The Effectiveness Of Online Recommendations For Private Labels Versus National Brands

ABSTRACT

This research reveals that consumers, when recommended with products online, are more inclined to switch to private labels, compared to national brands. We present two studies demonstrating this effect and propose that it occurs because recommendations serve more as a signal of quality for private labels than for national brands.

EXTENDED ABSTRACT

One of the biggest challenges of private labels in the retail market is to be perceived as similar in quality to national brands (Arce-Urriza and Cebollada, 2017). Although private labels’ perceived quality has grown (Fulgoni, 2018), there is still a deficit, of which the impact likely is exacerbated in online stores. Research found brand names to be important drivers of purchase decisions, especially in online (vs. offline) grocery shopping. Compared to offline shoppers, online shoppers are more inclined to consider stronger and well-established brands (Arce-Urriza and Cebollada, 2017; Danaher and Wilson, 2003; Degeratu, Rangaswamy and Wu, 2000; Saini and Lynch, 2016).

Several studies have addressed how to increase the share of private label purchases in an online grocery store (up to the level of an offline store), for example by increasing the sensory stimulation shoppers experience in an online store by using virtual reality (Van Herpen et al., 2016). However, rather than mimicking an offline store, online stores may also use their specific features for this purpose. That is, in online shopping environments, consumers’ shopping behavior might be driven by recommendations (Senecal, Kalczynsky, and Nantel, 2005).

Recommendation mechanisms became important in supporting consumers’ decision-making process by reducing choice difficulty (Gershoff, Broniarczyk, and West, 2001). This system has been found to help consumers efficiently filter available options, increase the quality of their consideration set, and increase their choice satisfaction (Haubl & Trifts, 2000).

Extant marketing research has studied what customer information recommendation agents should use and how recommended messages should be framed to improve decision quality (Cornil and Klesse, 2018; Gai and Klesse, 2019). However, little is known about the influence of online recommendations on the purchase of private labels versus national brands. Yet, in practice, retailers do use recommendations to increase sales of private labels. For example, Amazon recommends its own brands when consumers do not specify the brand when purchasing products via Alexa (Fulgoni, 2018). Therefore, this research aims to assess the effectiveness of online recommendations for private labels versus national brands.

We argue that private labels would benefit more from online recommendations than national brands, as recommendations may serve as a quality signal, and private labels likely have more to gain from quality assurance. Consequently, we hypothesize this effect to be moderated by store image, as recommendations for private labels are more likely to be seen as a cue for quality when the store making the recommendation is seen as a qualitative (vs. low prices) store.

In study 1, 189 participants (55 men, Mage=33.15) were recruited via a European university’s online panel and were randomly assigned to one of four between-subjects conditions. Participants performed an online shopping task and after choosing a product from an assortment, they were informed that the store recommended a different option that was either a national brand or a private label. Moreover, the recommended option either had a moderate Nutri-score or a high Nutri-score. The latter factor was included to verify whether recommendations would only be effective if participants could trade-up to a better, healthier option, or whether they would also be inclined to switch when an option was equally good/healthy. After receiving the recommendation, participants were asked whether they wanted to maintain their selection or switch to the recommended option. Each participant completed the choice task three times, once for each of three product categories (yogurt, cereal, and jam).

To assess whether participants are more likely to switch when recommended with a private label (vs. national brand), we ran a multilevel logistic regression, accounting for the fact that we collected three data points from each respondent, with brand type and Nutri-score and their interaction as independent variables, and the decision to switch as the dependent variable.

As the interaction effect was non-significant (Wald $\chi^2(1) = .85$, p = .358), the most important finding from this analysis is the significant main effect of brand type (Wald $\chi^2(1) = 3.53$, p = .060). Specifically, 39% (vs. 17%) of the participants switched when recommended with a private label (vs. a national brand). Moreover, when
taking the initial choice of the participants into account, we find that not necessarily people who initially selected a private label switched to another private label. National brand buyers as well tend to switch to private labels when prompted by a store recommendation.

**Study 2**, aims to replicate the findings of study 1 and assesses the moderating role of store image. We expect that recommendations by stores with a better quality image will yield a higher switching likelihood, especially for private labels. We verified the store image in a pretest. In the main study, 217 participants (118 men, $M_{age}=25.11$) were recruited via a European university’s online panel and were randomly assigned to one of four between-subjects conditions. In this study, participants again performed an online shopping task and after choosing a product from an assortment, they were recommended with either a national brand or a private label. However, different from study 1, to manipulate store image, participants were ostensibly shopping in the high quality or low-quality store, which carries the same national brands but its own private labels. The results replicate those of study 1 as brand type has a positive effect on switching behavior ($Wald \chi^2(1) = 11.57, p = .001$). On average 37% switched when recommended with a private label brand, compared to 18% switches in response to national brand recommendations. However, contrary to our expectations, there is no interaction with the recommended brand and the store image ($Wald \chi^2(1) = .030, p = .862$). Irrespective of the quality image of the store, respondents are more responsive to private label recommendations. In hindsight, even though the stores’ images were pretested, the low-quality store’s image was not below the midpoint of the scale (i.e., not negative), which may cause consumers still to consider the recommendation as a signal of quality.

In conclusion, this work aims to deepen understanding of the mechanism underlying online recommendation effectiveness and provides retailers with evidence of an effective mechanism to promote private labels.
REFERENCES


