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**The reason why consumers pay more for national brand than store brand**

In Partial Fulfillment of the Requirements  
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by

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## **ABSTRACT**

In the past decade, the development of private brands has generated a lot of research, covering a wide range of topics. However, as far as we know, previous studies have not solved these problems. This research analyzes the reason why consumers are willing to pay the premium for national brands than store brands, and the result of it can also contribute to the dearth of literature. "The distribution of price premium or reservation price differential has also been of substantial interest to analytical modelers (Rao, 1991) in determining equilibrium pricing and promotion strategies." Understanding consumers' perception of national brands and store brands, helps marketers or manufacturers to find the implications for marketing and promotion strategies to satisfy consumer behaviors, particularly recognizing the importance of national brand equity and the appropriate setting of its price difference.

Keywords: National brands, store brands, Perceived quality, Price sensitive, Cognitive Component, brand image, price premium.

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## **CHAPTER I INTRODUCTION**

Store brand or private brand has been abroad for decades, and now it has been paid more and more attention by large retail enterprises. Almost all the supermarkets, chain stores and department stores sell goods with their brands. Generally, the price of national brands are higher than store brands. "store brand items usually perform as well or taste as good as nationally advertised brands" (Fitzell 1992, p.148). In several European countries, such as the UK, store brands have become very mature. Sales of American store brands are also growing (Hoch and Banerji, 1993). The main advantage of private brands is that the price is lower than national brands. For example, a box of Unicharm makeup cotton costs 25RMB, while the same one of Watsons brand costs 15RMB. That is, the store brands' price is lower than the national brand. Some consumers are willing to pay the price premium for the national brand, while others will buy the store brand. The price premium is the maximum price that consumers are willing to pay for national brands.

To deal with the threat of private brand, some national brand reduces prices or change promotion strategies to increase their market share (Ortega and Stern, 1993). However, the price reduction will reduce the profit margin and may harm financial performance. Therefore, should national brand manufacturers reduce the price to compete to store brand? Or, should they change the strategies to increase the brand value?

As far as we know, there is no comprehensive empirical study to determine the factors that affect the price premium consumers are willing to pay for national brands. Identifying these factors will help to gain a deeper understanding of the national brand, and national brand managers can use the price or non-price strategies to compete with the store brand.

The paper aims to identify and assess the five factors (perceived quality, price sensitivity, pleasure in shopping, cognitive component and high purchase price) influence the consumers willing to pay the price premium for a national brand.

## **Chapter II**

### **Literature Review and Hypotheses Development**

#### **2.1. store brand and national brand**

Store brand in retail grocery strategy has a vital function (Richardson et al., 1996). Store brand also calls private brand, and it is defined as a brand created and used by wholesalers or retailers themselves to distinguish goods or services from other brands. National brands are created by producers to ensure that customers buy products with the same value as producers. For instance, Haier electric appliances, Gree air conditioners, and so on are all national brands. Manufacturer brands have long dominated the retail industry. "Sales and market share of store brands have been growing significantly at the expense of national brands" (Aggarwal and Cha, 1998). Manufacturers who create such brands need to participate in distribution, promotion and even pricing decisions. Manufacturers can improve customer loyalty through promotions, quality control and quality assurance. As for the definition of non-quality utility, Consumers pay a price premium for the national brand more than the store brand, even if they think the quality of the national brand and store brand is the same.

In today's competitive environment, create and preserve store brands, and national brands become more and more important (Seetharaman et al., 2001). Brands always become the main difference between competing products, so they are essential to the success of business nowadays. Dawar and Parker (1994) believed the brand name is the crucial factor and reflect the quality of products. Recognizing the importance of brand equity is essential (Broniarczyk and Gershoff, 2003). "Utility beyond what is explained by average perceived quality difference – we call it non-quality utility" (Sethuraman, 2001). Quality differential, quality sensitivity and non-quality utility may dominate consumer behavior to choose national brands or store brands. Brand equity as one of the most vital factors that merged in the 1980s. It has been established positively correlated with market share, return on investment and stock market value (Aaker, 1991; Kerin and Sethuraman, 1998). It also means a series of association and behavior of the consumer, and these association and behavior allow the brand to achieve higher sales or profits (Keller 1998, p. 43). "Dollar-metric approach" is considered to be one of the best ways to predict brand selection and products or stock market share (Agarwal and Rao, 1996).

