

# PERCEIVED RISK INFLUENCE ON THE CONSUMER ATTITUDE TO PRIVATE LABELS IN THE PRODUCT'S LIFE CYCLE GROWTH STAGE

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**ABSTRACT:** *The aim of this paper is to explore the relationship between purchasing risk associated with private labels and consumer attitudes towards private labels in different product categories in the growth stage of the product life cycle. The first part of the paper is devoted to a brief literature review of the relevant constructs. The second part describes the research and summarizes its results. Descriptive research was conducted on the Croatian market relating to private labels in three different product categories in the growth stage of the product life cycle: liquid soap, chocolate and facial care products. The results confirm negative correlation between perceived risk and attitudes towards private labels in all analyzed categories.*

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**Key words:** *private labels attitudes, perceived risk, growth stage of product life cycle*

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**JEL Classification:** D12

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## 1. INTRODUCTION

Private labels are usually defined as products that are owned and managed by organizations whose primary economic orientation is distribution and not production (Schutte, 1969 in Zielke & Dobbelsstein, 2007). Lincoln and Thomassen (2008) trace the beginning of private label development to ancient times when brands, as such, did not exist, so the trade was based on products owned by merchants as the only link with consumers. However, the first written record of private labels development dates from the mid-19th century. Since then private labels have continuously been present on the market but their significant expansion started in the last 35 years (Herstein & Gamliel, 2004). Among many factors that have led to strong private label growth, the main drivers are the expansion of retailers and their consolidation as well as the growing presence of hard discounters (de Jong, 2007). Market conditions have hindered retailers' ability to differentiate so retailers started to develop private labels, exclusively present in their stores, in

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order to differentiate themselves and strengthen their market position. Focus of larger retailers on private label development has led to evolution of three private label types, namely - generic private labels, copycat private labels and premium private labels (Kumar & Steenkamp, 2007). These types of private labels are positioned on the spectrum from low price and low quality to high price and high quality in order to focus on different consumer segments and to avoid brand cannibalization. Alongside aforementioned three types, retailers' increasingly develop specialized private labels (eg. Organic and Fairtrade private labels) with an aim to meet the new market trends and satisfy the needs and desires of the narrow consumer segments (de Jong, 2007).

In the last decade, private labels have, with their exponential growth, become a powerful threat to manufacturer brands (Bao, Bao & Sheng, 2011). However, private label development is not equal in all regions of the world. They are largely represented and most advanced in the developed countries of Western Europe and North America. On the other hand, in emerging markets of Central and Eastern Europe, such as Croatia, the share of private labels is still much lower and often does not exceed 10 per cent (The Nielsen Company Report, 2011). Never the less, emerging markets are constantly recording the highest private label growth rates, so it is expected that in the next few years their role in the market will be significant.

Giving the difference in development and consumer acceptance of private labels in different parts of the world, it is becoming all the more important to analyze private label management through prism of the product life cycle, as one of the most cited contributions to marketing theory. Every phase of the product life cycle entails different market circumstances which influence private label management on strategic and tactical level. This in turn influences private label success throughout phases of the product life cycle. Market success of private labels is in scientific papers expressed in numerous ways, such as through market share (Hoch & Banerji, 1993; Dhar & Hoch, 1997), purchase intent (Richardson et al., 1994; Dick et al., 1995; Baltas, 1997; Burton et al., 1998; Batra & Sinha, 2000; Miguel et al., 2002; Sheinin & Wagner, 2003; Veloutsou et al., 2004), positive perception (Dunn et al., 1986; DelVecchio, 2001; Liu & Wang, 2008) and favorable attitudes towards private labels (Burton et al., 1998; Sheinin & Wagner, 2003). Since consumer attitudes are formed at the beginning of product life cycle, use of private label attitude as a proxy for private labels success seems appropriate.

