

The Determinants of Private Label Brands Perceived Value

Ananda Sabil Hussein

Department of Management, Faculty of Economics and Business, Brawijaya University

ABSTRACT

As retail industry is growing in these days, scholars provide more concern toward the development of private label brands. Scholars explain that customers purchase private label brands because of its value. Thus, to increase the perceived value of private label brand, there is a need to investigate the determinants of this construct. In general, perceived value is about the gap between cost and benefit. Store image is acknowledged to have an important role in creating perceived value of private label brand. However, some studies found the opposite. This unequivocal linkage created a research gap. To fill this research gap, this study proposes private label brand image as the mediating variable in the relationship between store image and private label brand perceived value. One hundred and ten respondents participated in this study. Data were collected through self-administered questionnaires in Malang City, East-Java Province, Indonesia. The following demographic profile emerged from the sample: 86% are female; 78% are aged between 20 and 40 and 79% have tertiary education. Partial Least Squares was employed to analyze the data. PLS estimation indicated that store image does not have a direct significant effect on private label brand perceived value. This study explains that the effect of store image on private label brand perceived value is mediated by private label brand image. In addition, private label brand image was found to have a positive significant effect on private label brand perceived value.

Keywords: Private Label Brand, Store Image, Brand Image, Perceived Value, Hypermarket

INTRODUCTION

The development of business competition in these days, triggering the emergence of a wide variety of retail or retail business in almost all cities in Indonesia. Soliha (2008) contends that the presence of modern retail business is basically utilize spending patterns of society, especially the upper middle class who do not want to jostle in a market that was traditionally poor or not well organized.

One of developing retail business in Indonesia is Hypermarket. Mahendratama (2011) claimed there are some reasons attracting customers to shop in modern hypermarket. The reasons including hypermarket has a comfortable place (cool, clean and spacious), strategic location (now widely amid the city), competitive price and good quality of products. In terms of the number of products sold, Hypermarket sells big number of products. The product quantity sold by a hypermarket is greatest among the types of retail and it makes hypermarket might apply the concept of one stop shopping.

In the hypermarket customers can begin the shopping from a kitchen stuffs to furniture, household goods to office supplies and fashion products or electronic goods. Hence, it is considered that hypermarket is a retail shop that sells goods in the span of a very wide category of goods. Selling almost from grocery items, household, textile, appliance, optical, and more with the concept of one-stop-shopping.

Many stores have managed to achieve their sales targets by offering branded products preferred by consumers in a nice and varied selection of products. However, apart from selling branded and high quality products, hypermarkets also sell and package their owned products under their own brand. It is known as private label brand. Kotler and Keller (2007) stated that private label is a brand privately developed by retailers and wholesalers. Ailawadi and Keller (2004) stated that the motivation of retailers to offer private label products is about private label products would help them to increase profit and increase the types of products sold in the shop, developed the store image and improve customer loyalty (Steenkamp & Dekimpe, 1997).

Scholars explained that store image has an important effect on private label brands perceived value (Lai et al., 2009; Ryu et al., 2012). These studies showed that customer perceived higher value if the store has a positive image. However, the relationship between store image and perceived value is remaining equivocal since Rahayu et al. (2016) did not find the significant relationships between these constructs. These contradictory findings remain a gap in the literature. To fill this research gap, this study inserted the notion of private label brand image as the mediating variable in the relationship between store image and perceived value.

Based on the gap in the literatures, this study aims to (1) investigate the relationships among store image, brand image and perceived value in the perspective of private label brand and (2) to scrutinize the mediating effect of private label brand image in the relationship between store image and private label brand perceived value. Upon the completion of these research objectives, this study provides both theoretical and practical contributions. For theoretical standpoint, this study validated the interrelationships among investigated variables (store image, private label brand image and private label brand perceived value) as well as proved the mediating effect of private label brand image in the relationship between store image and private label brand perceived value.

LITERATURE REVIEW

Perceived value is considered in services marketing literature to be a well-developed construct. Customers' perceptions of the value of service have been widely discussed in the literature as an important variable in predicting customer loyalty. The notion of customer perceived value is important in marketing activities as marketing is a social exchange between parties (Gounaris et al., 2007). Bhattacharya & Singh (2008) suggest that achieving high customer perceived value is an essential strategy for business organization in order to enhance competitive advantage.

The concept of customer perceived value is important for marketing studies. Gallarze and Gill-Saura's (2006) marketing study suggests three reasons for rationalizing the significance of customer perceived value. First, the concept has arisen from the development of two fundamental dimensions of consumer behaviour, i.e. price and psychology. Second, the construct of perceived value is able to help explain different domains of consumer behaviour such as product choices, buying intentions and loyalty. Finally the construct of value is inextricably linked to other essential customers behaviour constructs such as the perception of quality and the perception of satisfaction. For these reasons, it is believed that companies should create high customer perceived value.