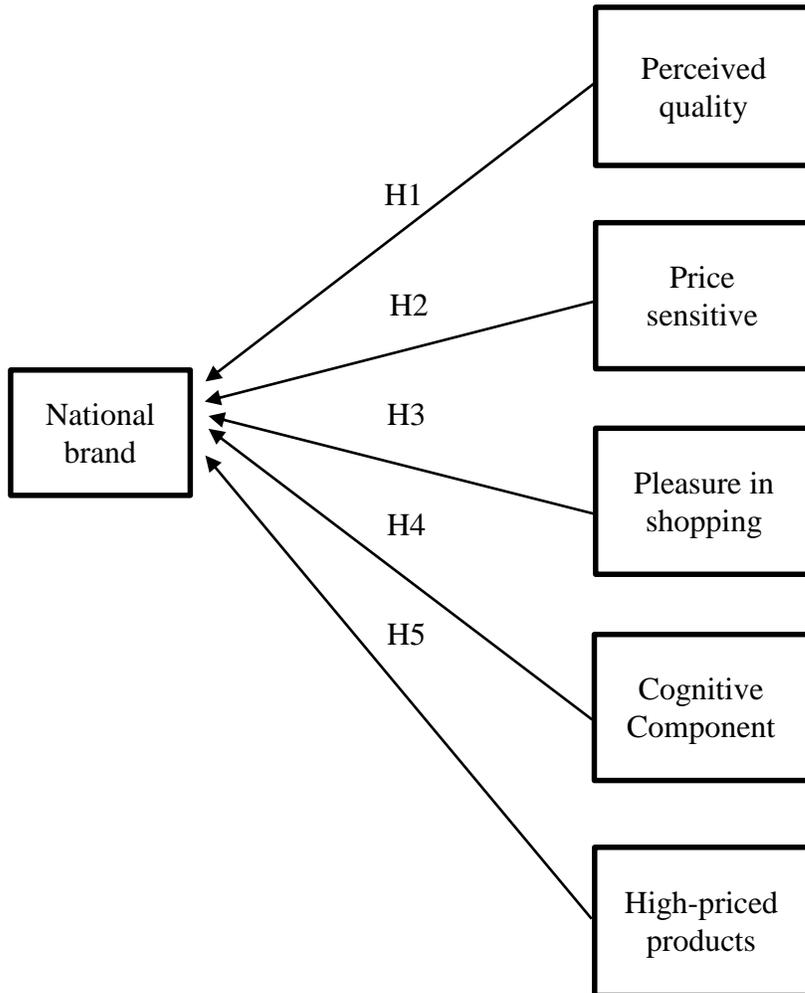
In a blind test, the consequence of store brands provides cheaper before consumer choose; in most cases, they have responded to the test according to the messages. There is no doubt that consumers prefer store brand products to be lower prices than national brands (Food Marketing Institute, 1994). However, in the Nielsen research, they gave the result that seventeen percent of customers always choose a higher price when buying products, and the lowest price products hardly ever choose (Rubel, 1995). According to the relationship between quality differential and non-quality utility, plus, prices do not always dominate customers selection, which means store brands receive an only limited market share in a general way (Ehrenberg et al., 1997).

#### **2.2. Regression Model:**

Regression model allows us to analyze the connection between two or more variables, which is a reliable statistical method (Foley, 2018). By using regression model analyzes the data, it can

determine whether or not the variables can influence the topic of interest (Foley, 2018). The regression model is the most widely used statistical method to find the relationships between variables (Draper and Smith, 1998). Figure 1 shows the relationship among five variables between the topic.

