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“Outing” the Supplier: Implications for Manufacturers and Retailers

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“Outing” the Supplier:
Implications for Manufacturers and Retailers

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Abstract

Research Paper

Purpose

To empirically examine the brand impact of consumer knowledge regarding a common supplier and shared product specifications between manufacturer and private label brands.

Design/Methodology/Approach

The study uses three fast moving consumer goods in an experimental setting.

Findings

The study finds that knowledge about common sourcing and shared specification decreases perceptual gaps between private labels and manufacturer brands and improves attitudes towards the retailer.

Research Limitation

The study uses a student sample, although all product categories and brands tested are popular with this demographic, which is a key target market for the tested industries.

Practical Implications

Manufacturer brands that supply private labels need to make sure that this information does not reach consumers and/or ensure their own brand version remains superior to the private label. Retailers that use well-known manufacturer brands as suppliers of their high quality private labels might wish to share this information with customers as a means of improving attitudes towards the private label and retailer brands.

Value

This paper builds on earlier platform sharing research and shows the dangers and opportunities of sharing product specification across brands with differing reputations and prices.

Key Words: brand equity, private label, manufacturer brand, product supplier

Skip the name brand (milk) unless you have a coupon. The store brand is less expensive and may even come from the same dairy. (*MSN Money*, 2008).

Although manufacturers often promote their own brands as unique and superior to consumers, many such as Lexmark, Heinz, Hershey's, Kraft, Campbell's Soup, General Foods, and Pillsbury also quietly produce private label products as a means to take share from other manufacturer brands, utilize excess manufacturing capacity, and build closer relationships with major retailers (Dunne and Narasimhan, 1999; Steenkamp, van Heerde and Geyskens 2010; Ward et al., 2002). While these motivations may yield short-term profits for manufacturer brands, literature on the topic is sparse with regards to its potential longer-term impact on brand perceptions and brand equity (Toporowski and Zielke, 2006; Verhoef et al., 2002). This is an important limitation of the literature, because even though they seldom publicize this aspect of their business to consumers, private label supplying manufacturer brands are creating defacto brand extensions and/or brand alliances with the potential to help or hurt consumer perceptions of all the linked brands.

This research tests whether the perceptual gaps between the brands shrink when consumers receive news that "outs" a leading manufacturer brand as the actual private label supplier using highly credible independent media reports. The general finding is that consumers with knowledge that private labels are the same in specification and supplied by the leading manufacturer brand also perceive smaller gaps between them and have improved attitudes towards the retailer.

Literature Review

Since the 1960s a number of attempts have been made to identify the characteristics of private label buyers (Richardson, Jain and Dick 1996a). Private label products in those earlier

days were usually objectively and perceptually far inferior in quality to manufacturer brands, and purchased by people that were very price sensitive by temperament or need. In more recent times, however, objective private label quality has improved and become more important relative to price in private label trial and value for money perceptions (Hoch and Banerji 1993; Richardson et al. 1994; Shannon and Mandhachitara 2005; Sprott and Shimp 2004). Despite the efforts of retailers to close the objective quality gap between their private labels and manufacturer brands, however, many consumers still subjectively rate private label products as inferior to manufacturer brands (DelVecchio 2001; Shannon and Mandhachitara 2005; Sprott and Shimp 2004; Steenkamp et al, 2010).

This gap between objective reality and subjective evaluations of private label quality has been a difficult communication problem for retailers, because effectively communicating higher private label quality to consumers can be cost prohibitive. While manufacturer brands have often made major investments in advertising and promotions over many decades to build strong brand equity, retailers typically cannot afford this type of expensive brand building support because it would jeopardize their ability to offer price advantages and achieve higher margins over leading manufacturer brands (Baltus 1997; Sprott and Shimp 2004). Since many market leading manufacturer brands also produce high quality private labels for retailers, “outing” or identifying the supplier brand is another possible, and as yet largely untested, tactic for improving perceptions of private label products. In one of the only studies that has looked at private label sourcing, Fugate (1986) found that providing information on the product label about a manufacturer brand as the source of a private label product enhanced perceptions of the private label on several attributes. This research, however, did not examine the potential impact this practice might have on the supplying manufacturer brand and retailer brand, or the impact of

sourcing information on purchase intentions for any of the involved brands. These limitations are important, because favorable perceptions about the brands carried by the retailer can influence the overall reputation of the retailer and a consumer's willingness to shop there (Grewal et al. 1998).