Scholars (Leslie De Chernatony, 2008; Keller, 2013) agree that brand is an important asset for companies. Thus, brand elements need to be carefully chosen by companies. The brand element is the identity that supports service companies to enhance brand equity, which is regarded as one of the key components in managing customer relationship marketing (Elliot & Percy, 2007; Keller, 2013). Keller (2013), believes that there are six criteria for building meaningful brand identities which influence offensive and defensive marketing strategies. Those six brand elements' criteria are: memorable, meaningful, likeable, transferable, adaptable, and protectable. The first three criteria are playing offensive strategy, while the latter three are playing defensive strategy.

For businesses, a brand is a valuable intangible asset which is difficult for other companies to copy (L. De Chernatony, 1999). Given the high level of competition among airlines, Andreassen & Lindestad (1998) submit that there is little to choose from between them. For that reason, highly recognized well-known brand images are important for their role in communicating expectations, influencing perceptions, and affecting employees as well as customers (Gronroos, 2000). Furthermore, Martenson (2007) suggests that brand image is essential for maintaining superior financial performance.

Since brand image is an important factor in marketing, several studies have investigated the relationship between brand image and socio-cognitive variables such as service quality (Andreassen & Lindestad, 1998), customer satisfaction (Kandampully & Suhartanto, 2000), customer engagement (Van Doorn et al., 2010) and customer loyalty (Mahasuweerachai & Qu, 2011). However, to date very few studies have addressed the importance of brand image in the commercial airline industry (Park et al., 2004, 2006).

Based on the literature review four Hypotheses were proposed:

H1 : Store image has a positive significant effect on private label brand perceived value

H2 : Store image has a positive significant effect on Private label brand image

H3 : Private label brand image has a positive significant effect on private label brand perceived value

H4 : Private label brand image mediates the effect of store image on private label brand image.

METHODS

Sample

One hundred and twenty respondents participated in this study. Respondents were recruited in two hypermarkets in Malang City, Indonesia. The following demographic profile emerged from the sample: 86% of respondents were female, 71% are aged between 20 – 40 years old, 52% have university education background and 59% have income between Rp. 2.000.000 and Rp. 5.000.000. Table 1 presented the detail demographic profile of respondents.

Measurements

A self-administered questionnaire survey of two hypermarkets in Malang City was conducted to collect empirical data for this study. The survey was conducted between August and September 2016. The instrument was designed based on review of the related literature. The questionnaires consisted of two parts. The first part asking about the demographic of respondents and the second part measures the variables investigated in this study. The instruments used in this study were adapted based on several previous studies measuring store image, private label brand image and perceived value.

A five point Likert scale was used in this study to measure the investigated constructs. Six items used to measure store image was adapted from Wu et al.(2011). For this study, five items adapted from Wu et al. (2011) was used to measure private label brand image. To measure perceived value this study adapted five items proposed by Doods, Monroe and Grenwal (1991).

Data Analysis

To fulfill research objectives, variance based SEM technique by using smarPLS 3.0 was employed. Three steps of analysis was conducted as proposed by Chin (2010). These three steps were outer model analysis, inner model analysis and hypotheses test. Some evaluations were conducted to test the outer model such as convergent validity test, discriminant validity test and unidimensionality test. For inner model, this study checks the score of coefficient of determination and predictive relevance. Upon the completion of outer and inner model evaluation, hypotheses tests might be conducted. In testing the proposed hypotheses, alpha was set in the level of 5%.

Table 1: Demographic of respondents

| | |
|-------------------------------|----|
| Gender | |
| Male | 14 |
| Female | 86 |
| Age | |
| <20 | 5 |
| 20-30 | 37 |
| 31-40 | 34 |
| 41-50 | 14 |
| >50 | 10 |
| Education | |
| High school | 21 |
| Diploma | 26 |
| Undegraduate | 41 |
| Postgraduate | 12 |
| Income | |
| Rp. 500.000 - Rp. 1.000.000 | 5 |
| Rp. 1.000.000 - Rp. 2.000.000 | 21 |
| Rp. 2.000.000 - Rp. 5.000.000 | 54 |
| > Rp. 5.000.000 | 21 |

Source: Author

FINDINGS

Outer Model Evaluation

Outer model evaluation was conducted to make sure that the measurements used in this study are robust. Outer model evaluation is indicated by three indicators name convergent validity (factor loading > 0.6), discriminant validity (the square root of AVE is higher than its correlation), and uni-dimensionality ($\alpha > 0.7$).

