Knowledge and Preference of Private Label Products by Slovak Consumers

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Abstract
The aim of the research was to determine Slovak consumer's knowledge and preference of products bought under private labels. As a research method, there was used a structured questionnaire consisting of 13 questions. Total number of respondents was 900 randomly selected respondents buying in selected retail chains (Tesco Stores Slovakia, COOP Jednota Slovensko, Billa, Lidl, Kaufland and CBA Slovakia). The number of respondents of each retail chain was 150. For a deeper analysis of the obtained results, there were set out assumptions, which have been tested with the use of Pearson's chi-square test and Cramer's contingency coefficient. As the results of the research show, despite the fact, that the knowledge and preference of private label products by Slovak consumers is quite well (70 % of respondents know what does mean the term private label and 51.11 % of respondents purchase them regularly), there are still some reserves and shortcomings that need to be minimized, or if it will be possible removed.

Keywords: private label, knowledge, preference, purchase

JEL Classification: M31

1. Introduction
As it was written by Adamson (2007), one of the most successful strategies of retailers is to sale goods under the retail brand. The purpose of this kind of sale is to attract new customers, which will later become loyal customers, and to build the image of the corresponding retail chain.

The term private label, sometimes also called as retail brand, store brand, national brand or own brand, refers to all goods which are produced for a particular retailer. Private label normally carries the retailer’s name or a brand name, which is owned by the retailer and usually, is manufactured by an upwards producer on behalf of the retailer who is in control of virtually all aspects of the product, from product design and quality to marketing and pricing (Khodjamirian, 2012). According to Kotler & Keller (2007), private labels are said to be more profitable, with lower production costs, as well as with lower costs on researches and development, advertising, sales promotion and physical distribution. Which means, that a trader with a private label may charge a lower price and achieve higher profit margins.

While traditional brands, sometimes referred as national brands, are the property of manufacturer, private label brands are the property of retail chains. In many cases, they are described as a global phenomenon (Herstein & Gamliel, 2004; Smith & Bashaw, 2009), which is constantly fighting for a place in the market for traditional brands. Despite the fact, that traditional brands are still dominating the market, private labels tend to take the place, which was before belonging just to traditional brands (Chimhundu, 2011).

According to Pradhan (2010), Ray (2010), Kumar & Steenkamp (2007), or Nagyová (2000), because of the need of minimization of problems stemming from misunderstanding of the
question of private label brands, were different signs and symbols controlled by retailers commonly named as private labels and divided into four basic groups:

1. **Generic private labels** – started in the U. S. and Europe as cheap, inferior products with lower quality. Historically, they did not carry the name of the store, but the name of the product, such as ‘milk’ or ‘butter’, in plain black script on a white plain background. These cheap, shoddy products, did offer lower income and price sensitive customers a purchase option, and as result enabled the retailer to expand its customer base.

2. **Copycat store brands** – carry the name of the retailer and tend to have packaging and price points very close to the products, which they compete with. Retailers tend to target branded products, which are already successful then produce a copycat, which has similar ingredients, packaging and pricing. Copycat retailers can thereby cash in on the success of the branded product without having to incur the costs associated with developing the product and researching the market.

3. **Premium store brand** – historically the term premium in premium private labels seems to have referred mainly to the contrast with the copycat brand rather than with leading manufacturer brands. The premium store brands are said to be superior in price and quality to the traditional brands. The latest trend is to establish high quality products with distinctive packaging, presented as a whole new product line by the retailer, targeted at competing with the top brands in the range. In general we can distinguish between two types of premium store brands:
   - **a. premium private label**, which is exclusive, higher in price, and superior in quality to competing brands, and
   - **b. premium-lite store brand**, which is promoted as being equal or better in quality to the competing brands, while being cheaper.

While premium private labels are their customers still just looking for, premium-lite store brands has in recent years become very popular.