Signalling theory has been extensively applied as a framework in branding research, because consumers use well-known brands as a heuristic signal of product quality, particularly in cases where it may be difficult to evaluate quality before purchase (Erdem and Swait 1998; Rao et al. 1999). This is one of the reasons manufacturer brands are frequently perceived to offer quality advantages that make them worth a higher price versus private labels (Richardson et al. 1994; Sethuraman 2003; Sprott and Shimp 2004). Evidence from the co-branding/brand alliance literature predicts that credible information about sourcing from well-respected manufacturer brands would create opportunities for favorable signals to be sent about the quality of the private labels (Olson 2008; Simonin and Ruth 1998; Vaidyanathan and Aggarwal 2000). In this situation, the quality and status signaled by the higher-class manufacturer brand may become associated with its lower-class private label "twin" through the process of information integration (Simonin and Ruth 1998). This signal of quality may not only improve consumer attitudes towards the private labels, but also increase purchase intentions/trial rates due to lower perceptions of risk (Batra and Sinha 2000; Richardson, Jain, and Dick 1996b; Sethuraman and Cole 1999).

Conversely, information about a manufacturer brand supplier of private labels may signal that the brand is less unique and lower in quality and hence hurt its reputation (Olson 2008, 2011). The possibility of this loss in brand meaning and value is reinforced by research that has found that manufacturer brands have been most susceptible to private label competitors in

product categories where they have not maintained functional advantages (Hoch and Banerji 1993; Hoch 1996; Quelch and Harding 1996; Verhoef et al. 2002). Although manufacturer brands that also produce private label products might include in their supply contracts prohibitions against the retailer promoting the supply source, other methods/and sources may result in this information becoming available to consumers. Csere (2006) notes that firms will often promote their brand to consumers as being unique and superior, while telling financial markets and media about the economies of scale and other cost savings that accrue to the firm by producing identical products under multiple brand names. Steenkamp et al. (2010), also report that highly credible sources such as *Consumer Reports* are now telling readers that many private labels are produced by leading manufacturer brands. We therefore expect credible media reports that directly tie an “inferior” private label product to a manufacturer brand supplier may create positive spillover towards the private label brand and negative spillover towards the manufacturer brand by activating diagnostic links between the brands (Lei et al., 2008; Roehm and Tybout, 2006).

H₁: Credible information about the leading manufacturer brand being the source of a private label product reduces the uniqueness gap between the private label and the manufacturer brand.

H₂: Credible information about the leading manufacturer brand being the source of a private label product reduces the attitude gap between the private label and the manufacturer brand.

H₃: Credible information about the leading manufacturer brand being the source of a private label product creates more favorable attitudes towards the retailer brand.

Method

The hypotheses were tested with three fast moving consumer goods carrying private labels described as being produced by market leading manufacturer brands (e.g. Coca-Cola, Kellogg’s Corn Flakes, and Pantene Shampoo). The food retailer selected was a leading full-

service supermarket chain in the Scandinavian market (Meny), which had only recently begun introducing private label products at the time of the data collection. The experimental private label products were also given the Meny name to avoid the common, but legally questionable, copycat strategy of creating a retailer sub-brand that is similar to the targeted manufacturer brand (Rafiq and Collins, 1996).

