

A Cross-Continent Study of the Drivers of Consumer's Willingness to Pay a Price Premium for National Brands over Private Labels

Competence Area:

Branding and Innovation

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Managerial Abstract:

Private Labels (PLs) are becoming always more powerful, posing significant challenges to national brands (NBs). By means of a cross-country, cross-category study the authors try to gain insights into the drivers of consumers' willingness to pay a price premium for NBs over PLs. They specify an economic model that expresses the price premium that consumers are willing to pay as a function of the perceived quality gap between national brands and private labels, sensitivity to quality, sensitivity to price, perceived uncertainty about the utility provided by national brands, perceived uncertainty about the utility provided by private labels, and risk aversion. Hypotheses on the impact of category, consumer, and country characteristics on the model parameters are tested using Bayesian methods on a survey from 22,623 consumers from 23 countries on four continents.

The results show that

- Consumer quality sensitivity is higher the more involved the consumer is with the category, the more socially meaningful the category is to the consumer and the more educated the consumer is.
- Price sensitivity is lower in households that have recently experienced an income increase, in countries with a higher GDP per capita, and if consumers perceive a strong relation between price and quality.
- Price sensitivity is higher in the case of budget constraints, larger households, older consumers, and promotional pressure.
- Uncertainty about NB utility is reduced by brand credibility and advertising.
- Uncertainty about PL utility is lower if PL packaging is similar to NB packaging and if consumers believe that NB manufacturers produce PLs.
- Risk aversion is higher in categories where wrong decisions have a large impact.

Key takeaway:

In order to maintain or increase consumers' willingness to pay a price premium for their brands, national brand managers are advised to a) maintain their NB's quality superiority over PLs; b) generally increase the price sensitivity of their category; c) maintain the perceived price-quality relation for the category; d) increase NB uncertainty by increasing credibility e.g. via advertising; and e) increase PL uncertainty e.g. by announcing that they are not produced by NB manufacturers.

More info how to benefit from these learning's into R&D / your organization:

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