As stated before, private labels record the highest growth rate in developing and transitional countries. In those countries private labels are either on the beginning or at the growth stage in the product life cycle – phases crucial for their further market success so it is necessary and important to research the factors which can influence or hinder their acceptance by consumers. There are a lot of factors which can influence private label acceptance by consumers but at the beginning of their life cycle perceived risk can be accentuated as one of the most important. This is not surprising giving that retailers are not known for brand management so private labels are perceived as riskier alternative in relation to manufacturer brands. This perception is further highlighted by their positioning as cheaper alternative to established manufacturer brands. All retailers' in-

vestments in private label development and quality improvements may be in vain if the level of perceived risk associated with private labels is too high.

In this context, the purpose of the paper is to analyze attitudes towards private labels among consumers in Croatia, which are currently in the growth stage of the product life cycle (Steenkamp et al., 2010) and discuss implications perceived risk, associated with private labels, has on brand management strategies used by retailers.

## 2. APPLICATION OF PRODUCT LIFE CYCLE CONCEPT IN PRIVATE LABEL MANAGEMENT

The product life cycle concept is one of the most cited contributions to marketing theory (Palmer, 2005), but despite its great popularity and numerous advantages, in scientific papers relating to private labels it is hardly ever used. One reason may be the problem of different levels at which life cycle can be viewed as well as the fact that private labels are developed in a large number of different product categories. Likewise, international retailers need to follow separate private label life cycles in different markets, what further complicates its application.

Stage of the product life cycle is a good indicator of the primary demand and market competitiveness (Catry & Chevalier, 1974) which includes a variety of challenges, opportunities and problems, urging companies to modify brand management strategies (Kotler & Keller, 2007). Growth stage is especially significant because it is characterized by the development of selective demand which leads to formation of consumer buying habits as a necessary prerequisite for long-term loyalty (Bivainiene, 2010). Using an appropriate brand management strategy for private labels in the growth stage serves as a necessary precondition for their further successful development in other life cycle stages.

Regardless of whether it is observed in structural or quantitative terms, the product life cycle concept is focused on the analysis of product development in which the current position of the product discussed is compared in relation to its past and future. Each product can also be analyzed in relation to competitors' products as well as in relation to other products within the company, enabling the firm optimal resources allocation (Cox, 1967).

When considering the concept of life cycle it is necessary to clearly define the level at which it is being observed. In the literature product life cycle is analyzed at the demand level, industry level, product category level, product class level, product level and brand level (Wood, 1990). Although some authors question the application of product life cycle concept at the brand level, Vranešević (2007) believes that the brand life cycle is much more stable concept because the brand is not based only on satisfying generic consumer needs but also on the development of long-term relationships based on value. Brand management should strive to keep the brand in the early stage of maturity as long as possible through continuous development and adaptation to change and usually increasing expectations of consumers.

Simon (1979) defines the brand life cycle as a time series of a particular brand's sales volume, based on the relationship between consumers and the brand (Johnson et al., 2006 in Bivainiene, 2010). Unlike the product life cycle concept which is based on product's success according to the general market conditions, the brand life cycle is primarily based on consumers' attitudes and behavior. Despite that, the concept of the brand life cycle can not be viewed separately from the product life cycle, because product management in different life cycle stages directly affects activities required to develop and maintain a brand. Therefore it can be concluded that the stage of the product life cycle can serve as a basis for brand management in different stages of the brand life cycle (Bivainiene, 2010).

