

# Indonesia Consumer's Purchase Decisions and Private Label Brands: Study of Superindo Retailer

Marheni Eka Saputri<sup>1</sup>, Trisha Gilang Saraswati<sup>2</sup>

<sup>1,2</sup>Business Administration Department, Communication and Business Faculty, Telkom University, Bandung, Indonesia

*marhenieka@gmail.com, trishasaraswati@gmail.com*

## Abstract

Nowadays, private labeling has become a widely implemented strategy by modern market retailers. Retailers such as supermarkets and hypermarkets have superior supply chain in the country that they begin to extend their brand and make their own products, which is called private brand. The growth of private brands in Indonesia has been fairly stagnant as brand names step up both promotional activity and innovation efforts to protect share positions and drive growth. Based on Nielsen survey, the private label share in Indonesia only reaches one percentage. Why has the growth of private labelling in Indonesia been so slow? In short, Asian shoppers are strongly brand-loyal and retailers have not invested enough in marketing private label to persuade shoppers to trust its quality. Meanwhile, Superindo as one of the biggest retails in Indonesia has 8% growth of private brand share. Numerous studies have identified several factors affecting the purchase decision of private brand, and yet little empirical research has investigated the factors underlying consumer's purchase decision of private brand in Indonesia especially of Superindo. In order to expand market share, private brands need to clearly identify what triggers consumer purchases. This paper aims to investigate the relationship between consumer's decision-making styles and actual purchases of private label products in Indonesia market. This paper extends the work of Glynn and Chen (2009), Lian Fong et al (2015), and Thanasuta (2015) by examining Price consciousness, Price-quality association, Brand loyalty, Quality variability, Search vs. experience, Price perceived, Promotion, Brand Image, Quality Consciousness, Brand Consciousness, Value Consciousness, and Risk perception factors for investigation. In this research, both secondary data and primary were utilized. The primary data in the form of quantitative data were collected through online survey to 400 respondents and factor analysis was employed to identify the associations. The secondary data were obtained from relevant literatures, online journals, articles, blogs, and other electronic sources. The results indicate that Brand Consciousness and Search vs. experience influence consumer's proneness to buy Private Brand.

**Keyword: Private Brand, Consumer's Purchase Decision, Retailer**

## 1. Introduction

Currently, many retail business players are growing in the community, creating strong competition in the world of retail business. The businessmen who engage in retail sector must also think of the right strategy to face the competition. One of the strategies of retail entrepreneurs, which is now widely done, is the emergence of private label products. According to Levy and Weitz (2014: 463) private label is a product developed by retailers and available for sale only from the specific retailers. Private labels are an option for consumers to cheaper products. Private label prices are cheaper because they do not require a large fee. Private label products are created to provide an alternative for consumers to get more competitive goods prices. Private label products can be used as substitute products for national brands that commonly fetch higher price. Although its presence attracted much debate, private labels thrive. A number of modern retailers such as hypermarkets and minimarkets are competing to launch products with their own brand (private label). In addition, the presence of private label products is very beneficial to consumers because they can get goods at low prices up to 30% compared to products labeled nationally.

Based on The Nielsen Company report of 2014, the perceptions about private label brands in developed countries such as Europe, North America and Australia are very good. Private label

brand proves its success with highest purchase record on commodity goods. However, the growth of private label in Asian and Middle Eastern countries is still very low compared to other countries in developed countries. The effort to develop private label is still struggling to gain consumer confidence, in which consumers are very loyal to national brands.

One of the biggest retailers in Indonesia that is committed to continue to develop private label is SuperIndo. Since 1997, SuperIndo has grown and developed with the people of Indonesia. Now, SuperIndo has 127 outlets spread across 17 major cities in Indonesia and been supported by more than 6,000 trained employees. SuperIndo provides a diverse range of everyday products with reliable, high quality, low prices products within easily accessible store locations. The freshness and quality of the product are always maintained through good source selection and handling with standard operational procedures that are always monitored. This makes SuperIndo a preferred place for shopping that is always "Fresher", "More Efficient" and "Closer" in line with its tagline.

In general, private label products are divided into two categories: food and non-food ([www.IRIworldwide.eu](http://www.IRIworldwide.eu)). Private label products include food products such as fresh food, canned food, frozen food, dried food, snacks, basic necessities such as rice, sugar, syrup, and others. The non-food category products include dishwashing soap, floor cleaner, tissue, cotton, camphor, and others. SuperIndo also releases food and nonfood products for its private brand, which consists of brands: 365, CARE and ORGANIC BIO. Given the many advantages of private label for both retail companies and consumers, the owner assume that these products would have huge sale in the market but it does not appear to be so. Private label products that offer cheaper price does not have big sale difference compared to the national brands. The sale of private label products can be seen from the internal data collected by SuperIndo Indonesia from all the branches, which only reach 7.9% from total expected overall sales that could reach 2 digits. Based on the above description, this study aims to find the factors in the purchase of private label products of SuperIndo Indonesia.

