



UNIVERSITI PUTRA MALAYSIA

**DETERMINANTS OF PRIVATE BRAND PURCHASE
IN THE CENTRAL KLANG VALLEY AREA**

OH YOKE MOI

GSM 2000 1

**DETERMINANTS OF PRIVATE BRAND PURCHASE
IN THE CENTRAL KLANG VALLEY AREA**

BY

OH YOKE MOI

**Thesis Submitted as Partial Fulfilment of the Requirements
for the Degree of Master of Science in the
Malaysian Graduate School of Management
Universiti Putra Malaysia**

June 2000



This thesis is dedicated to my family, with love



Abstract of this thesis presented to the Senate of Universiti Putra Malaysia as partial fulfilment of the requirement for the degree of Master of Science.

**DETERMINANTS OF THE PRIVATE BRAND PURCHASE IN THE
CENTRAL KLANG VALLEY AREA**

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June 2000

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Faculty: Malaysian Graduate School of Management

Private brands play a critical role in retail strategy. This concept will help retailers to outshine other retailers as well as compete effectively with manufacturers. Yet, we hardly find research being conducted on Malaysians interests in buying private brands. However, we have come across a number of studies concerning private brand proneness in other countries. Lately many research regarding the relationship between private brand proneness and behavioural aspects of consumers were carried out. The most recent research on this subject is conducted by Richardson et al., (1996a). This current research is done replicating their conceptual framework.

Our study augments prior research by building an integrated framework within which to view private brand proneness in the context of Malaysia, namely in the Central Klang Valley area. This study was conducted by using non-probability sampling method. Reliability test was used to purify the data and to ensure internal reliability of the data from 200 respondents before factor analysis is used to reduce

the data. The correlation among factors was tested by using Pearson correlation analysis. From the findings we found that most of the consumers (78.6%) in the Central Klang Valley area have bought private brands before but out of these only 11% can be considered as “frequent” private brand buyers. One positive sign here is that we have about 46.7% consumers who have claimed to buy private brands once in a while (sometimes). This group of consumers can be considered as “potential private brand buyers”. Retailers can focus on this group of people as a new segment. These consumers need to be fed with more information about private brands in order to remove their doubts on private brands. We also found that most of the private brand consumers are aged between 31-40 and in the range of monthly household income of RM3,000 to RM7,000.

Perceptual factors are found to be influencing private brand proneness. These factors include, familiarity with private brands, the extent to which consumers rely on external cues, perceived quality variation between national and private brands, perceived risk, perceived value for money, brand consciousness and finally the extent of consumer’s intention in purchasing a private brand. Generally speaking, most of the consumers in the Central Klang Valley area are still doubtful about private brands due to the limited information given to them in their decision-making process. Marketers should create market awareness and provide more information about private brands through the implementation of various promotional activities. Marketing implications for retail strategies pertaining to private brand management are also discussed

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains.

**FAKTOR-FAKTOR YANG MENENTUKAN PEMBELIAN
JENAMA PERUNCIT DI KAWASAN TENGAH LEMBAH KELANG**

Oleh

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Konsep jenama peruncit (private brand concept) memainkan peranan yang penting dalam bidang peruncitan. Strategi ini jika dirancang dan dilaksanakan dengan betul dan berkesan, peniaga-peniaga dalam bidang pusat membeli belah, terutamanya pasar raya pemborong bukan sahaja menandingi para pengeluar dari segi mendirikan imej yang tersendiri, malah boleh mengaut keuntungan yang lumayan. Berbanding dengan luar negara, penyelidikan tentang sikap pengguna terhadap jenama tidak terdapat di Malaysia. Penyelidikan dalam bidang ini telah banyak kali dilakukan khususnya oleh Richardson bersama beberapa penyelidik yang lain. Penyelidikan ini sebenarnya mengikut model asal yang telah didirikan oleh kumpulan penyelidik ini.