The initial evaluation indicated that the factor loading varies between 0.032 and 0.952. As the robust indicator should have factor loading above 0.6, the items having factor loading below 0.6 were deleted. For this study, SI_1, SI_2, PV_4 and SI_3 were removed from the model. Upon the deletion of these items, the factor loading for each item varies between 0.610 and 0.951.

For this study, discriminant validity was tested by comparing the score of square root of AVE with its correlation. The discriminant validity test showed that there is a discriminant validity problem between private label brand perceived value and private label brand image. However, based on expert opinion (experts consist of two retail practitioners ad two academicians), the items used to measure perceived value and brand image were nomological valid. Hence, the items are retained for further analysis.

Uni-dimensionality was indicated by the score of composite reliability. For this study, the score of composite reliability varies between 0.866 and 0.943. As these score above 0.7, there is no uni-dimensionality problem detected. Table 2. Summarizes the results of outer model evaluation.

Inner Model Evaluation

For this study, inner model was tested through evaluating the score of coefficient of determination and the score of predictive relevance. The higher the coefficient of determination and predictive relevance, the better the structural model. The inner model evaluation showed that coefficient of determination for each endogenous variable varies between 0.138 and 0.953.

Predictive relevance was calculated as:

$$Q^2 = 1 - ((1 - 0.138)(1-0.953)) = 0.959$$

Based on estimation, the score of predictive relevance was 0.959.

Table 2: Outer model evaluation results

| | Items | Factor loading | AVE | Composite reliability |
|-------------------------------------|--------|----------------|-------|-----------------------|
| Store image | SI_4 | 0.913 | 0.690 | 0.866 |
| | SI_5 | 0.930 | | |
| | SI_6 | 0.610 | | |
| Private label brand image | PLBI_1 | 0.834 | 0.770 | 0.943 |
| | PLBI_2 | 0.824 | | |
| | PLBI_3 | 0.928 | | |
| | PLBI_4 | 0.844 | | |
| | PLBI_5 | 0.951 | | |
| Private label brand perceived value | PV_1 | 0.864 | 0.657 | 0.883 |
| | PV_2 | 0.833 | | |
| | PV_3 | 0.611 | | |
| | PV_5 | 0.902 | | |

Source : Author

Hypothesis Test

As there is no outer model and inner model problems, hypothesis test can be preceded. In testing the proposed hypotheses, alpha was set in the level of 5% ($t = 1.960$). Further section discussed the hypotheses tests.

Hypothesis 1 proposed the effect of store image on private label brand perceived value. The statistical estimation showed that there is no significant effect of store image on private label brand perceived value. Hypothesis 1 is not supported.

While this study did not find the significant effect of store image on perceived value, the effect of store image was found on private label brand image as proposed by Hypothesis 2 ($\beta = 0.371$; $t = 0.4522$). This positive significant effect means Hypothesis 2 is supported.

The effect of private label brand image on perceived value was proposed by Hypothesis 3. The statistical estimation showed that there is a positive significant effect of private label brand image on private label brand perceived value ($\beta = 0.992$; $t = 100.751$). It means Hypothesis 3 is supported.

The mediating role of private label brand image on the effect of store image on private label brand perceived value was proposed by Hypothesis 4. To test the mediating effect, this study employs Baron and Kenny's procedures (1986). Based on this procedure, private label brand image was found fully mediates the effect of store image on private label brand perceived value as proposed by Hypothesis 4.

DISCUSSION AND IMPLICATIONS

This study found that store image has a positive significant effect on private label brand image. This finding indicates that the more positive the image of store, the more positive the image of private label brands. This finding is similar with previous studies showed the importance of store image in affecting private label brand image (Ailawadi & Keller, 2004; Collins-Dodd & Lindley, 2003). Practically, this result implies that store manager needs to create a positive store image to enhance the image of its private label brand.

Other contribution provided by this study is about the relationship between private label brand image and private label brand perceived value. The statistical estimation showed that private label brand image has a positive significant effect on private label brand perceived value. This finding strengthening previous studies found the importance of image in creating perceived value (Lai et al., 2009; Ryu et al., 2012). Practically, this study explains that the retail store managers must be able to enhance the image of its private label brand to make the products have a higher value.