## 2. Literature Review

The research will examine the factors that influence the decision of purchasing SuperIndo private label products. In establishing the research framework, the researcher used variables from previous researches conducted by Glynn and Chen (2009), Lian Fong et al (2015) and Thanasuta (2015). The results of several previous studies show that there are strong variables affecting private label purchase decision based on the method of analysis conducted by each study.

Glynn and Chen (2009) use price consciousness, price-quality association, brand loyalty, quality variability, consequences of purchase mistake, search vs. experience and private label purchase. The results show that consumer's decision to buy private label is influenced by quality variability, price consciousness, price-quality association, and brand loyalty. Lian Fong et al (2015) use variable price perceived, promotion, brand image and purchase decision. The results show that the image of a brand has a full mediation effect in conveying price perceptions and promotions for purchasing decisions. Thanasuta (2015) uses Private label purchase, price consciousness, quality consciousness, brand consciousness, value consciousness, and risk perception. The results show that price-consciousness, brand-consciousness, and purchasing private label products show significant relationship.

In this study, the selected twelve variables that will be examined are price consciousness, price-quality association, brand loyalty, quality variability, search vs. experience, price perceived,

promotion, brand image, quality consciousness, brand consciousness, value consciousness and risk perception because these variables influence the purchase decision of private label products. Purchase decision and private label purchase have the same concept with price-quality association, therefore, that will count as one factor, which is price-quality association. Similarly, since the consequences of purchase mistake have similar concept with risk perception, it will be counted as risk perception. Then, the selected 12 variables will be tested by using factor analysis which will result the most dominant factors.

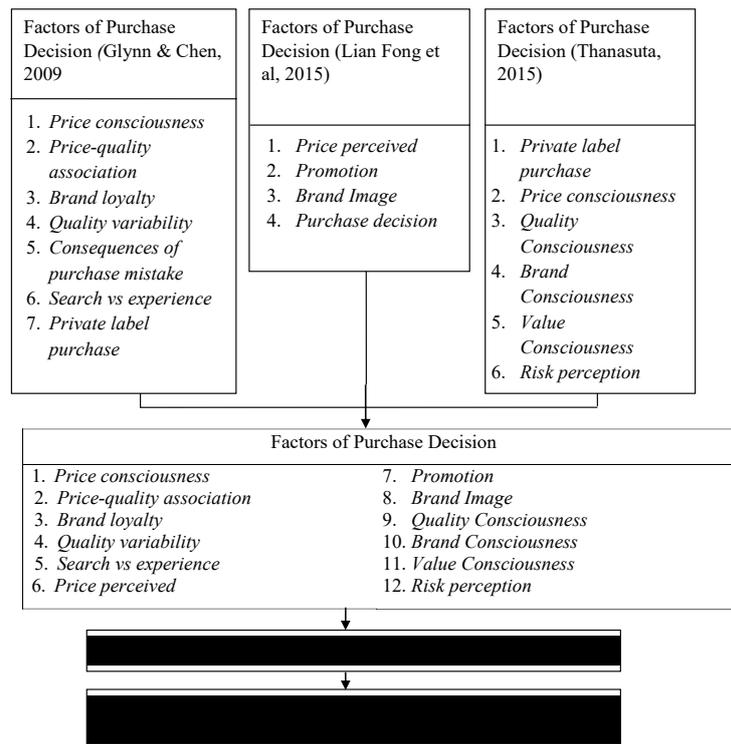


Figure 1. Ground Theory

### 3. Research Methodology

This research used factor analysis technique. Factor analysis is a static analysis that serves to reduce or summarize several independent variables into fewer variables. The method used in performing data analysis was Principal Component Analysis (PCA). Principal Component Analysis is one factor analysis method that uses total variance in its analysis. This method produces factors that have the least specific variance and error variance. If there are several factors produced, the first factor produced is the factor that has the largest common variance, as well as the smallest specific and error variance (Simamora, 2005: 108).

The steps in doing data analysis using factor analysis are:

1. Determine the purpose of factor analysis. The main objectives of the factor analysis are data summarization, which is to identify the relationship between variables by conducting a correlation test, and data reduction, which is conducted after a correlation process to create a new set of variables called factors to replace a certain number of variables.
2. Make test data sufficiency.

The process of factor analysis depends on the correlation of the variables. In order to obtain it, the research used correlation matrix between one variable with other variables. To test the accuracy of the formed factors, the Barlett's Test Sphericity test was used with significant values  $<0.05$  and Kaiser Mayer Olkin (KMO) to determine the feasibility of factor analysis. If the index ranges from 0.5 to 1, factor analysis is feasible. On the contrary, if the value of KMO is below 0.5, factor analysis cannot be done (Simamora, 2005: 123). The value of Measure of Sampling Adequacy (MSA) has the same meaning as the KMO value, it is just partial (every item or variable). If the variable has MSA value of less than 0.5, the variable is excluded from the selection of variables, then performed a step back in the study of variables without following these variables (Hair et al, 2010).