Subjects were 99 Norwegian 2nd year undergraduate students enrolled in an introductory marketing course who participated in the study for extra credit and were randomly assigned to either the control group or experimental group. Although 100% of the subjects had previous experience with various private label products and with the tested manufacturer brands, none of the private label test categories were available at the retailer prior to the data collection, so personal experience with the stimuli products could not provide an alternative explanation for the results. Using a methodology developed by Olson (2008, 2009) for testing the impact of platform sharing on brand attitudes, product stimuli for all subjects was said to originate from a non-profit consumer testing organization review of new private label products. The article in both conditions gave positive reviews for all three products with favorable comparisons to leading manufacturer brand competitors (i.e. “In blind tests, our panel had no clear favorite in any category and could not accurately identify whether the products were the store brand or the leading national brand based on their taste and/or performance”). The experimental condition stimuli, however, added the following sentences: “Further investigation, including chemical analysis by an independent laboratory, revealed that the three private label products were produced for Meny by Coca-Cola, Kellogg’s, and Pantene respectively and share identical chemical specification with the supplier’s flagship brand products. They can therefore be considered functionally perfect substitutes with a substantially lower price”.

After reading the product review stimuli, subjects were asked to fill out a questionnaire with 7-point semantic scales adopted from Olson (2008; 2009) measuring brand uniqueness and attitude towards the three private label products, retailer brand (i.e. Meny), and manufacturer brands. Brand order was randomly rotated in both the stimuli and the questionnaires and no significant order-of-effects were found. To ensure that randomization created equality among the groups and that the stimuli had been seen as credible, subjects were also asked questions about their involvement and knowledge of the test product categories and about the credibility of the product review stimuli. No significant differences ($p < .05$) were found between the groups on source credibility (average 6.04 out of 7), product category knowledge and involvement (all 3 products), age (average 20.8), and gender (44.5% male). Cronbach's Alpha for the all multi-item comparison constructs representing source credibility, category involvement, and brand attitude ranged from .71 to .95.

Results

Table 1 reports the gap between private label and manufacturer brand perceptions calculated by subtracting the private label attitude and personality measures from their respective manufacturer brand equivalents.

Table 1 here.

H₁'s prediction that news about common specification and sourcing would reduce the uniqueness gap was supported by the results for all three products (cola control uniqueness gap = 2.88 versus 2.12, corn flakes control = 2.76 versus 1.02, shampoo control = 1.51 versus 0.68). Further comparisons between the control and experimental group ratings on each brand found the reason for the gap reduction was a significantly lower uniqueness rating for the manufacturer

brand in all 3 product categories, and a significantly increased uniqueness rating for the private label corn flakes ($p < .05$).

As predicted by H_2 , information about the specification and sourcing significantly reduced all affective attitude gaps between the private label and manufacturer brands (cola control attitude gap = 4.07 versus 3.05, corn flakes control = 2.19 versus 1.49, shampoo control = 3.18 versus 2.52). Comparisons between the control and experimental group ratings on each brand found the reason for the affective gap reduction was a significantly lower affect rating for the manufacturer brand and significantly higher affect rating for the private labels across all 3 product categories ($p < .05$). On the conative measures of attitude, H_2 was supported by the significantly reduced gap for the corn flakes and shampoo (corn flakes control = 2.29 versus 1.33, shampoo control = 3.73 versus 3.05), but the gap was not significantly reduced for cola (only directional). Post-experiment debriefing revealed the frequent consumption of soft drinks in public (social risk) and Coke's availability in virtually all vending machines and restaurants were the major reasons for the lack of a change in the cola behavioral measure. Comparisons between the control and experimental group ratings on the shampoo and corn flake brands found the reason for the conative gap reduction was a significantly lower conative rating for Pantene and Kellogg's Corn Flakes, and significantly higher conative rating for the private label shampoo ($p < .05$).

Although the information about the manufacturer brand origins of the private labels did not always result in significantly enhanced evaluations of the private label products themselves, this information did result in enhanced attitudes towards the retail brand (Meny control = 3.31 versus 3.82), supporting H_3 . From the manufacturer brand's point of view, the reduced gap with the private labels comes most frequently from a drop in the ratings for the supplying brand,

which is consistent with spillover research findings that the strongest effects are activated by negative information (Roehm and Tybout, 2006).