Penyelidikan ini bertujuan mendirikan satu model yang boleh menerangkan sikap pengguna-pengguna di kawasan tengah lembah Kelang terhadap barang berjenama peruncit. Model ini juga menunjukkan korelasi di antara faktor-faktor

yang menentukan kekerapan responden membeli barang berjenama peruncit. Sebanyak 200 sampel telah dipilih mengikut cara pesampelan tidak rawak. Pearson korelasi telah digunakan untuk menunjukkan perkaitan di antara penentu-penentu dan kekerapan membeli barangan berjenama peruncit. Didapati seramai 78.6% daripada responden pernah membeli barangan berjenama peruncit tetapi hanya 11% daripada mereka ini sering membeli barangan berjenama peruncit. Satu penanda positif di sini ialah, 46.7% daripada mereka ini membeli barang berjenama peruncit dari masa ke semasa. Pemasar-pemasar sepatutnya menumpukan perhatian terhadap segmen yang berpotensi ini. Segmen ini memerlukan lebih banyak maklumat terhadap barang berjenama peruncit. Kebanyakan responden adalah berumur di antara 31 hingga 40 tahun dan mempunyai pendapatan bulanan sekeluarga di antara RM3,000 hingga RM7,000.

Didapati bahawa korelasi di antara faktor-faktor (perceptual factors) memang wujud. Keputusan kajian ini adalah selari dengan keputusan kajian yang perolehi oleh Richardson dan rakannya. Keseluruhannya, pengguna-pengguna di kawasan tengah lembah Kelang memerlukan lebih banyak maklumat mengenai barangan berjenama peruncit sebelum membuat sebarang pembelian. Ini akan mengurangkan risiko semasa membeli barangan jenis ini. Para pemasar yang menggunakan jenama peruncit harus memberikan lebih banyak maklumat mengenai kualiti barang berjenama peruncit menerusi pelbagaian aktiviti promosi. Kajian ini telah membentangkan beberapa strategi mengenai jenama peruncit untuk pertimbangan para peruncit

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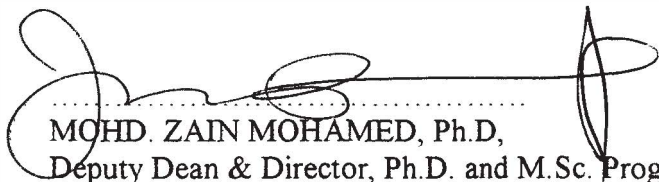
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I certify that an Examination Committee met on 13th June 2000 to conduct the final examination of Graduate Student on her Master of Science thesis entitled “Determinants of Private Brand Purchase in the Central Klang Valley Area” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommended that candidate be awarded the relevant degree. The Committee Members for the candidate are as follows:

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.

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CHAPTER 1

INTRODUCTION

1.1 An Overview of the Adoption of Private Labels Strategy among Retailers In The Central Klang Valley Area

Private brands are products owned and branded by retailers. These products have been very successful in Europe where chains like Carrefour (France), Migros (Switzerland), Esselunga (Italy), and Sainsbury's (England) have achieved significant market shares for their private brands (Halstead et al., 1995). Private brands help retailers increase store traffic and customer loyalty by offering exclusive lines under labels not found in competing stores. They offer higher margins, increase control over limited shelf space, and give retailers greater bargaining power in the distribution channel.

Organisations develop brands as a way to attract and keep customers by promoting value, image, prestige, or lifestyle. Once consumers become accustomed to a brand, they do not readily accept substitutes. Besides, brands can reduce the risk consumers face when purchasing something new (Montgomery and Wernerfelt, 1992). However, as consumers are becoming more price sensitive, the brand itself loses some importance (Allen, 1993). Branding today is facing challenges. Manufacturers must understand the price elasticity for their products. Adequate price controls must be in place and the manufacturers must have effective and efficient

brand building activities focus on new products (Berry, 1993a). According to the result of a survey as quoted by Rooney (1995), the number one brand in a line enjoys a 20% return while the number two brand earns a 5% return and all the rest are losing money. This has given the indication that some brands made wonders while others did not. Once a brand has successfully entered the marketplace and has achieved status as a leading brand, marketers must be concerned with keeping it there. Market research should be conducted to monitor consumers, competition, and changes in the environment that may affect company's brand (O'Malley, 1991). Berry (1993a) also recommends a formal tracking method to be in place to monitor the value of a company's brands, as it is important to know if consumers have the same perception of its product as itself.