4. **Value innovators** – retailers, which are following this approach have to focus on cutting down costs and processes to simplify the production and marketing of product ranges, so that a good quality product could be offered at very low prices. This approach greatly differs from the generic, copycat and premium label approaches. There are a number of key principles, which must be adhered to become successful:
   - **a. limited number of products,**
   - **b. low costs of production and marketing,**
   - **c. good quality products at low prices.**

Private labels, as it was mentioned by Machková (2009), imply several benefits, both on the side of the consumer, as well as on the side of the trader and to some extent on the supplier’s side (they help him in increasing sales volume, economies of scale, lower costs on communication and logistics, and brings him the opportunity to input new markets). While for the consumer is the main advantage lower price of products, for the retailer is it the possibility to enhance the image, increase of supply, increase of demand and enhance of customer loyalty, as well as minimization of the risks associated with the introduction of new products (Cross, 2014; Liu & Wang, 2008; Cheng et al., 2007; Huang et al., 2007; Sethuraman & Cole, 1999; Baltas et al., 1997). As other possible benefits of private labels for retail could be regarded the reduction in advertising costs, possibility of determining its own pricing policy, ability and flexibility to change the search and producers, as well as the opportunity to achieve higher margins (Kokemuller, 2014; Machková, 2009; De Wuif, 2005; Horská, 2007).
1.1 The history and presence of private labels

The history of private labels can be dated up to the 19th century, when there has occurred the first private brand – the brand of The Great Atlantic and Pacific Tea Company (A & P), which has marketed its own brand of baking powder in 1880. The very beginnings of the development of private labels were not easy, since the beginning they have been considered to be "poorer brother" of branded products and have achieved only very low marketability of shares (Lincoln & Thomassen, 2008). The reason for this failure was that they were just replicas, which have imitated leading brands in their category. This imitation was based primarily on imitation of packaging, the colours and font types (Kumar & Steenkamp, 2007).

According to Lupton et al. (2010), private label brands have established their market in the United Stated and Europe in the past few decades. Consumers tended to perceive private label brands as a substitute or option to the national brands because of their white – black packs, location somewhere on the bottom shelves and low price. However, over the time, there have been several significant changes, which have made private labels acceptable alternatives for the purchase (Kumar & Steenkamp, 2007).

In general, we can divide the history of private labels into three main periods:

1. **The period of price competition in the 70th years**, which is also named as the era of generic brands, and for which were primarily typical – increase of competition; emergence of commodity products with a pricing fighters, which’s aim was the increase of sales and market shares and increase of customers’ price sensibility.

2. **The period of competitive differentiation in 80th years** associated with the era of own and exclusive brands, as well as with the era of imitation of branded products in view, quality, packaging (phase "me too").

3. **The period of overall corporate image-building in the 90th years**, when to the front are becoming own brands or own labels and when to the competitive market of private labels entered also the British market and has been misled special type of organic product lines, various health-promoting products (healthfoods) and others (www.gov.mb.ca, 2010; Môciková, 2000).

Development of private labels is now a global phenomenon (Dobson & Waterson, 1999), which brings both advantages as well as disadvantages, which, according to several studies, has to be eliminated. The most apparent expansion of private labels, for the year 2013, was noticed in Switzerland with 37.7 %, unchanged in USA with 17.2 % and the lowest one in China with 0.4 % (blog.euromonitor.com, 2014; IRi Growth delivered, 2013). These results are again confirming the previous findings that private labels are most advanced in Europe (Dulíková, 2012).
Table 1: Private labels in Europe – current trends and necessary actions

