

The Propensity to Purchase Private Brands by Chinese Consumers

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This paper presents research into the main factors influencing the purchase of private grocery brands by Chinese consumers. While there has been considerable research into private brands in a Western context, there has been limited research published to date relating to Chinese consumers. A preliminary literature review identified five variables, including price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image. Data were collected via a survey administered at a Carrefour store in Wuhan, Hubei Province, PRC, and analysed using ANOVA and correlation. The research showed that the propensity of Chinese consumers to purchase private brands was influenced by price sensitivity, perceived quality difference, advertisement sensitivity, and store image. As a result of these findings, the paper offers some suggestions for strategies that retailers can adopt when selling private brands.

Field of Research: Buyer Behavior

1. Introduction

The term private brand commonly refers to commodities sold by a retailer using their own brand name, with the commodities distributed only in the retailers' stores. However, there has been an increase in the number of retailers selling private brand commodities in stores other than their own. Hence private brands now usually refer to brands owned by retailers or wholesalers, and branded commodities are distributed through either single or multiple controlled channels.

Private brand commodities are popular with more and more retailers because they can help retailers to gain more profit, increase control of shelf spaces, and strengthen the retailers' bargaining power in the distribution channel. Due to the uniqueness of private brand commodities, they can help retailers to increase traffic and lead to customer loyalty (Steenkamp & Dekimpe 1997). Consequently some retailers consider them as powerful weapons to enforce their own competitiveness. The market shares of private brands are quite high in Europe and the USA, for example, the sales of private brands account for 40% of J.C. Penny's sales, 55% for Sears, and 80% for Target.

Previous published literature on private brands has been mainly obtained from research undertaken in Europe and the USA. This research has tended to focus on retailers' strategy, manufacturers' strategy, and customers' purchasing behaviour (Li 2006). The analysis of consumer behaviour has helped many retailers and manufacturers to develop better business strategies.

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However, such an analysis of consumer behaviour is still rare in China, and requires some modification, given the difference between consumption behaviour in China and western countries. Clearly an analysis of Chinese consumers' behaviour in purchasing private brands has significant implications for the development of marketing strategies in China.

2. Literature Review

It is important for retailers and manufacturers to research consumers' purchasing behaviour of private brands, and research in this area can be traced back to the 1960s. The research conducted to date has mainly focussed on two aspects: an analysis of purchasers' demographic characteristics and the consumers' attitude towards private brands. These aspects have helped in an understanding of consumption psychology to identify the most influential factors in consumers' purchasing behaviour.

Previous research has analyzed purchaser characteristics from the standpoint of consumers' demographic variables, personality traits and social-economic variables. For example, Myers (1967) found that compared with "career" women, middle-class women were more inclined to buy private brand commodities, and these purchasers had warm-hearted, sensitive, and obedient personalities. Burger and Schott (1972) looked at the differences between purchasers of private brands and manufacturer brands, and found significant differences between the two groups. Tifferet and Herstein (2010), in a cross-cultural investigation, found individualistic consumers were less inclined to purchase private brands. However, it is becoming more difficult to distinguish the purchasers of private brands from other consumers, as purchasing behaviour can be influenced by many factors such as emotion, instantaneous demand, and loyalty to stores (McGoldrick 2002).

Other research analyzing the factors influencing consumers' attitude toward private brands has looked at the relationship between consumer perceptions and private brand purchasing behaviour. Factors such as price perception, quality perception, familiarity with private brands, brand loyalty, risk perception, and categories of commodities have been examined (Bettman 1974; Burton et al. 1998; Byoung-ho & Yong 2005; Garretson, Fisher & Burton 2002; Glynn & Chen 2009). For example, Glynn and Chen (2009) used a mall-intercept technique and showed that quality variability, price consciousness, price-quality association, and brand loyalty influenced consumers' propensity to purchase private brands.

In China, the private brand is still a new concept to most retailers and consumers, so China-specific literature on the consumption behaviour of purchasers of private brands is still limited. In one of the few reported studies, Jiang (2003) analyzed the correlation between store image and perceived quality of private brand commodities, and found the two factors to be strongly positively related. Conclusions from non-Chinese studies reported in the literature cannot be directly applied to the Chinese market, due to differences in consumption behaviour between Chinese and Western customers. We therefore argue that it is necessary to explore the consumption behaviour related to purchasing private brands in China. Such studies can offer valuable suggestions to retailers and manufacturers to develop unique China-specific strategies.