One of the most controversial innovations in product development in recent years has been the introduction of private label products by major supermarket and hypermarket operators in America, Britain, France, Australia and many others (Denitto, 1995). Prices of these products are normally significantly below those of comparable brands. The implications of these developments for brand management are potentially very serious. To the manufacturers, the private label concept represents another attack on their market share. An increased acceptance by consumers of the private label product signifies a further weakening of belief in the importance of well-known brand names. For retail marketers, private label concept offers a chance to build market share. However they may suffer from low gross

margin and their image will be adversely affected when consumers do not support their products.

There are signs everywhere, including Malaysia that the private label intrusion phenomenon is beginning to gain market. In America and Britain, private labeled products are number one or two in several categories, such as cookies, ready-to-eat cereals, yogurt, ice-cream, crackers, fresh fruit juice, chip dip, bacon, cheese slices, and many others (Denitto, 1995). Large retailers and wholesalers have been rapidly developing their brands. For example, Sears has created Diehard batteries, Craftsman tools, Kenmore appliances that have secured brand loyalty. Retailers like, Benetton, the Body Shop, and Marks & Spencer carry mostly own-brand merchandise. In Australia, retailers such as, Coles has created Savings, Woolworth's with its Black & Gold for grocery products and Myer with its Miss Shop for clothing (Rubel, 1995). It is quite obvious that these operators have developed own brands for numerous product categories, ranging from groceries, which is dominating the private labels, to clothing and other shopping goods.

Since there are more and more private brands available in the market, it is not exaggerating to say that national brand manufacturers are facing problem in gaining more "visible" shelf space or "better positioned" shelves. The worst scenario is, retailers are no more depending on these national brands to draw in more customers when private brands have gained strong market share. According to the

recent Marketing News by American Marketing Association, the big-name brands are now trying to fight back with permanent price cuts, new product offerings, packaging innovations and aggressive advertising. However this may not be successful as the more sophisticated retailers are using premium private labels to build brand image and to lead future private brand growth.

Hypermarket chains and bigger retailers in Malaysia have followed the step of the above-mentioned foreign retail operators. However the local retail operators are not as ambitious as the Americans and the Europeans as they are not sure of the market response towards private labels. They are just trying out the private label concept on only a handful of grocery items, clothing and household appliances (Table 1.1).

The operation managers of these hypermarkets and department stores indicated in the personal interview that their stores have gained good profit from their private brands. The managers have also briefly mentioned the percentages of private labels sold as compared to the total brands displayed in the stores. Based on the information given, it is found that Makro is one the retail operators which own quite a substantial number of private labels. As for Giant, it owns about 2% of private labels among all brands available in the store whereas Tops is planning to invest more on private labels as they see great potential in private labels.

Table 1.1: Examples for Private Brands by local Hypermarkets and Department Stores

Retailer	Private brand	Product category
Giant	Giant	mineral water, toilet rolls, tissues, ketchup, detergent, preserved fruits, peanuts, bakery, & cotton buds
Carrefour	Coniture Carrefour	jam, bakery
Makro	Aro	groceries, clothing, & a number of shopping goods.
Tops	Tops	groceries, mineral water, bakery and clothing
Metro Jaya	Freeco, Zona, Zona 2, East India Company, Summerset Bay	female clothing

Source: Personal observation (15 December 1999)

The above information implied that Malaysian retailers have not accepted private brands concept fully. Does the above scenario indicate that private label is facing a miserable future in Malaysia? It is too early to make such a pessimistic conclusion because consumer's perception towards private labels is yet to be investigated. It can always be the case whereby consumers are looking for this kind of products without the knowledge of the local manufacturers or retailers due to its reasonable price and quality, thus may give their full support to private label.