Figure 1: The regression model of the relationship between five variables and the national brand



## 2.3. Hypotheses

### 2.3.1. Perceived quality

Why consumers are willing to spend more money on national brands rather than store brands. In general, the quality of the national brand is higher than that of the store brand. But the research found that even if the quality of a store brand equals or exceeds that of a national brand in the product category, the price between a national brand and store brand may be dramatically large (Apelbaum et al., 2003). In general, customers are likely to pay the price premium for national brands, because they believe that store brands have low quality. Based on the quality difference, I give the following hypothesize:

*H1: Under the same other conditions, perceived quality has a positive and significant influence on the national brand.*

### **2.3.2. Price sensitive.**

Nowadays, retailers have paid more attention to the quality of store brands and tried to narrow the quality gap. For example, "in a 1991 Gallup survey, 67% of consumers (up from 42% in 1984) reported that store brand items usually perform as well or taste as good as nationally advertised brands" (Fitzell 1992, p.148). According to the PLMA website, in a recent study (1999), 75 percent of customers attributed product quality to the national brand and store brand. Most consumers believe that products with a higher price are in good quality, so they are willing to pay the premiums for national brands. Consequently, I draw the following hypothesis:

*H2: Under the same other conditions, price sensitive has a positive and significant influence on the national brand.*

### **2.3.3. Pleasure in shopping**

Although consumers buy goods because of is useful (utilitarian products), others are purchased for entertainment (hedonistic products) (Richins, 1994). Based on this, customers are more likely to pay for national brands about entertainment goods or hedonistic goods to get their pleasure in shopping. Thus, I derive the following hypothesis:

*H3: Under the same other conditions, pleasure in shopping has a positive and significant influence on the national brand.*

### **2.3.4. Cognitive Component (CC)**

Cognitive components refer to knowledge, belief, language observation, perceptual response, understanding, values, thinking, interpretation and relational system. (Solomon, 2009; Trandafilovic et al., 2013). Consumers choice may be determined by their cognitive attitude of the national brand beyond the concept of quality. Cognitive component increases consumers' desire to pay. Thus, I derive the following hypothesis:

*H4: Under the same other conditions, the cognitive component has a positive and significant influence on the national brand.*

### **2.3.5. High purchase price**

With the price increases, people will consider more than lower price products because of the perceived risk (Grewal et al., 1994). In other words, when buying high-priced products like luxury goods, the consumer may choose national goods.

*H5: Under the same other conditions, the high purchase price has a positive and significant influence on the national brand.*

## CHAPTER III RESEARCH METHODOLOGY

### 3.1 Research Design

This study used a quantitative method. The five factors (perceived quality, price sensitivity, pleasure in shopping, cognitive component and high purchase price) influence the consumers willing to pay the price premium for a national brand. The reliability analysis is to evaluate the reliability of a system. The correlational analysis is to analyze the relationship between dependent variables and the independent variable. Regression model allows us to analyze the connection between two or more variables. By using the regression model explains the data, it can determine whether or not the variables can influence the topic of interest (Foley, 2018). The questionnaire is to collect information and data.

### 3.2 Data Collection and Sample Characteristics

The questionnaire is investigating the reason why consumers pay more for national brands than store brands. The first part is about your personal information. Most of the participants are students, and they have different age, education and month allowance. The second part is according to their own experience to answer the questions. The investigators are 52 members, including 21 females and 31 males. Majority of the respondents are students. As for the monthly allowance, most of the students have 4000-5000RMB. The five variables contain five items, and the detail is presented in Table 1 and Table 2. By using a Likert scale to collect the information, and the rate is from 1 (lowest) to 7 (highest). Fifty-two investigators participated in this survey.

Table 1. Profile of respondents

Question	Options	Number	Percentage (%)
1. Gender	Male	21	40.38%
	Female	31	59.62%
2. Age	17	1	1.92%
	18	0	0%
	19	1	1.92%
	20	18	34.62%
	21	13	25%
	22	14	26.92%
	23	4	7.69%
	24	1	1.92%

	25	0	0%
3. Education	High school	0	0%
	University	46	88.46%
	Master	1	1.92%
	Doctor	4	7.69%
	Others	1 (teacher)	1.92%
4. Monthly allowance of students in RMB	1000-2000	0	0%
	2000-3000	7	13.46%
	3000-4000	19	36.54%
	4000-5000	12	23.08%
	5000-7000	4	7.69%
	7000-9000	2	3.85%
	10000 and above	8	15.38%
5. How many times per month do you buy national brands?	0	0	0%
	1 to 2 times	13	25%
	3 to 4 times	23	44.23%
	5 to 6 times	9	17.31%
	7to 8 times	5	9.62%
	9 times and above	2	3.85%