<table>
<thead>
<tr>
<th>Trends</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private labels have increased in all countries in Europe (private label value share is 36.7 % and unit share is 47.1 %). The only exception was France.</td>
<td>Producers must focus on joint business planning with their retail partners and convince them that hooding their brands benefits everyone, including customers.</td>
</tr>
<tr>
<td>Private label sales are increasing across most markets and well performing in countries where overall sales are in decline because of economic conditions.</td>
<td>Producers must build strong brand loyalty with a direct access to their consumers from what retailers will also benefit.</td>
</tr>
<tr>
<td>Private labels were priced on average 29.9 % lower than national brands.</td>
<td>It is needed to set goals and gain appropriate analytical solutions to stimulate price and promotion tactics to improve margins, revenue, category and competitive advantage.</td>
</tr>
<tr>
<td>Shoppers are buying more private labels based on quality and not just price.</td>
<td>Brands need a clear view of that, what impacts each customer’s trip mission for each segment.</td>
</tr>
<tr>
<td>Private label sales trends are outperforming national brands in most countries of the world.</td>
<td>Producers must assess the category competitive risk from private label growth and development and adjust their portfolio and retail approach accordingly.</td>
</tr>
</tbody>
</table>


Up to the results of research conducted by IRi in 2013, it can be noticed that, private label share is highest in the grocery channel (21.9 % of unit sales and 18.2 % of dollar sales), which also enjoys the strongest level of private label penetration, by far, at 96.9 %; and that the most prevalent or better said mostly bought private label categories are milk (61 %), fresh eggs (57 %), cups & plates (56 %), trash bags (54 %), natural cheese (49 %), vitamins (48 %), bottles water (38 %), bread & rolls (36 %), frozen seafood (33 %) and toilet tissues (23 %) (www.preparedfoods.com, 2014).

2. Data and Methods

The aim of the research was to determine Slovak consumer's knowledge and preferences of products bought under private labels. In order to achieve the aim, the research was conducted in selected retail chains – Tesco Stores Slovakia, COOP Jednota Slovensko, Billa, Lidl, Kaufland and CBA Slovakia.

To obtain the necessary primary data was constructed a structured questionnaire consisting of 13 questions formulated as closed, so that respondents (total number of respondents was 900 randomly selected respondents, Table 2) had to choose one, alternatively several options. The questionnaire was evaluated by using contingency tables, which were prepared by Excel, under which they were subsequently developed graphic representations.

Table 2: Characteristics of respondents

<table>
<thead>
<tr>
<th>Category of respondents</th>
<th>Number</th>
<th>Place of respondent’s residence</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>407</td>
<td>City</td>
<td>460</td>
</tr>
<tr>
<td>Female</td>
<td>493</td>
<td>Village</td>
<td>440</td>
</tr>
<tr>
<td>Age structure of respondents</td>
<td>Number</td>
<td>Educational structure of respondents</td>
<td>Number</td>
</tr>
<tr>
<td>up to 25 years</td>
<td>178</td>
<td>Primary education</td>
<td>55</td>
</tr>
<tr>
<td>26 – 35 years</td>
<td>288</td>
<td>Secondary education</td>
<td>177</td>
</tr>
<tr>
<td>36 – 45 years</td>
<td>186</td>
<td>without A level</td>
<td>391</td>
</tr>
<tr>
<td>46 – 55 years</td>
<td>150</td>
<td>Secondary education</td>
<td>277</td>
</tr>
<tr>
<td>56 and more years</td>
<td>108</td>
<td>Higher education</td>
<td></td>
</tr>
<tr>
<td>Economic activity of respondents</td>
<td>Number</td>
<td>Net income of the family</td>
<td>Number</td>
</tr>
</tbody>
</table>

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For deeper analysis of the obtained results, there were set out assumptions about the correlation between the net income of the family and frequency of purchase in the chain, as well as between the preference of private label products over those of traditional brands and respondent's economic activity or respondent's gender. To test the dependence were used Pearson's chi-square test and Cramer's contingency coefficient.

### 3. Results and Discussion

As it was mentioned before, private labels and products sold under private labels are nowadays becoming much more popular not just between producers, but also between consumers. The reason is simple – these products are in many cases cheaper and at the same time comparable (in terms of their quality) to products sold under traditional/national labels. For this reason the aim of the research has become the determination of Slovak consumer's knowledge and preference of products bought under private labels. The total number of respondents was 900 randomly selected respondents (Figure 1) buying in retail chain Tesco Stores Slovakia (38 % male, 62 % female), COOP Jednota Slovensko (49.33 % male, 50.67 % female), Billa (51.33 % male, 48.67 % female), Lidl (41.33 % male, 58.67 % female), Kaufland (41.33 % male, 58.67 % female) and CBA Slovakia (50 % male, 50 % female).