In Malaysia, national brands are normally being perceived as foreign or multinational brands. Nowadays people are aware that most of the national brands are being made locally. Only a very insignificant number of products are fully imported from foreign countries. However the market acquired these products and would always perceive foreign products are having better quality. The fact is, there have been numerous incidents indicating dissatisfaction among consumers with regards to poor national brands performance, ranging from food, clothing, and electrical appliances, and other categories of items (Omar, 1994). This problem takes place in every part of the world. So is there a real quality difference between national and private brands? Past studies pertaining to private brands indicated that there is not much quality difference found between national and private brands (Cunningham, 1982). However, similar studies have not been carried out in Malaysia. Therefore a study pertaining to this issue is necessary at this stage in view of the increasing number of private brands emerging in the local market.

1.2 Problem Statement

Private brands owned by retailers are growing as challenges to manufacturers' national brands, whether global or country-specific. In the food-retailing sector in Britain and many European countries, private labels owned by national retailers increasingly confront manufacturers' brands (Cateora and Graham, 1999). According to Gerard (1997), Sainsbury, one of Britain's largest grocery

retailers with 420 stores, reserves the best shelf space for its own brands. A typical Sainsbury store has about 16,000 products, of which 8,000 are its private labels. These private labels account for two-thirds of store sales. Sainsbury is launching 1,400 to 1,500 new private-label items each year and these products generate high margin and achieve high market share.

Private labels, with their high margins, will become even more important as the trend in consolidation of retailers continues and as discounters such as Costco, Wall-Mart of the U.S., and Carrefour of France expand throughout Europe, putting greater pressure on prices. U.K.'s Tesco, one of Europe's bigger retailers, and other European retailers are expanding across borders where they may gradually introduce private label programmes (Cateora and Graham, 1999).

We have to take note of one fact, that is the growth of private brand in Malaysia is relatively much slower than the above-mentioned countries. People in these countries are generally of higher education level. According to Richardson et al., (1996a), consumers with higher education level are more rational and practical in their purchases. They will look for good quality product and less focus on brands. In other words, they are not brand conscious. Asians are just the opposite. They are more materialistic as compared to the westerners (Philip Kotler, 1994).

It is interesting to find out the way Malaysians perceive private brands. Consumers' perception towards the quality and packaging of private brands may explain their private brand proneness and at the same time serve as an indicator to marketer in managing their private brands (Livesey and Lennon, 1978). If Malaysians believe that private branded food offers lower quality, have less reliable ingredients and are having lower nutritional value, they may also having higher perceived risk towards private brands in terms of uncertainty regarding product performance. The fear that private labels may not possess desirable attributes or inviting social disapproval may discourage the Malaysians from trying these products.

This research replicates the study done by Richardson et al., (1996a). However the discussion here is not limited to the purchase of private brands for groceries as found in their study. Our study also covers clothing and other shopping goods as well. This is so due to two reasons. The first rationale is that if consumers these days are price sensitive, they would not limit their purchases to private branded groceries but they will also be buying other shopping goods. As what we can see in the west nowadays, bigger retail operators have already started introducing their own brands for apparels, household products, drugs items and many other categories of products (Rubel, 1995). The second reason is rooted from the local scenario. In Malaysia, most of the retailers who venture into the private brand concepts are investing an insignificant amount in selected few groceries, and at the same time

venturing into other product lines (please refer to Table 1.1). Therefore, data gathered from this research should be able to generate more realistic and useful conclusions.

One important issue here is that, if private brand prices were proven to be insignificant in influencing the choice of consumers, and it is only the national brands prices that influence the decision, then the marketing manager may develop new products aimed at building image of the core brand. Besides, they can also develop products with unique features and benefits that are not easily replicated by a private labeler or the last resort would be by slashing prices to combat the private labelers. Finally, identification of important determinants of private brand proneness will yield clear implications for marketing managers of national brands.

This study is to determine Malaysians' private label proneness and to present a framework of the determinants that may influence private brand proneness. The framework is based on four categories of factors, namely socioeconomic factors, perceptual factors, product characteristics (both intrinsic and extrinsic cues) and environmental factors. This framework is important as this will show whether specific consumer characteristics and their perception will lead to private brand proneness. This contribution is of vital importance for strategic brand management.