The classical theory of the product life cycle includes four chronological stages: introduction, growth, maturity and decline (Brassington & Pettitt, 2007) which differ according to level of market orientation and marketing strategies used. Market orientation, defined as focus on consumers and competition, is less important in the beginning of life cycle due to high level of market and technological turbulence. In the introduction stage demand is often inadequately defined because consumers still do not have firm expectations regarding new product/brand so it is difficult for a company to define consumer-oriented goals. The transition from the introduction stage to growth stage leads to change in company direction from production orientation to consumer orientation. Specifically, in the growth stage competitive struggle is all the more based on understanding of current and future customer needs in order to develop solutions that will be superior with regard to competition. In the maturity stage consumer preferences are stabilized, but increased competition intensity also increases the need for market orientation and the use of strategies that will allow the companies to exploit opportunities and avoid threats. The importance of market orientation is again reduced in the decline stage when companies primarily focus on rejuvenating products, or decide to exit from the market with minimal costs (Wong & Ellis, 2007). Empirical research done by Wong and Ellis (2007) confirmed that market orientation brings the highest benefits to companies in the growth stage of the product life cycle because market boundaries are still not strictly defined so the sales growth of one company will not endanger other and thus stimulate its defensive reaction. On the other hand, market orientation is the least significant in the introduction stage and it is better for managers in this stage to direct their resources to promotion of new product to innovators and early adopters. Growth stage of the product life cycle is characterized by a strong rise in sales as more consumers become aware of the product. Consumer base is expanding to early adopters (Lambin et al., 2007) and this is the stage in which consumers' form their buying habits so marketing becomes the most important element for market success (Mohan & Krishnaswamy, 2006). It is important that the company maintains a strong sales volume growth by attracting a greater number of consumers based on gathering information about their purchasing habits and needs. In private label management implementation of product life cycle concept could be crucial because they are most often introduced in product categories already in the growth or maturity stage. Brand management according to product life cycle concept can enable private labels to reach a leadership position in the market although they are not pioneers in the product category (Vranešević, 2007).

After the retailer decides to introduce private labels they pass through three stages of development: reactive, imitating and identity stage (Kapferer, 2010). The first stage occurs as a result of retailer's desire to achieve greater bargaining power in relation to manufacturers or the desire to fill the gaps in the assortment through category management. The second stage of private label development is imitating, in which retailers analyze competitive offers available on the market and develop private labels in the basic private label categories. At this stage, most retailers do not invest resources in the development of identity for their private labels but rather they copy packaging of leading manufacturer brands in a product category. In the final stage of the private label development, they achieve market success, so for retailers they become a real instrument of strategic differentiation that expresses identity, values and positioning creating consumer loyalty towards private labels, and consequently towards the retailer. This is generally the stage where retailers stop emphasizing lower price as the main advantage of private labels, but rather their uniqueness through presence in broad number of categories. Private labels in the last stage of development are brands in the true sense of the word through implementation of brand management based on differentiation, reputation development and investments in quality. These kind of private labels are also the most profitable because they enable the realization of the maximum market share with minimal price gap with regard to manufacturer brands (Kapferer, 2010).

The above explained stages of private label development indicate that in the introduction stage, retailers are primarily oriented toward competing on low prices which is not surprising if one takes into account that private labels are often introduced into categories with strong market leaders who have a broad base of customers and strong market position. So in order to compete, retailers are to some extent forced to use strategy which reflects the huge price gap between private labels and manufacturer brands in order to encourage consumers to notice and try private labels. On the other hand, private label management in the latter stages, namely in the growth stage of the product life cycle, is characterized by the trend of increased quality and relative prices of private labels in relation to manufacturer brands. Increase in their market share, which reflects the increasing level of acceptance by consumers, leads to decrease in the price gap so when private labels reach 50% market share price gap disappears (Wileman & Jary, 1997).

Retailers are expanding private label offer in the large number of product categories in order to achieve economies of scale and scope (Dhar & Hoch, 1997). However, retailers can not simultaneously achieve a strong market position in all categories, so it is necessary to designate investments in categories dominated by weak manufacturer brands or in the categories with the potential for their redefinition. Private labels have the highest probability of success in categories with fragmented competition, categories where manufacturer brands have weak market position, or categories that are dominated by few strong manufacturer brands which use strategies based on old image, and are characterized by insufficient levels of innovation and promotion. In addition, private labels' share is generally higher in categories characterized by a relatively stable technology, longer life cycle, and excess production capacity among producers whose brands are market followers. Retailers can through private labels redefine certain product categories to provide

added value, which increases the number of consumers who buy the products in the category as well as category sales volume and performance of private labels (Wileman & Jary, 1997).