Discussion

The results indicate that when consumers receive exposure to credible information about a private label that is physically identical to its leading manufacturer brand supplier, the perceptual gap between the two brands is significantly reduced. The enduring strength of manufacturer brands is shown, however, by the continued attitude advantage they hold over the private labels products even after exposure to the media report.

Retailer Implications:

The results from both studies suggest that retailers using leading manufacturer brands to supply their high quality private labels should directly or indirectly provide this information to consumers with one major provision: they need to examine the effects of the tactics tested here on the overall profitability of the product category, which should include reduced sales of manufacturer brands, their potential for reducing price competition with other retailers (Ailawadi, Neslin and Gedenk, 2001), and the financial value the positive feedback can provide to the retailer's overall reputation (Grewal et al., 1998).

Manufacturer Brand Implications:

The results also suggest that manufacturer brands should be very cautious about supplying private label products, and particularly careful about making announcements of their supply arrangements to financial and trade media, since this news is more likely than ever to leak out to consumer markets and potentially erode brand equity (Csere, 2006; Olson, 2008). Furthermore, a focus on cost reduction as a motivation to manufacture private label products is likely to increase the incentive to share product specifications with the private label to provide

enhanced R&D and manufacturing economies. Doing so, however, will only make manufacturer brands more susceptible to media reports studied here. Thus staying ahead of continually improving private labels will require constant innovation to maintain meaningful advantages in quality and performance that can be effectively communicated to consumers (Hoch, 1996; Quelch and Harding, 1996; Verhoef et al., 2002).

Conclusion

Manufacturer brand managers also need to be aware that brand equity that is based primarily on intangibles such as image may be increasingly difficult to maintain in the Internet age. They should therefore expect continued downward pressure on margins unless the product delivers the promised brand benefits through tangibly superior product quality and/or value.

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Table 1
Study 1: Credible Media Reports of Private Label Quality and Sourcing

n =	Private Made by Unknown Firm (49)	Private Made by Market Leader (50)	t value / p (1 tail)
<u>Gap Between Coke and Private Label Cola</u>			
Uniqueness Gap*	2.88	2.12 (<)	1.99 / .025
Affect Attitude Gap	4.07	3.05 (> <)	3.68 / .000
Conative Attitude Gap	4.17	3.80	1.20 / .116
Overall Attitude Gap	4.11	3.35 (> <)	2.70 / .004
<u>Gap between Kellogg's and Private Label Corn Flakes</u>			
Uniqueness Gap*	2.76	1.02 (> <)	5.14 / .000
Affect Attitude Gap	2.19	1.49 (> <)	2.10 / .019
Conative Attitude Gap	2.29	1.33 (<)	2.76 / .004
Overall Attitude Gap	2.23	1.42 (<)	2.46 / .008
<u>Gap between Pantene and Private Label Shampoo</u>			
Uniqueness Gap*	1.51	0.68 (<)	2.51 / .007
Affect Attitude Gap	3.18	2.52 (> <)	2.81 / .003
Conative Attitude Gap	3.73	3.05 (> <)	2.40 / .009
Overall Attitude Gap	3.40	2.73 (<)	2.85 / .003
Retailer Affect Attitude	3.31	3.82	2.85 / .003
Retailer Conative Attitude	4.42	4.92	2.47 / .008

Key: (>) indicates the gap was reduced due to significant improvement in private label rating ($p < .05$), (<) indicates the gap was reduced due to significant reduction in national brand rating ($p < .05$). * Brand personality item originally from Aaker (1997).

Notes: Highest positive ratings were 7 on 7 point scale. Gaps were measured by subtracting the private label score from the manufacturer brand score on the same measure(s). For example, if Coke was rated a 6 on uniqueness, and Meny Cola was rated a 4, the gap would be 2. Overall Attitude Indexes are the average of 5 individual attitude measures.