Table 2. Items for each variable in questionnaire

National brand	<ol style="list-style-type: none"> <li>1. I am highly certain of buying national brand.</li> <li>2. My willingness to buy national brand is high.</li> <li>3. I consider buying national brand.</li> <li>4. I would actively seek out to buy national brands.</li> <li>5. I would patronize national brand.</li> </ol>
Perceived quality	<ol style="list-style-type: none"> <li>1. I found the quality of national brand is high-quality.</li> <li>2. I found the quality of national brand is important.</li> <li>3. I found the quality of national brand is credible.</li> <li>4. I found the quality of national brand is believable.</li> <li>5. I found the quality of national brand is unquestionable.</li> </ol>
Price sensitivity	<ol style="list-style-type: none"> <li>1. I found national brand has high price.</li> <li>2. I'm willing to pay a higher price for national brand.</li> <li>3. I found higher price good is appealing.</li> <li>4. I'm sensitive if the price change about national brand.</li> <li>5. I will buy a product with a high price, because it presents my status.</li> </ol>
Pleasure in shopping	<ol style="list-style-type: none"> <li>1. I found buying national brands can deliver pleasure.</li> <li>2. I found buying national brands are entertaining.</li> <li>3. I found buying national brands are enjoyable.</li> <li>4. I found buying national brands are appealing.</li> <li>5. I found buying national brands are happy.</li> </ol>
Cognitive Component (CC)	<ol style="list-style-type: none"> <li>1. Buying national brand is important.</li> <li>2. It means a lot to me to buy national brand.</li> <li>3. It is valuable for me to buy national brand.</li> <li>4. It is relevant to me to buy national brand.</li> <li>5. I need to buy national brand.</li> </ol>
High purchase price	<ol style="list-style-type: none"> <li>1. I accept the high purchase price for national brands.</li> <li>2. I found higher price national goods are reliable.</li> <li>3. I found the financial risk increases with the national brands' price increasing.</li> <li>4. I will pay for high-priced national brand products.</li> <li>5. I'm willing to pay the premium price for national brand product.</li> </ol>

### 3.3 Reliability Test

According to the data collected from the online questionnaire, this study conducts reliability analysis in SPSS. Cronbach's alpha is a measure used to assess the reliability, or internal consistency, of a set of scale or test items: excellent ( $\alpha > 0.9$ ), Good ( $0.7 < \alpha < 0.9$ ), Acceptable ( $0.6 < \alpha < 0.7$ ), Poor ( $0.5 < \alpha < 0.6$ ). In general, the suggested reliability range is from 0.7~ 0.95. Therefore, the reliability of national brand, perceived quality, price sensitivity, pleasure in shopping, cognitive component and high purchase price are excellent.

*Table 3. Reliability measurements*

Variables	No. of Items	Cronbach's Alpha ( $\alpha$ )
National Brand	5	0.942
Perceived Quality	5	0.952
Price Sensitivity	5	0.933
Pleasure in Shopping	5	0.964
Cognitive Component	5	0.970
High Purchase Price	5	0.961

### 3.4 Correlation Test

A correlation measurement table is exhibited as table 4 to measure the correlations between every two variables. Evans (1996) suggested: 0.00-0.19 "very weak", 0.20-0.39 "weak", 0.40-0.59 "moderate", 0.60-0.79 "strong", 0.80-1.0 "very strong." According to table 5, which is analyzed by SPSS, the national brand has a positive relationship with perceived quality, price sensitivity, pleasure in shopping, cognitive component and high purchase price. The correlation table shows the relationship between perceived quality, and national brand is 0.794, the relationship between price sensitivity and national brand is 0.622, the relationship between pleasure in shopping and national brand is 0.665, the relationship between cognitive component and national brand is 0.679, the relationship between high purchase price and national brands is 0.735. It shows the correlation between national brand (dependent variable) and perceived quality, price sensitivity, pleasure in shopping, cognitive component high purchase price (independent variables) are strong.

