consumer attitude towards national products. By evaluating the strength of this attitude, there is an opportunity for creating a niche private label brand that may have a positive contribution to the image of the retailer if managed well.

4. Limitations and future research possibilities

The study concentrated on branding issues, price being considered as equal. In the future the identification of additional factors should be made in relation to private label purchasing intention. On the other hand a further investigation of the raison d'être of a „national fair trade” private label brand in Hungary, and of its quality, price, and branding factors should be studied. Further studies are suggested with higher sample size, considering the possibility of an international comparison of results. As price is still a key factor in private label decision making, its impact on the success of a chosen branding strategy should be further analyzed.

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