The literature briefly referred to above suggests that the main influential factors of the propensity of Chinese consumers to purchase private brands are price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image. This paper uses the grocery industry as an example, analyzes the main characteristics of the consumers buying private brand commodities from the point of view of these factors,

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and offers some suggestions to retailers. Before detailing the methodology and results however, these factors will be briefly explored in more detail and testable hypotheses developed.

2.1 Price Sensitivity

Price sensitivity refers to how strongly the consumer reacts when the commodity's price is changed. Some research supports the conclusion that price is the most important factor in the decision to purchase private brand commodities (Batra & Sinha 2000; Burger & Schott 1972; Burton et al. 1998). Batra and Sinha (2000) conclude that price sensitivity relates positively with the propensity to buy private brand across twelve different categories of commodities. We therefore propose Hypothesis 1 (H1): Price sensitivity is positively related to the propensity to purchase private brand commodities.

2.2 Perceived Quality Difference

Perceived quality difference is a key influential factor when consumers make purchasing decisions. Consumers tend to make trade-off decisions between quality and price when choosing different commodities within the same category. If consumers see little quality difference between private brand commodities and manufacturer brand commodities, or if they think the price difference is larger than the quality difference, they may prefer to purchase the private brand commodities. For example, Sethuraman and Cole (1997) found that a perceived quality difference is an important reason for consumers to pay more for the manufacturer brand commodities. Richardson, Jain and Dick (1996) found that a perceived quality difference between private brand commodities and manufacturer brand commodities influenced consumers' propensity to purchase private brands. We therefore propose Hypothesis 2 (H2): Perceived quality difference is negatively related to the propensity to purchase private brands.

2.3 Advertisement Sensitivity

Advertisement sensitivity refers to consumers' attention to commercials and the influence of advertising on consumers' purchasing decisions. It is commonly believed that consumers who buy private brand commodities have lower attention to advertisements. But Burger and Schott (1972) believe there is no obvious difference in attention levels to advertisements between purchasers of private brands and purchasers of manufacturer brands. We therefore propose Hypothesis 3 (H3): Advertisement sensitivity is negatively related to the propensity to purchase private brands.

2.4 Brand Concern

Brand concern refers to the influence of a commodity's brand on a consumer's purchasing decision. Brand concern is high when consumers tend to buy their familiar brands or well-known brands. Dick, Jain and Richardson (1995, 1996) found that compared with those consumers who purchase manufacturer brands, consumers who tend to purchase private brands have lower brand concern. We therefore propose Hypothesis 4 (H4): Brand concern is negatively related to the propensity to purchase private brands.

2.5 Store Image

Store image is formed in the consumer's mind on the basis of such factors as the store's service, commodity quality, price, and store atmosphere (Dick, Jain & Richardson 1995; Manolis & Lambert 1994; Olson 1973; Wheatley & Chiu 1977). Olson (1973) found that consumers evaluate the quality of commodities according to a series of reference points, including exterior factors that relate indirectly with quality, such as brand names, store image, and the store name. Dick, Jain and Richardson (1995) found that consumers with a higher perception of store image were more inclined to purchase private brand commodities. We therefore propose Hypothesis 5 (H5): Store image is positively related to the propensity to purchase private brand commodities.