All of the aforementioned elements of private label management indicate that in the growth stage of the product life cycle retailers are starting to develop private labels as brands. By applying an appropriate strategy for private labels in the growth stage retailers can ensure their success and even a leading position in certain product categories in the later stages of the product life cycle. However, in order to apply appropriate management strategies retailers should be familiar with the consumers' attitudes towards private labels as well as negative influence of perceived risk on attitudes in different product categories.

### 3. PRIVATE LABEL ATTITUDE

Attitude is the basis for many models of consumer behavior (Binninger, 2008) and is often used for segmentation, forecasting product acceptance in the market and the development of marketing programs (Vranešević et al., 2004). It can be defined as a favorable or unfavorable tendency toward the characteristics of a particular object, which will affect the tendency of consumers to behave predictably in relation to that object (Perry, 1969 in Anchor & Kourilová, 2009). Attitude always represents the relationship between an individual and the object or situation, and expresses the value in relation to those objects. As such it is relatively persistent trait that is not easily changed. Attitude is basically comprised of cognitive, emotional and behavioral components that together affect the fulfillment of the four basic functions: the utility function, ego-defensive function, value-expressing function and function of knowledge (Kesić, 2006).

Burton et al. (1998) define attitude towards private labels as predisposition to favorable or unfavorable response in relation to the product evaluation, purchase probability and self-evaluation associated with products under a private label. From this point of view, private label attitude seems to be a relatively durable construct that is broad enough to be generally used in various product categories. General private label attitude is an important factor in the evaluation of individual private labels attitude (Collins-Dodd & Lindley, 2003) as well as with regard to consumers intention to purchase private label (Chaniotakis et al., 2010).

Attitudes towards private labels are formed on the basis of certain perceived benefits that consumers expect, such as competitive pricing, efficiency or favorable price to quality ration. It is important to remember that private label attitude also differs among product categories. Sethuraman (2003) states that consumers have less favorable attitude towards private labels in non-food product categories because they perceive that the quality difference between private labels and manufacturer brands is higher than it really is. This can be explained by the fact that in food categories consumers can taste the product and thus better assess the quality of private labels compared to the quality of manufacturer



brands. On the other hand, the quality of non-food products is harder to assess, so consumers often use brand name as a signal of quality. Differences in attitudes towards private labels in different product categories were also confirmed by Boutsouki et al. (2008). Their research on the Greek market has shown that consumers are more inclined to purchase private labels in categories like paper products, canned foods, detergents and soft drinks, while the share of consumers inclined to purchase private labels in the cosmetics category was significantly lower. These results are not surprising giving that the private label market in Greece is still in the initial stages of its life cycle, which implies lower consumer familiarity with private labels and thus increased purchase risk (Steenkamp et al., 2010). Therefore retailers, introducing private labels should choose categories in which it is easy to evaluate product quality as well as categories with lower purchase risk levels (Mandhachitara et al., 2007).

#### 4. PERCEIVED RISK

Since the level of (dis)satisfaction with the product can be known only after the act of purchase, consumers will inevitably be faced with uncertainty and perceived purchase risk (Mitchell, 1998). Bauer (1960 in Mitchell, 1999) was the first author who proposed concept of perceived risk stating that he was only interested in subjective or perceived risk and not “real world” (objective) risk. According to Bauer (1960 in Ross, 1975) perceived risk is not only related to consumers’ information acquisition and processing activity but to post-decision processes as well, where people will seek out information that confirms the wisdom of their decision.