REFERENCES

- Ailawadi, K.L., Keller, K.L. 2004. Understanding Retail Branding: Conceptual Insights And Research Priorities, *Journal of Retailing* Vol.80, No.4: 331-342.
- Andreassen, T. W., & Lindestad, B. (1998). Customer loyalty and complex services: The impact of corporate image on quality, customer satisfaction and loyalty for customers with varying degrees of service expertise. *International Journal of Service Industry Management*, 9(1), 7-23.
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology*, 51(6), 1173.
- Bhattacharya, S., & Singh, D. (2008). The emergence of hierarchy in customer perceived value for services: A grounded analysis. *Journal of American Academy of Business*, 13(1), 65-73.
- Collins-Dodd, C., Lindley, T. 2003. Store Brands and Retail Differentiation: The Influence of Citra toko and Store Brand Attitude On Store Own Brand Perceptions, *Journal of Retailing and Customer Services* 10 (6), 345–352.
- De Chernatony, L. (1999). Brand management through narrowing the gap between brand identity and brand reputation. *Journal of Marketing Management*, 15(1-3), 157-179.
- De Chernatony, L. (2008). Brand Building. In M. J. B. a. S. Hart (Ed.), *The Marketing Book* (Sixth Edition ed.). Great Britain: Elsevier.
- Elliot, R., & Percy, L. (2007). *Strategic Brand Management*. New York: Oxford University Press.
- Gallarza, M. G., & Gil Saura, I. (2006). Value dimensions, perceived value, satisfaction and loyalty: an investigation of university students' travel behaviour. *Tourism Management*, 27(3), 437-452.
- Gounaris, S. P., Tzempelikos, N. A., & Chatzipanagiotou, K. (2007). The relationships of customer-perceived value, satisfaction, loyalty and behavioral intentions. *Journal of Relationship Marketing*, 6(1), 63-87.
- Gronroos, C. (Ed.). (2000). *Service Management and Marketing* (2 ed.): John Wiley and Son.

- Kandampully, J., & Suhartanto, D. (2000). Customer loyalty in the hotel industry: the role of customer satisfaction and image. *International journal of contemporary hospitality management*, 12(6), 346-351.
- Keller, K. L. (2013). *Strategic Brand management: Building, Measuring and Managing Brand Equity* (Fourth Edition ed.). England: Pearson Education Limited.
- Kotler, Philip & Kevin Lane Keller. 2007. *Manajemen pemasaran, Edisi 12, Jilid 1*. PT. Indeks. Jakarta.
- Lai, F., Griffin, M., & Babin, B. J. (2009). How quality, value, image, and satisfaction create loyalty at a Chinese telecom. *Journal of Business Research*, 62(10), 980-986. doi:10.1016/j.jbusres.2008.10.015.
- Mahasuweerachai, P., & Qu, H. (2011). The Impact of Destination Image on Value, Satisfaction, and Loyalty: Moderating Effects of Tourist Characteristics and Involvement.
- Mahendratama, Dyan Prakosa. 2011. *Pengaruh Langsung Dan Tidak Langsung Antara Kesadaran Merek Serta Asosiasi Merek Terhadap Ekuitas Merek (Studi Pada Pelanggan Hypermarket Di Kota Malang)*. Tesis. Program Magister Ilmu Manajemen. Program Pascasarjana Universitas Brawijaya.
- Martenson, R. (2007). Corporate brand image, satisfaction and store loyalty: A study of the store as a brand, store brands and manufacturer brands. *International Journal of Retail & Distribution Management*, 35(7), 544-555.
- Park, J. W., Robertson, R., & Wu, C. L. (2004). The effect of airline service quality on passengers' behavioural intentions: a Korean case study. *Journal of Air Transport Management*, 10(6), 435-439.
- Park, J. W., Robertson, R., & Wu, C. L. (2006). Modelling the impact of airline service quality and marketing variables on passengers' future behavioural intentions. *Transportation Planning and Technology*, 29(5), 359-381.
- Rahayu, M., Hussein, A. S., & Aryanti, R. (2016). Analisis Pengaruh Citra Toko, Citra Merek Produk Private Label, dan Nilai Yang Persepsikan Terhadap Loyalitas Pelanggan (Studi pada Pelanggan Giant di Kota Malang). *Ekonomi Bisnis*, 21(1).
- Ryu, K., Lee, H.-R., & Gon Kim, W. (2012). The influence of the quality of the physical environment, food, and service on restaurant image, customer perceived value, customer satisfaction, and behavioral intentions. *International Journal of Contemporary Hospitality Management*, 24(2), 200-223.
- Soliha, Euis. 2008. Analisis Industri Ritel Di Indonesia, *Jurnal Bisnis dan Ekonomi Vol. 15*.
- Steenkamp, J.-B. E., & Dekimpe, M. G. (1997). The increasing power of store brands: building loyalty and market share. *Long range planning*, 30(6), 917-930.
- Van Doorn, J., Lemon, K. N., Mittal, V., Nass, S., Pick, D., Pirner, P., & Verhoef, P. C. (2010). Customer engagement behavior: Theoretical foundations and research directions. *Journal of Service Research*, 13(3), 253-266.