Based on the hypotheses above, we propose the following model:

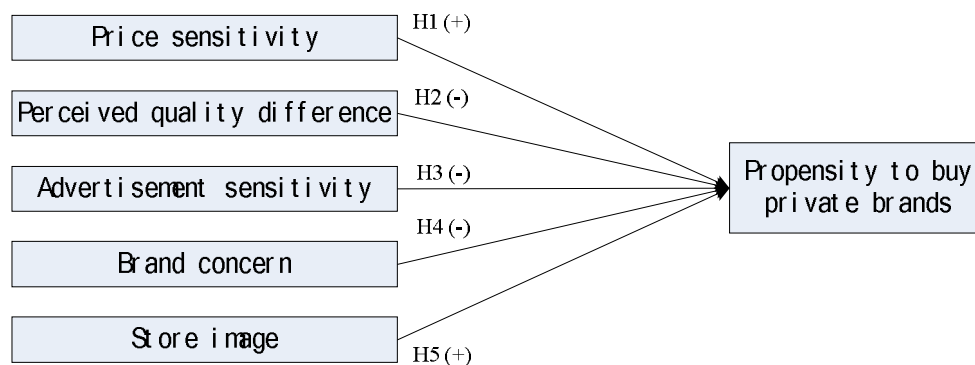


Figure 1: A Theoretical Model of the Propensity to Purchase Private Brands

3. Methodology

3.1 Questionnaire Design

Scales related to the variables discussed above, price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image have been developed (Bellizzi et al. 1981; Burger & Schott 1972; Dodds, Monroe & Grewal 1991; Grewal & Krishnan 1998). Based on this prior research, we modified the scales to reflect the Chinese consumers' lingual logic. Group-focus interviews with customers were used to ensure a correct interpretation of the questionnaire. The final questionnaire contained seven-point Likert scales measuring all variables of the theoretical model given in Figure 1.

3.2 Data Collection

Previous research has demonstrated that the importance of the identified variables may vary according to different commodity categories. As private brand commodities are relatively new in China, and since they currently mainly focus on groceries and consumables, which have a simpler technology involvement, we chose the grocery industry as the focus of this research.

The survey was administered at a Carrefour store in Wuhan, Hubei Province, PRC. The trained interviewers distributed questionnaires to customers randomly, and the questionnaires were filled out on the spot. An explanation of the difference between private brands and manufacturer brands was provided at the beginning of the questionnaire. The interviewers showed pictures of private brand groceries in Carrefour and explained the

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difference between private brands and manufacturer brands to the interviewees before administering the questionnaires. 270 questionnaires were distributed and 209 were returned correctly completed, giving a response rate of 77.4%. 44% of the respondents were male and 56% were female. The age distribution was 7.7% below 20, 21.5% between 20 and 29, 29.2% between 30 and 39, 24.4% between 40 and 49, 14.8% between 50 and 59, and 2.4% 60 and above. The distribution of monthly income was 13.4% below ¥500, 15.3% between ¥501 and ¥800, 26.8% between ¥801 and ¥1200, 17.2% between ¥1201-2000, 14.8% between ¥2001 and ¥3000, and 12.4% ¥3001 and above. The education level of the respondents showed that 11.5% had attained a degree lower than a high school degree, 19.6% had attained a high school or technical secondary degree, 39.2% had attained a junior college degree, 22.0% had attained a bachelor degree, and 7.7% had attained a masters degree or above.

4. Results

4.1 Reliability Testing

As discussed in Section 2, the main factors influencing the propensity to purchase private brands were identified as price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image. Each of these variables was measured using multi-item scales. Table 1 reports the preliminary analysis of these five factors and the propensity to purchase private brands variable, showing the mean and standard deviation for each variable and the Cronbach Alpha for each variable. As Table 1 shows, the reliability of all scales was above 0.87.

Table 1: Analysis of Questionnaire Scales

	<u># Items</u>	<u>Mean</u>	<u>s.d.</u>	<u>Cronbach Alpha</u>
Brand concern	4	4.3	1.5	0.91
Propensity to purchase	2	4.3	1.7	0.92
Store image	3	4.2	1.7	0.94
Perceived quality difference	6	3.7	1.6	0.95
Price sensitivity	6	3.4	1.7	0.96
Advertisement sensitivity	3	3.4	1.5	0.87

4.2 Analysis of Variance

The respondents were divided into three groups based on their response to the propensity to purchase private brands question – those willing to buy private brand commodities (scores between 4.5 and 7), those who have no intention to buy private brand commodities (scores between 1 and 3.5), and those purchasers whose intention was uncertain. A series of one-way ANOVAs were conducted to analyse the differences between these groups for the five factors of price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image. The results of these ANOVAs are presented in Table 2.