In traditional methodology based on Bauer’s conceptualization, risk is measured by two components: uncertainty and consequences of purchase mistake (González Mieres et al., 2006b). Narasimhan and Wilcox (1998) take a similar approach in which risk is defined as the negative utility that occurs because the product did not live up to expectations multiplied by the probability this will occur. Accordingly, risk might be reduced to a tolerable level by (1) reducing the amount at stake or penalties for failure or by (2) increasing the degree of certainty that loss will not occur (Ross, 1975). In the case of private label, perceived risk is expected to have additional negative influence because private labels are dominantly compared with leading manufacturer brands. In that sense, consumers often choose well known manufacturer brand which they trust in order to increase the degree of certainty that loss will not occur.

Dunn et al. (1986) define perceived risk as the expected negative utility associated with purchase of a product or a brand. The same authors distinguish two specific risk levels: an inherent risk which is manifested at the product category level and handled risk that influences consumer behavior at the brand level. For private label management, analysis of purchase risk at the category level is particularly important because in product categories with low level of perceived risk consumers will be keener on facing uncertainty in buying private label. Sinha and Batra (1999) define risk of a product category as subjective probability of incorrect selection of products in the category multiplied by the

perceived consequences of such a wrong purchase. In their following paper, Batra and Sinha (2000) came to a conclusion that purchase risk at a category level is composed of three determinants: the degree of discomfort associated with the wrong purchase, the probability of purchase mistake due to quality variability in a specific category and the degree to which product can be evaluated based on available information or experience with the product. Although consumers perceive difference in risk level between private labels and manufacturer brands, both entail some degree of perceived risk which differs between product categories. So, consumers will perceive higher level of perceived risk in baby food category than in toilet paper category, for both manufacturer brands and private labels. In that sense we hypothesize that private label perceived risk follows the same pattern of general category perceived risk.

H1 Perceived risk of private labels follows the pattern of general category perceived risk.

Purchase risk is not one-dimensional construct. Jacoby and Kaplan (1972) propose a wide conceptualization of perceived risk at the brand level by defining six varieties of perceived risk: financial risk, performance risk, physical risk, psychological risk, social risk and overall perceived risk. Financial risk is measured as a chance that consumer will lose money by trying unfamiliar brand either because it won't work or because it costs more than it should to keep it in good shape. Performance risk is measured by the likelihood that there will be something wrong with unfamiliar brand or that it will not work properly. Physical risk denotes the chance that the unfamiliar brand may not be safe i.e. may be (or become) harmful for the consumer's health. Psychological risk represents the chance that unfamiliar brand will not fit well with consumer's self-image while social risk measures the chance that unfamiliar brand will affect the way others view the consumer. Finally, overall perceived risk presents consumers' evaluation of risk in buying unfamiliar brand taking into account all aforementioned factors combined.

Zielke and Dobbelsstein (2007) have studied purchase risk at the product category level and stated that it consists of financial risk, functional risk and social risk. Financial risk of a specific product category is defined as potential financial loss incurred as a result of the wrong purchases. As such, financial risk depends on the price level of each product category in a way that greater financial risk is associated with more expensive category. Functional risk of a product category can be defined as the potential loss arising from inadequate product quality and is particularly evident in the non-food categories in which consumers buy products that fulfill a specific function. Finally, the social risk refers to the loss of image or prestige as a consequence of use/consumption of certain products. Social risk is particularly significant in the categories that are used or consumed in public or offered to guests. The approach to perceived risk as proposed by Zielke and Dobbelsstein (2007) is adopted later in the empirical research giving that private labels are analyzed at the product category level.

The level of risk associated with private labels is crucial in determining consumer preferences towards them (Gonzalez Mieres et al., 2006a) especially in the early stages of the



product life cycle. When it comes to private labels, purchase risk is usually evaluated in relation to manufacturer brands. Giving that private labels are positioned as cheaper alternatives to established manufacturer brands (González Mieres et al., 2006b) comparison leads to inferior perception of private labels and decrease in likelihood of their purchase. Richardson et al. (1996) have empirically shown that the perception of private labels as riskier alternatives in relation to the manufacturer brands has a negative impact on consumers' purchase intentions with regard to private labels. Similarly, Erdem et al. (2004) showed that the reduction of difference in perceived quality and perceived risk between private labels and manufacturer brands may lead to increased likelihood of private label purchase. Therefore we hypothesize that perceived risk will have negative influence on private label attitude regardless of the product category.