3. Determine the number of factors (factoring). In factor analysis, variables are grouped by their correlation. Thus, for the purpose of factor analysis it is necessary to know how much the variance of the variable. Variances in variables can be classified into three types of variance: common variance, which is the variance of a variable that is also shared by other variables; specific or unique variance, which is a variance owned only by a variable; and error variance, which is the wrong variance, caused by measurement error or sample selection error.

By using the total variance or the three types of variance, Principal Component Analysis produces the smallest specificity and error variance. In determining the new factor formed, the first way that can be done is to look at eigenvalue. Eigenvalue is the ability of each factor to represent the analyzed variables, indicated by the amount of variance described. The variance of each variable is one. Only factors that have eigenvalue  $\geq 1$  can be maintained in the factor analysis model (Hair et al, 2010: 109). The second way is by giving researchers the freedom to determine the desired number of factors. This is because factor analysis requires judgment from the researchers to give good result (Simamora, 2005: 108).

4. Interpret factors. The interpretation of the factors is done in several stages. The stages are determining the MSA value through the KMO and Barlett's Test tables, determining the number of components that can be maintained by using the eigenvalue value through the total variance table or by using a scree plot analysis of the components obtained, determining or valuing the magnitude of explanations (variance) and the unique variance of each variable against the components maintained through the table of communality, determining the significant criterion of factor loadings, and determining the appropriate loading factor to be considered by using statistically significant criteria. Through the analysis of matrix component table, as the loading and variance of each variable is determined, we can see the relationship between variables and factors, understand the magnitude of communal values of each variable to determine the contribution significance of each variable on each factor obtained. If the variance analysis (loading) has not been satisfactory or has not produced the desired result, then the analysis will continue by using the Varimax Rotation method (to maximize the value of variance).
5. Name Factor (labeling). Once the analysis formed groups that are factors produced through factor analysis process, then the next process is naming factor or labeling. According to Simamora (2005: 106), in factor analysis, judgment is still needed to give good results. Thus, the process of naming the factors involves the researcher's judgment, based on the variables that become components in groups.

#### 4. Findings

Table 1. Factor Component Factor

No.	Variable	Factor Loading
1	<i>Brand Consciousness (V10)</i>	0.737
2	<i>Price Consciousness (V1)</i>	0.703
3	<i>Risk Perception (V12)</i>	0.650
4	<i>Quality Variability (V4)</i>	0.629
5	<i>Price-quality Association (V2)</i>	0.609
6	<i>Brand Loyalty (V3)</i>	0.569
7	<i>Value Consciousness (V11)</i>	0.517

The results of this study indicate that there are two factors formed from the factor analysis process. The two factors are Brand Consciousness factor and Search vs. Experience factor. Even though the interpretation of factor names is done by the researcher's judgment, the process still refers to the theory used in this research. Due to its subjective nature, the results can be produce different result if the interpretation is done by other researchers. The formed factor can be used as a new variable replacing the original variables seen from the highest loading factor. This replaced variable is called a surrogate variable. The following is a discussion of each of the following factors:

##### 1. Brand Consciousness Factor

Based on the values in Table 1, Brand Consciousness factor has the highest percentage of variance value of 43.99% with eigenvalue of 5.279 which includes seven items such as Brand Consciousness (0.737), Price Consciousness (0.703), Risk Perception (0.650), Quality Variability (0.629), Price-quality Association (0.609), Brand Loyalty (0.569), and Value Consciousness (0.517). In this research, Brand Consciousness Factor serves as a surrogate variable because it is able to represent the seven items. Thus, the dominant factors that determine the decision to purchase private label products in Superindo Indonesia include Brand Consciousness, Price Consciousness, Risk Perception, Quality Variability, Price-Quality Association, Brand Loyalty, and Value Consciousness. This fact shows that consumers consider Brand Consciousness Factor as related to brand awareness. Brand Consciousness deals with consumer's ratings that are more likely to pay attention to brands (private label brand). Therefore, as more consumers know certain private labels based on its rating, it will increase the influence the purchase of private label products. During the research, Superindo Indonesia only advertise or promote their private label products through brochures in each store or through banners in front of Superindo store, which only reach few prospective consumers. In other words, only frequent Superindo consumers, who see the brochures and banners in Superindo, know the existence of private label. As the result, many consumers might not know the existence of the product.