In terms of the age and education structure of respondents, as well as of their economic activity and net monthly family income, main groups were represented by respondents within the age of 26 to 35 years (30.89% of respondents), respondents with upper secondary education (43.44 % of respondents), employed respondents (44 % of respondents) and respondents with net family income within 800 and 1001 €/month (26.44 % of respondents).

As it can be seen from the Figure 1, most of respondents buying in the retail chains Tesco Stores Slovakia and Billa are buying mostly for several times in a month (40.67 % of respondents and 30.67 % of respondents), in retail chains COOP Jednota and Kaufland for several times in a week (37.33 % of respondents, 36.67 % of respondents) and in retail chains Lidl and CBA Slovakia for once a week (39.33 % of respondents, 33.33 % of respondents).

**Figure 1: Frequency of purchase (in people)**

![Frequency of purchase](image)

In response to the evaluation of the question regarding to the frequency of purchase was subsequently verified the interdependence, respectively the independence between the choosen answer and the net monthly income of the respondent's family, which has been
evaluated with the use of Pearson's chi-square test (Table 3) and Cramer's contingency coefficient (the result of Cramer's contingency coefficient was equal to 0.044832, what can be interpreted as a weak, but statistical significant relationship between tested variables). Based on the results of both mentioned tests, it can be stated, that the H₀ hypothesis must be on the level of significance 5 % rejected and adopted must be its alternative H₁ hypothesis talking about the interdependence between tested variables. The relationship between the frequency of purchase and net family income of the respondent is also reflected in the Figure 2, from which can be seen, that respondents who's net family income is lower than 500 € are buying mostly just for one time in a month, respondents with net family income between 500 and 800 € and between 801 and 1000 € are buying mostly for several times in a week and respondents with net family income between 1001 and 1500 € are buying mostly for one time in a week.

Table 3: The relationship between the respondent's net family income and frequency of the purchase in retail chains

<table>
<thead>
<tr>
<th>Frequency of the purchase</th>
<th>Net family income (in €)</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>up to 500 €</td>
<td>501 – 800 €</td>
</tr>
<tr>
<td>Every day</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Once a week</td>
<td>35</td>
<td>52</td>
</tr>
<tr>
<td>Several times in a week</td>
<td>0</td>
<td>79</td>
</tr>
<tr>
<td>Once a month</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td>Several times in a month</td>
<td>23</td>
<td>47</td>
</tr>
</tbody>
</table>

\[ TC = 165.554 \geq CV = 26.296 \]

Source: Results of the research

Figure 2: The relationship between the respondent's net family income and frequency of the purchase in retail chains (in people)

Source: Results of the research

Because of the need to realise the knowledge and preference of products bought under the private label, in the questionnaire, there were formulated questions relating to the knowledge of the term of private label as well as of private labels sold by particular retail chain, preference of products bought under the private label, decisive criteria of the purchase of private label products, as well as of respondents perception of the quality of private label products, from which evaluation it can be stated, that the knowledge of the term private label is very good (71 % of respondents said that they know what does mean the term private label and 66.33 % of respondents could name private labels sold by particular retail chain), that the preference of private label products is pretty high (51.11 % of respondents purchase private label products...
label products regularly and 17.44 % of respondents explicitly prefer private label products before traditional/national label products), that the decisive criteria in the process of buying products under the private label is the combination of reasonable price and quality (32.33 % of respondents) and that the quality of private label products is in general good (38.56 % of respondents), respectively, that it is rather comparable to the quality of traditional label products, than not (almost 50 % of respondents).