H2 Perceived risk has negative influence on private label attitude regardless of the product category.

Difference in perceived risk between private labels and manufacturer brands is particularly evident for functional component of perceived risk (Gonzalez Mieres et al., 2006a). This is due to the fact that for retailers production is not a primary activity so consumers sometimes doubt the quality of private label, especially in the early stages of the product life cycle. According to the results of empirical study all three previously identified risk components are reducing consumers' proneness to private labels. However analysis shows that social risk has the most pronounced negative impact on private label proneness, followed by functional risk. Financial risk has the smallest negative impact what is logical giving that the prices of private labels are typically lower than prices of manufacturer brands (Zielke & Dobbelsstein, 2007). Based on aforementioned findings we hypothesize that all risk components have negative influence on private label attitude regardless of the product category.

H3 All risk components have negative influence on private label attitude regardless of the product category.

H3a Functional risk has negative influence on private label attitude regardless of the product category.

H3b Financial risk has negative influence on private label attitude regardless of the product category.

H3c Social risk has negative influence on private label attitude regardless of the product category.

The results of previous studies also suggest that perceived risk varies depending on the product category (Glynn & Chen, 2009) and that the risk associated with the product category affects the success of private labels (Sinha & Batra, 1999). In every product category there are different aspects of purchase risk which affect the propensity toward buying new private labels. Research by Dunn et al. (1986) showed that consumers perceive a higher degree of functional risk in ice cream category in relation to the laundry detergents. Similarly, Prendergast and Marr (1997) have demonstrated that consumers evaluated private labels in categories such as rice and paper tissues more positively than

in categories such as shampoos and coffee. Categories that are traditionally perceived as generic, reported a smaller difference in quality between private labels and manufacturer brands and hence smaller perceived risk.

Investigating perceived risk influence on consumer attitude to private labels in the product's life cycle growth stage, presented in the next chapter, has enabled the connection of existing theories. The way in which and how perceived risk influences consumer attitude with regard to private labels needs to be studied across time and stages of product life cycle as well as at the level of different product categories.

## 5. RESEARCH

This chapter describes the main quantitative study conducted for the purpose of the paper, as well as all preparations done before conducting the research itself. The quantitative methodology was chosen on the basis of a large number of scientific papers in the fields of private labels (eg, Dick et al., 1996; Batra & Sinha, 2000; Apelbaum et al., 2003; Hsu & Lai, 2008) that showed this approach is appropriate.

### 5.1. Preliminary studies

Since the aim of the research was to comprehend consumer attitudes towards private labels in different product categories, it was necessary to determine three product categories which would be studied in the final research. Two initial assumptions were taken into account in category selection:

- (1) private labels in a chosen category have to be in the growth stage of the product life cycle;
- (2) chosen categories have to differ in the degree of perceived risk.

In order to determine categories in the growth stage of the life cycle, qualitative research through in-depth interviews with 16 Croatian experts in the field of private label management was conducted. Qualitative method was selected based on the methodology from Thietart and Vivas (1984). Experts selected for interviews were employees of retailer companies that own private labels in Croatia and employees from manufacturing companies that produce private labels and national brands. Respondents were selected using a snowball sample in order to ensure participation of people who manage private labels on a daily basis and therefore have broad knowledge of the research problem. In total 10 in-depth interviews was conducted with representatives of retail chains, who according to the Croatian Chamber of Economy hold more than 2/3 of the market share in Croatian retail market. Additional 6 interviews were conducted with manufactures in order to provide holistic insights into private label management.