This analysis shows significant differences between the three groups for four of the five factors - price sensitivity, perceived quality difference, advertisement sensitivity, and store image. There was no difference between the groups on the brand concern variable.

Table 2: Analysis of Variance					
	<u>SS</u>	<u>df</u>	<u>MS</u>	<u>F</u>	<u>p</u>
<u>Price Sensitivity</u>					
Between	303.8	2	151.9	95.3	< 0.001
Within	328.4	206	1.6		
Total	632.1	208			
<u>Perceived Quality Difference</u>					
Between	388.7	2	194.4	246.9	< 0.001
Within	162.2	206	0.8		
Total	550.9	208			
<u>Advertisement Sensitivity</u>					
Between	274.7	2	137.3	126.8	< 0.001
Within	223.2	206	1.1		
Total	497.9	208			
<u>Brand Concern</u>					
Between	0.7	2	0.4	0.2	ns
Within	489.9	206	2.4		
Total	490.6	208			
<u>Store Image</u>					
Between	246.1	2	123.1	64.5	< 0.001
Within	393.3	206	1.9		
Total	639.4	208			

4.3 Analysis of Correlation

To test the hypotheses developed in Section 2, correlations between the propensity to purchase private brands variable and the five variables of price sensitivity, perceived quality difference, advertisement sensitivity, brand concern, and store image were calculated. The results of these analyses are presented in Table 3.

The correlation coefficient between the propensity to purchase private brands and price sensitivity was 0.70 ($p < 0.001$), showing a positive relationship between the two variables. This confirms Hypothesis 1. The correlation with perceived quality difference was -0.83 ($p < 0.001$), showing a negative relationship between the two variables. This confirms Hypothesis 2. The correlation with advertisement sensitivity was -0.73 ($p < 0.001$), showing a negative relationship between the two variables. This confirms Hypothesis 3. The correlation with brand concern was 0.03 (ns), showing no relationship between the two variables. So Hypothesis 4 is not supported. The correlation with store image was 0.61 ($p < 0.001$), showing a positive relationship between the two variables. This confirms Hypothesis 5.

Table 3: Analysis of Correlation

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Propensity to Purchase	0.70*	-0.83*	-0.73*	0.03	0.61*
1 Price Sensitivity		-0.63*	-0.56*	-0.03	0.46*
2 Perceived Quality Difference			0.66*	-0.02	-0.58*
3 Advertisement Sensitivity				-0.07	-0.47*
4 Brand Concern					0.08
5 Store Image					

* p < 0.001 (2-tailed)

4.4 The Empirical Model

Combining the results of the analysis of variance and the correlation analysis allows us to posit an empirical model relating the propensity to purchase private brands to price sensitivity, perceived quality difference, advertisement sensitivity, and store image. Figure 2 shows this model.

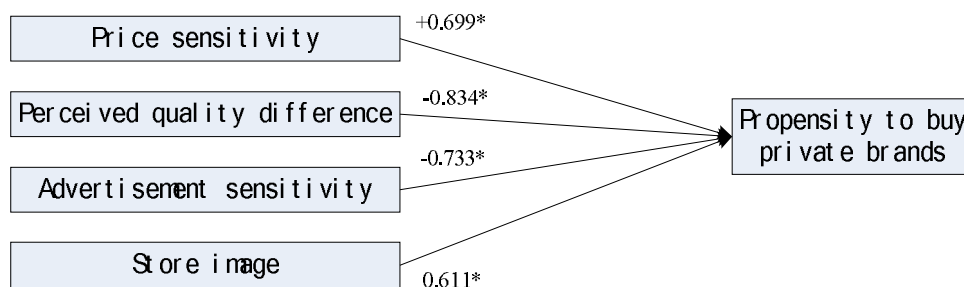


Figure 2: An Empirical Model of the Propensity to Purchase Private Brands

Those consumers who are willing to buy private brand commodities have high price sensitivity, low perceived quality difference, and low advertisement sensitivity. The retailers who introduce private brands commodities enjoy high reputation and recognition among customers as measured by store image.