Table 4. correlation measurements

	National Brand	Perceived Quality	Price Sensitivity	Pleasure in Shopping	Cognitive Component	High Purchase Price
National Brand	1					
Perceived Quality	Correlation Sig. (2-tailed)	1				
Price Sensitivity	Correlation Sig. (2-tailed)	.794** .000	1			
Pleasure in Shopping	Correlation Sig. (2-tailed)	.622** .000	.761** .000	1		
Cognitive Component	Correlation Sig. (2-tailed)	.665** .000	.790** .000	1	1	
High Purchase Price	Correlation Sig. (2-tailed)	.679** .000	.758** .000	.853** .000	1	1
	Correlation Sig. (2-tailed)	.735** .000	.814** .000	.865** .000	.859** .002	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### 3.5 Regression Model

The results of the regression model with the national brand as the dependent variable and perceived quality, price sensitivity, pleasure in shopping, cognitive component and a high purchase price as the independent variables are given in Table 5. In most analyses, the P value of 0.05 is used as a threshold for significance. If P value less than 0.05, it has statistically significant. If p-value higher than 0.05, it is not statistically significant. Therefore, hypothesis 1 (perceived quality has a positive and significant influence on the national brand) is confirmed ( $\beta=0.723$ ,  $p=0.000<0.05$ ). Hypothesis 2 (price sensitive has a positive and significant influence on the national brand) is confirmed ( $\beta=0.560$ ,  $p=0.000<0.05$ ). Hypothesis 3 (pleasure in shopping has a positive and significant influence on the national brand) is confirmed ( $\beta=0.568$ ,  $p=0.000<0.05$ ). Hypothesis 4 (cognitive component has a positive and significant influence on the national brand) is confirmed ( $\beta=0.557$ ,  $p=0.000<0.05$ ). Hypothesis 5 (high purchase price has a positive and significant influence on the national brand) is confirmed ( $\beta=0.698$ ,  $p=0.000<0.05$ ).

*Table 5. regression measurements*

	$\beta$	T Statistics	P Values
Precieved Quality to National Brand	0.723	9.248	0.000
Price Sentivity to National Brand	0.560	5.619	0.000
Pleasure in Shopping to National Brand	0.568	6.297	0.000
Cognitive Component to National Brand	0.557	6.548	0.000
High Purchase Price to National Brand	0.698	7.656	0.000

**CHAPTER IV  
RESULT AND DISCUSSION**

**4.1 Hypotheses Testing**

Based on the reliability test, correlation test and regression analysis, the hypotheses testing is presenting in table 6. Every hypothesis has evidence that perceived quality, price sensitive, pleasure in shopping, cognitive component and high purchase price have positive and significant influence on national brand.

*Table 6. Hypotheses testing*

<b>No.</b>	<b>Hypothesis</b>	<b>Results</b>
<b>1</b>	Under the same other conditions, perceived quality has a positive and significant influence on national brand.	S
<b>2</b>	Under the same other conditions, price sensitive has a positive and significant influence on national brand.	S
<b>3</b>	Under the same other conditions, pleasure in shopping has a positive and significant influence on national brand.	S
<b>4</b>	Under the same other conditions, cognitive component has a positive and significant influence on national brand	S
<b>5</b>	Under the same other conditions, high purchase price has a positive and significant influence on national brand.	S
<b>Notes: S = Supported; R = Refuted</b>		

## **CHAPTER V**

### **Conclusions and Implications**

#### **5.1 Discussions**

The orientation of this study is the five factors impact on the national brand. The author collected data by questionnaire. The research uses quantitative method to find the relationship between five factors and national brand. Through the reliability test, correlation test and regression analysis, the conclusion is perceived quality, price sensitivity, pleasure in shopping, cognitive component and high purchase price all have a positive and significant impact on the national brand. It means these five factors will influence consumers' purchase decision. Based on the consumers' attitude, the national brand manager can make adjust the brand strategy.

#### **5.2 Managerial Implications**

By understanding the factors that influence the price premium consumers are willing to pay for a national brand, national brand managers can make a practical and suitable brand strategy. Based on the results of this research, national brand managers can use the price or non-price strategy to compete with the store brand. According to the result, consumers think the quality is critical. Managers should strive to maintain good quality awareness. Through marketing communication, they can strengthen the relationship between price and quality, and emphasize the concept that cheap products will be lower quality. As for the price, a low price strategy can increase sales volume, but it will damage the brand image. High price represents high quality but may affect the willingness to buy. The study shows consumer is willing to pay the expensive national brand. Therefore, the strategies could include promotion activities which can improve brand awareness with a positive attitude.