**Figure 3: Decisive criteria when buying products under the private label (in people)**

![Decision Criteria Chart]

Source: Results of the research

In connection with the issue of preference of private label products before traditional/national label products, there have also occurred questions relating to the relationship between the preference of private label products and the economic activity of respondents, as well as the preference for private label products and the gender of the respondent. For the evaluation of the interdependence, respectively the independence between the mentioned variables have been used the methods of Pearson's chi-square test (Table 4, Table 5) and Cramer's contingency coefficient based on which results the null hypothesis, for both investigated depending, must be on the level of significance 5 % rejected and it can be stated, that between the preference of private label products and the economic activity of respondents, as well as between the preference of private label products and the gender of the respondent, is a weak, but still statistically significant relationship (the result of Cramer's contingency coefficient were equal to 0.040068 and to 0.062129).

**Table 4: The relationship between the preference of private label products and the economic activity of respondents**

| Preference of private label products | The economic activity of respondents | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | }
Rather no 68 69 137
No 97 41 138

TC = 25.827 > CV = 9.488

Source: Results of the research

As it can be seen from Figures 4 and 5, respondents from economic categories student, unemployed, retired and women prefer more private label products, which, according to their opinion, are in many cases cheaper and up to their quality comparable to traditional label products, respectively that employed respondents do not place such emphasis on that, which products do they buy. To the question, why is it so (why they do not place such emphasis on it), many of them replied, that private label products because of their lower price invoke in them the feeling of lower quality (almost 20 % of respondents) and so they rather pay more for the better quality and buy traditional brands.

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**Figure 4:** The relationship between the preference of private label products and the economic activity of respondents (in people)

**Figure 5:** The relationship between the preference of private label products and the gender of respondents (in people)

Source: Results of the research

The mostly bought private label products are shown on the Figure 6, from which it can be seen, that the mostly bought private label products are milk and milk products (20.32 % of respondents), crisps (12.60 % of respondents) and water, sodas and juices (12 % of respondents), what to some extant confirms the results of the research conducted by IRi, up to which the mostly bought private label product categories are for example milk, fresh eggs and bottled water.
In the questionnaire there was not just formulated the question of decisive criteria in the process of buying products under the private label, but also the question of factors discouraging from their purchase. From the results of the realised research is clear, that the most important factors which are discouraging respondents from the purchase of private label products are – their low quality (19 % of respondents), their uninteresting cover (almost 19 % of respondents) and the lack of information about the producer (12 % of respondents). From the deeper analysis of this question is also clear, that with the quality of products are mostly dissatisfied those respondents that are buying mostly in Billa, COOP Jednota Slovensko, Kaufland, Lidl and CBA Slovakia retail chains and with the uninteresting cover of these products are mostly dissatisfied those respondents that are buying mostly in retail chain Tesco Sores Slovakia.

The last two questions, which have been formulated in the questionnaire, were concerned on that, what should the respondents change on private label products sold by particular retail chain and if they would recommend its private label products to other customers. From the evaluation of both mentioned questions is apparent that respondents are in general satisfied
with private label products (almost 44% of respondents) and they should recommend them to others (35% of respondents will recommend them definitely and 36.22% of respondents will probably recommend them). The only exemptions were the respondents buying mostly in CBA Slovakia which want to change the quality, the cover and the freshness of these products (almost 43 and 42% of respondents).

Figure 8: Satisfaction with the private label products (in people)

Source: Results of the research

4. Conclusion

Based on the results of the research, it can be concluded, that the knowledge, as well as the preference of products sold under private labels is on the side of Slovak consumers relatively high (almost 71% of respondents knew what does the term private label mean, 51.11% of respondents are purchasing private label products regularly and more than 17% of them explicitly prefer them before products sold under traditional brands). Despite these results, it must be stated also that, there are still some factors, which are discouraging consumers from their purchase – their low quality, their uninteresting cover and the lack of information about the producer. Because of these reasons, it is important, on the side of producers, to focus on the following areas:

1. Better and maybe also higher promotion of private label products especially form the view of their quality.
2. Regular tastings of private label products, by which it can be refuted the customary argument – lower price means lower quality.
3. Improvement, respectively attractiveness of the packing of private label products.
4. Increase of consumer awareness of producers of private label products.

References