5. Summary and Conclusions

The research demonstrates that customers with higher price sensitivity are more likely to purchase private brand groceries and commodities, and this finding is consistent with the early findings in the western context (Dodds, Monroe & Grewal 1991; Grewal & Krishnan 1998; Wheatley & Chiu 1977). A lower price seems to be the main advantage for private brand commodities, which gives the advantage when they introduce these commodities. The research also found that difference in perceived quality between private brands and manufacturer brands is small for consumers who purchase private brand commodities. In contrast, research on Western consumers shows that perceived quality difference is the main reason for purchasing manufacturer brand commodities rather than private brand (Sethuraman & Cole 1997). However in China, private brands are a relatively recent development and with the limited purchasing power of many households, customers with high price sensitivity have been more inclined to purchase private brands, and are less

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concerned about quality differences. The strong support for Hypotheses 1 and 2 supports these conclusions.

In recent years, with the development and advertising of private brands, a perception has developed in some customers that there is no obvious difference in quality between private brand and manufacturer brand commodities (McGoldrick 2002). For Chinese consumers conscious of price concerns, the purchase of private brands seems to be more a rational than an emotional decision. They care more about the value of commodities, and their concerns for price are important, so they are less influenced by the messages communicated in advertising. The strong support for Hypothesis 3 supports this conclusion.

The lack of importance of brand concern in the mind of the Chinese consumers (as evidenced by the non-significance of Hypothesis 4), can possibly be explained by the high level of support for the development and distribution of private brands by dominant retailers who have gained a good reputation with consumers. Hence private brand purchasers have low brand concerns when comparing familiar private brands and manufacturer brands.

This research also validates a conclusion, drawn from earlier Chinese research on private brands, that store image positively relates to the perceived quality of the private brand (Jiang 2003). The promotion of store image is the main factor for the enhancement of the customer's propensity to purchase private brands. The strong support for Hypothesis 5 supports this conclusion.

The above analysis demonstrates that due to the difference of purchasing power and purchasing behaviour between Western and Chinese consumers, the influential factors of the purchasing propensity for private brands and customer's purchasing behaviour are different in China. As we have seen, Chinese purchasers of private brands tend to have high price sensitivity, low advertisement sensitivity, high store image recognition, and they perceive few differences between private brands and manufacturer brands. From these conclusions, we can suggest some marketing strategies for retailers selling private brands.

5.1 Price Advantage of Private Brands Should Be Emphasized

Retailers develop private brands themselves, either using their own factories or outsourcing for manufacture. Thus, private brands often have an advantage of lower distribution costs than manufacturer brands. Generally speaking, the price of private brand commodities is 20 to 30% lower. While most Chinese customers are familiar with private brand commodities, there is still a need for them to be promoted. The focus of this promotional activity should be the low price advantage. To get more attention from customers with high price sensitivity, discount and rewards for purchasing should be used.

5.2 The Quality of Private Brand Should Be Promoted

As consumers of private brands tend to make purchasing decisions on the basis of a comparison of commodities' quality and price, retailers should send a message to consumers that the quality difference between private brand and manufacturer brand commodities is negligible. Retailers could use some western retailers' practice as a reference. For example, they may implement "blind test" to let consumers realize there is little quality difference between private brand and manufacturer brand commodities. As the perceived quality difference is one of the main reasons preventing consumers from

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purchasing private brand commodities, it is unsuitable for in some commodities with a high technology barrier. As grocery production has a low technology requirement, it should be a priority choice for retailers when they enter the private brand market.

5.3 Enhance Store Image When Introducing Private Brands

It appears that retailers with a good store image are more likely to have their private brand commodities accepted by consumers. Purchasing private brand commodities reflects consumers' trust in retailers, and the acceptance of private brands can concurrently enhance the consumers' loyalty. One precondition for consumers purchasing private brand commodities is the high recognition of the retailer's image, so retailers could use their own brand names as the names of private brands, thus consumers can more easily recognize and accept them.

This paper discusses the main factors influencing the private brand purchasing behaviour of Chinese consumers. From this research, it offers suggestions for retailers to manage private brand commodities. The research was limited to the grocery industry, and the conclusions of the paper may vary if different commodity categories were used. Other categories, especially for durable commodities, will need to be tested in future research.

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