#### **5.3 Limitations and Future Research**

Firstly, an obvious limitation of this analysis is that most respondents are university students, and students can not represent the majority opinion. Then the number of samples is not enough to show the reliability of the results. Thirdly, the Chinese expression in the questionnaire may not be transferred from English accurately, which makes it means slightly different from the original. Finally, the questionnaire is only sent through WeChat, and the scope is not broad enough.

This research only focuses on the factors that consumers willing to pay the price premium for the national brand, and the research population is students. However, younger consumers (21-40 years old) have the different consumption concept with older consumers (over 40 years old), high-income consumers (over \$50,000 annual household income) and middle-income households (\$25,000-\$50,000 annual income) also different. Future research can focus on the age difference or income disparity.

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**Questionnaire**  
**The Reason Why Consumers Pay More for National Brands Than for Store Brands**

**Part 1: Profile**

1. Gender:

- Male
- Female

2. Age:

- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- Others\_\_\_

3. Education:

- High school
- University
- Master
- Doctor
- Others\_\_\_

4. Monthly allowance of students in RMB:

- 1000-2000
- 2000-3000
- 3000-4000
- 4000-5000
- 5000-7000
- 7000-9000
- 10000 and above
- Others\_\_

5. How many times per month do you buy national brands?

- 0
- 1 to 2 times
- 3 to 4 times

- 5 to 6 times
- 7 to 8 times
- 9 times and above

**Part 2**

<b>A. National brand</b>	Rating from 1 (lowest) to 7 (highest)						
1. I am highly certain of buying national brand.	1	2	3	4	5	6	7
2. My willingness to buy national brand is high.	1	2	3	4	5	6	7
3. I consider buying national brand.	1	2	3	4	5	6	7
4. I would actively seek out to buy national brands.	1	2	3	4	5	6	7
5. I would patronize national brand.	1	2	3	4	5	6	7

<b>B. Perceived quality</b>	Rating from 1 (lowest) to 7 (highest)						
1. I found the quality of national brand is high-quality.	1	2	3	4	5	6	7
2. I found the quality of national brand is important.	1	2	3	4	5	6	7
3. I found the quality of national brand is credible.	1	2	3	4	5	6	7
4. I found the quality of national brand is believable.	1	2	3	4	5	6	7

5. I found the quality of national brand is unquestionable.	1	2	3	4	5	6	7
<b>C. Price sensitivity</b>	Rating from 1 (lowest) to 7 (highest)						
1. I found national brand has high price.	1	2	3	4	5	6	7
2. I'm willing to pay a higher price for national brand.	1	2	3	4	5	6	7
3. I found higher price good is appealing.	1	2	3	4	5	6	7
4. I'm sensitive if the price change about national brand.	1	2	3	4	5	6	7
5. I will buy a product with a high price, because it presents my status.	1	2	3	4	5	6	7
<b>D. Pleasure in shopping</b>	Rating from 1 (lowest) to 7 (highest)						
1. I found buying national brands can deliver pleasure.	1	2	3	4	5	6	7
2. I found buying national brands are entertaining.	1	2	3	4	5	6	7
3. I found buying national brands are enjoyable.	1	2	3	4	5	6	7
4. I found buying national brands are appealing.	1	2	3	4	5	6	7
5. I found buying national brands are happy.	1	2	3	4	5	6	7
<b>E. Cognitive Component (CC)</b>	Rating from 1 (lowest) to 7 (highest)						

1. Buying national brand is important.	1	2	3	4	5	6	7
2. It means a lot to me to buy national brand.	1	2	3	4	5	6	7
3. It is valuable for me to buy national brand.	1	2	3	4	5	6	7
4. It is relevant to me to buy national brand.	1	2	3	4	5	6	7
5. I need to buy national brand.	1	2	3	4	5	6	7
<b>F. High purchase price</b>	Rating from 1 (lowest) to 7 (highest)						
1. I accept the high purchase price for national brands.	1	2	3	4	5	6	7
2. I found higher priced national goods are reliable.	1	2	3	4	5	6	7
3. I found the financial risk increases with the national brands' price increasing.	1	2	3	4	5	6	7
4. I will pay for high-priced national brand products.	1	2	3	4	5	6	7
5. I'm willing to pay the premium price for national brand product.	1	2	3	4	5	6	7