Asymmetric Consumer Responses to National Brand and Private Label Brand Scandals

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Retailers have increasingly turned their focus to growing Private Label Brands (PLBs). One inherent risk is the possibility of a consumer scandal. National brand (NB) scandals have become commonplace, and research has explored their effects (e.g., Roehm and Tybout 2006). In a series of three experiments we explore the asymmetric effects of PLB and NB scandals in terms of consumer evaluations of (1) the retailer, (2) categories, and (3) brands within those categories. We consider scandals simultaneously affecting NB and PLBs, and explore the moderating role of typicality, the mediating effect of perceived risk, and demonstrate how retailer sub-branding strategy can lessen PLB scandal effects.

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ABSTRACT
Private Label Brands (PLBs)—often referred to as “store brands” or “own brands”—are defined as brands owned, controlled, and sold exclusively by a retailer (Raju et. al 1995). Research suggests that PLBs may (1) help differentiate the store itself versus competition and possibly increase consumer loyalty (Corsjens and Lal 2000), (2) help retailers increase their power vis-à-vis national brand (NB) manufacturers (e.g., Chintagunta et. al 2002), and (3) in some cases, increase category profits (Ailawadi and Harlam 2004). Accordingly, PLBs have seen explosive growth and increasing consumer acceptance, with retailers are increasingly engaging in de facto PLB “brand management.”

PLBs offer benefits, but also risks which national brand manufacturers have faced for decades. Brands have long been affected by scandals of various scope and impact, often affecting consumers. Examples of consumer-based brand scandals include tainted Tylenol products killing seven people in 1982, Beech Nut company leaders being convicted of selling sugar water as apple juice in 1987, and E.Coli-tainted Taco Bell products sickening dozens of consumers in 2006. Given intense retail focus on PLBs and peripheral factors (e.g., lesser control over the manufacturing process versus national brand manufacturers due to a single retailer potentially sourcing products from hundreds of different suppliers) there is strong potential for a major PLB scandal. This paper investigates the commonalities and differences of a PLB scandal vis-à-vis a national brand scandal.

We posit that PLB and NB scandals will have decidedly asymmetric consumer-evaluative spillover effects. No other brand has the breadth of a PLB (especially when retailers use their own name across a wide variety of products), and PLB products are typically viewed by consumers as inferior in quality (or at best, quality-equivalent) with NBs in the same category. Therefore, we would expect a scandal on a PLB to have limited consumer diagnosticity on within-category NBs and on the affected category itself, as typicality is low. However, within a retailer, a PLB scandal should have the potential for more consumer spillover across categories to other PLB products because there is a PLB offering (often branded exactly the same way, with retailer’s equity) in nearly all categories. Park et. al (1991) write that “category members may “hang together” because they are understood to share some concept” (pg. 186). For a group of PLBs, this shared concept will be the consumer-transparent (thus driving typicality) fact that they are retailer own-brands (we explore less transparent PLB strategies later in the paper). This contrasts with NBs, which are generally viewed by consumers as representative of a category, and as superior to PLBs (which often are classified as imitations of NB) and therefore become much more diagnostic of the category, and other brands within. However, the nature of a brand scandal is that in terms of spilling over to disparate categories, there is not a unifying feature (like there is with PLB same-name) that would provide consumers a linking mechanism to major brands in different categories. Even when the same national brand name is present across these categories, the quality assurances of a leading national brand preclude consumers from assigning across-category spillover.

The most obvious difference between PLB and NB scandals—and perhaps the most crucial spillover effect in terms of retailer concern—would be a spillover back to the retailer itself. Much like national brands, retailers have retailer brand concepts (i.e. images) that they create, for example, by “attaching unique associations to the quality of their service, their product assortment and merchandising, pricing and credit policy, etc.” (Ailawadi and Keller 2004, pg. 332), and PLBs are often a direct extension of the retailer’s equity to its consumers.

We also hypothesize that consumers’ perceived risk mediates the scandal process. Risk has been shown to be a key driver of PLB acceptance since PLB purchases in a category increase when consumers perceive reduced consequences of choosing the wrong brand in that category (Batra 2000) and risk tolerance has also been shown to be a major driver of PLB acceptance (Erdem et. al 2004).

We explore this phenomenon in a serious of between subject experiments using fictitious brands. We extensively pretest our study stimuli, and in Study One we explore the differences between consumer-evaluative spillover between national brand and PLB-based scandals and the role of typicality; early results indicate strong support for the arguments outlined above. In Study Two we explore the situation where a scandal affects both the national brand and PLB (a likely scenario given frequent PLB manufacturing by national brand companies). In Study Three we plan to explore different PLB branding strategies, hypothesizing that scandals spill over more onto retailer’s own equity when retailer’s name (or an associated equity) is used versus if a pseudo-national brand name (non-related equity) is used. However, we hypothesize that the use of category-sub-branding (e.g., FoodMart DairyFresh) can inhibit the spillover onto PLBs in different categories and have lower spill over onto the overall retailer equity than without sub-branding.

This paper represents a first step at exploring the negative consumer-based retailer “side effects” of the massive focus on PLBs. Examples of these risks include consumer dissatisfaction (and possible spillover effects), brand concept (i.e. brand image) erosion due to a mismatch with PLB, and failed new product launches.

REFERENCES