Price Consciousness deals with purchasing decision based on the consumer's price consciousness, where consumers prefer products at the cheapest price. This is in line with what Thanasuta (2015) has disclosed that a price-conscious consumer is someone who sees a low price and is focused on paying the lowest price. Based on the characteristics of private label products, Superindo does offer cheaper price than other brands. This is adapted to the cost leadership strategy that Superindo uses to market its private brand products. They expect by the

increasingly cheap private brand prices, more consumers will buy the products, especially consumers who are price sensitive.

Item Risk Perception relates to the calculation of risk that the consumers will face after making a product purchase. This is in line with what has been stated by Thanasuta (2015) that risk perception takes into account consumers' views of the risks inherited under specific conditions, including purchasing decisions.

Quality Variability relates to the quality of various products which are included into consumer considerations in product selection. In line with this, Glynn and Chen (2009) reveal that variations in the quality of different products from different brands also add to consumer's hesitation in products selection process. Consumers will tend to buy private label products if there are no significant differences. The private label design issued by Superindo is also sometimes made similar to other brands that make consumers think the product is not much different from other national brands or international brands.

Price-quality Association relates to consumer's perceptions of the relationship between price and product quality. If consumers assume that private label products with low prices have almost similar quality with other products, then usually they will make purchases of private label products because it is still considered affordable or within the quality category required by consumers. For example, for consumers buying oil who consider that any brand of cooking oil are made of palm oil and the quality also tends to be the same, they will buy private brand by considering the association between price and quality, which is considered more efficient and appropriate.

Brand Loyalty relates to consumer's loyalty to a brand where, if a national brand with a private label brand has a small price gap, the consumer will tend to choose a national brand product. In accordance with this, Glynn and Chen (2009) reveal that consumers who have a high Brand Loyalty will tend to buy national brand products for emotional reasons and past experience from previous purchases. On the other hand, consumers who do not have loyalty to a particular brand will tend to choose a private brand.

Item Value Consciousness deals with consumer's awareness of a product value and the money they pay when purchasing a product. This is in line with what Thanasuta (2015) has expressed by comparing buying a product based on cheap or high quality criteria, some consumers evaluate products by value. If consumers feel that by buying a cheap product they can get high quality products with similar value, then the consumers will buy private label products.

## 2. Search vs Experience Factor

Based on the values in Table 1, Search vs. Experience Factor has the highest percentage of variance of 10.30% with eigenvalue of 1.237 which includes four items, which are Search vs. Experience (0.750), Quality Consciousness (0.735), Brand Image (0.662), Price perceived (0.625), and Promotion (0,558). Search vs. Experience Factor can serve as a surrogate variable because it is able to represent the five items. This fact shows that consumers strongly consider Search vs. Experience Factor related to Search vs. Experience items. Search vs. Experience items are items that have the greatest factor loading value that explains information and experience in purchasing Superindo Indonesia's private label products. This is in line with what has been revealed by Glynn and Chen (2009) that with Search attributes, consumers can search for information about the product either through the internet, based on other consumer's information, or from product packaging before making a purchase. While, the Experience attribute related to the consumer's experience after making a purchase. If a private label product does not have search attribute to inform the quality of its products, then consumers will tend to

choose national brand. Basically, Search attributes reduce the consumer's doubt in making a purchase, which will increase their tendency to choose private label brands.

Quality Consciousness items relate to the consumer's awareness of a product quality. In line with this, Thanasuta (2015) reveal that consumers who care about quality and always find the best products are considered as consumers who are aware of the quality. Consumers of this nature almost certainly avoid private label given negative perceptions of poor product quality. The unwillingness to buy private label products continues to revolve around low quality perceptions.

Item Brand Image deals with consumer's perceptions about the brand image of the store or product being produced. This is in line with what has been disclosed by Lian Fong et al (2015) that when consumers do not have complete information about a store or are unsure of private label stores, they make assumptions of available signs like brand image before making perceptions of stores and private label products.

Item Price perceived relates to consumer's perception, in which they consider whether a product price is worth to be paid or not. In line with that, Lian Fong et al (2015) reveal that when the price is perceived positively means consumers consider the price is worth paying with the value in the can. Conversely, prices are perceived negatively as an economic sacrifice. Price becomes an extrinsic indicator and communicates important information to consumers as testing before a purchase decision is made. In the private label context, it is assumed that the price is perceived positively given the low price and the quality of the product to consider.

Promotion Item deals with promotion that retailers do to introduce their products. This is in line with Lian Fong et al.'s (2015) study that the current promotion is very often used by retailers as a tool to distinguish their private label and to inform buyers what they offer in their stores. Advertisements are used as a tool to increase awareness of products and information when sales promotions are used to induce more purchase.

## 5. Conclusion

Based on the analysis of this research, factor is known to produce the most dominant items to form factors determining the decision to purchase private label products in Superindo Indonesia. Based on the resulted loading factor, search vs. experience variable becomes the most dominant with the factor loading value of 0.750.

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