

Chapter 13

Choice of National Brand vs. Private Label “Me– Too” New Products in a Multicultural Context: Understanding Consumer Innovativeness

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ABSTRACT

Many national brands adopt innovation strategies based on frequent launches of new products to defend and grow market shares against private labels. However, retailers imitate the novelties of national brand new products very fast. One of the key questions to assess the effectiveness of national brands' product innovation is to get a deeper understanding of how consumers react in terms of choice when faced with a national brand new product and a me-too private label product. In particular this research explores the effects of consumer innovativeness and risk aversion on this choice in five European countries and the United States. Results show that consumers with higher innovativeness prefer national brands. However, there are significant differences among countries depending on their uncertainty avoidance and risk aversion.

INTRODUCTION

Private labels are gaining market share in consumer packaged goods (CPG) around the world (Sethuraman & Gielens, 2014). One reason for this growth is consumer's increasing appreciation for these brands. In many cases, they are perceived as similar in quality to leading national brands at a significant price advantage (De Wulf et al., 2005).

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To defend and grow market shares, many national brands adopt innovation strategies based on frequent launches of new products. Brand managers rely on such tactics to provide value to consumers and to differentiate their brands in the marketplace. However, retailers imitate the novelties of national brand new products very quickly since the barriers to copying CPG products are low, and breakthrough new products are scarce (Kantar, 2013; Sorescu & Spanjol, 2008). This makes it possible for private labels to rapidly respond to national brand innovations with me-too new products (Sinapuelas & Robinson, 2009). Due to private labels' privileged access to distribution, many consumers are exposed to both new products at the same time, having to choose between them and experimenting the uncertainty and risk associated with new products decision making.

The empirical study described in this chapter is conducted in order to understand how a consumer trait called “consumer innovativeness” is influencing the choice for either a national brand new product or its corresponding me-too private label. This study also examines whether this consumer trait is determined first by individual proneness to risk and second by cultural or environmental factors that produce different types of choices depending on the country where the consumer lives. These are highly relevant research questions as, should there be differences in consumer choice due to the geographical context and personal traits, these will affect global brand strategies and should be taken into account by retailers and manufacturers.

The study is structured as follows. First, a summary is given of the background related to national brand new product strategies for competing with private labels and the response from retailers. Second, an overview of the arguments in favor of conducting this study based on the gaps detected in the literature review, the conceptual framework and the research propositions. Lastly, the empirical study undertaken to answer the research questions and discuss the results. Finally, the recommendations, limitations, future lines for research, and conclusion are provided.

BACKGROUND

A number of articles have analyzed the impact of national brand innovation on private label consumption. For example, Sriram et al. (2007) showed that the introduction of new products by CPG manufacturers positively influences their brand equity, which reduces their vulnerability to the entry of private labels. Pauwels and Srinivasan (2004) also found that when private labels enter a category, national brands adopt a defensive strategy of investing in product innovation that can enhance their competitive advantage and enable a sustainable price premium over the private labels (Abril & Martos-Partal, 2013).

Additional findings reveal that national brands' innovation intensity in a category negatively correlates to private label share (Anselmsson & Johansson, 2009; Martos-Partal, 2012; Rubio & Yagüe, 2009; Steenkamp & Gielens, 2003). As the number of new product launches in an industry increases, the private label category share decreases (Kumar & Steenkamp, 2007). However, depending on retailer power and retailer interest, product innovation effectiveness may vary (Abril & Martos-Partal, 2013). These empirical results confirm that product innovation is an effective strategy for halting the entry of new private labels on the market and for preventing the growth of existing private-label market share (Kumar & Steenkamp, 2007; Steiner, 2004; Verhoef et al., 2002).

Product innovation used to be a national brand strategy. However, due to retailers' increasing power, some private labels have nowadays enough resources and access to the latest product development advances to be able, in turn, to innovate. To put this point into perspective, it is worth mentioning that

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