All respondents were asked to state product categories which are, according to their knowledge, in the growth stage of the product life cycle. On the basis of qualitative re-

search, 24 product categories were defined in which private labels were in the growth stage of the product life cycle, thus fulfilling the first assumption. Those product categories were: chips, chocolate, chocolate truffles, dish soap, laundry detergent, baby food, pet food, coffee, biscuits, dairy products, milk, paper towels, diapers for children, beer, hair care products, frozen food, beverages, household cleaning agents, sunscreen, liquid soap, wine, facial care products, toilet paper and toothpaste.

In order to fulfill the second assumption, which says that three chosen categories must differ on the basis of the perceived risk level, a survey on a convenience sample of 79 respondents was conducted. The aim of the survey was to assess the perceived risk level in all of the aforementioned 24 product categories. The study was conducted using a questionnaire in which respondents were asked to express the level of risk associated with buying a product from an unknown manufacturer in all analyzed categories using 7 degrees Likert type scale in such a way that 1 represented “extremely low risk” and 7 “extremely high risk”. Mean analysis that indicates the level of perceived risk for each product category is shown in Table 1.

Table 1: *Mean values of perceived risk in different product categories*

PRODUCT CATEGORY	MEAN VALUE	QUARTILE
Baby food	6.34	
Sunscreen	5.75	
Facial care products	5.75	
Dairy products	5.67	
Milk	5.54	
Diapers for children	5.33	Q3 = 5.17
Frozen food	5.00	
Beverages	4.90	
Hair care products	4.84	
Toothpaste	4.75	
Chocolate truffles	4.58	
Chocolate	4.54	
Wine	4.44	
Coffee	4.42	
Biscuits	4.41	
Laundry detergent	4.41	Q2 = 4.49
Chips	4.29	
Beer	4.16	
Household cleaning agents	3.91	Q1 = 4.04
Dish soap	3.89	
Pet food	3.80	
Liquid soap	3.35	
Toilet paper	3.09	
Paper towels	2.53	

Source: Authors' research

All categories studied were arranged on the basis of perceived risk level, after which first, second and third quartiles were defined in order to form three groups of product categories with different perceived risk levels. Six product categories with a perceived risk mean value smaller than the value of first quartile (4.04) comprise low risk level group. 12 product categories with mean values between first and third quartile make up medium level risk group. The last six categories with mean values higher than third quartile (5.17) represent the high risk level categories.

From the product group with the lowest risk level, liquid soap was selected for further research despite the facts that toilet paper and paper towels have lower mean values of perceived risk. Specifically, these are the product categories that are largely generic and there is no possibility for significant brand differentiation what makes it difficult for consumers to assess differences between brands. Unlike them, liquid soap can be estimated in several dimensions – smell, texture, color and so on. In the medium risk level group, chocolate was chosen for further research giving that this product category is represented in the assortment of most retailers in Croatia. Additional reason for choosing chocolate is that this product category is bought by different consumer segments. From the high risk level group, face care product were selected for further research, despite the fact that baby food category and sunscreen products had higher average value of perceived risk. Baby food was not selected because not all retailers in Croatia have private labels developed in this category. Besides that, baby food is usually bought by a narrow consumer segment what would unnecessarily limit consumer sample and thus reduce the possibility of research results generalization. Sunscreen category was not selected because of the seasonal nature of demand. Specifically, since sunscreen is mostly bought during the summer, there was concern that it would be difficult for consumers to express their opinions on these products in December when research was conducted. In order to verify statistically significant difference in the level of perceived risk between selected product categories, analysis of variance - ANOVA was conducted whose results are shown in Table 2.

Table 2: *Results of statistical analysis of differences in mean value of perceived risk in different product categories*

PRODUCT CATEGORY	MEAN VALUE	STANDARD DEVIATION
Liquid soap	3.35	1.61
Chocolate	4.54	1.62
Facial care products	5.75	1.56
<b>ANOVA: F=44,33714 p=0,000000</b>		

Source: Authors' research

The table shows that at the level of significance equal to zero, observed differences between mean values estimates of perceived risk are significantly different which proves that the category selection is justified.

Table 3: *Results of one sample t-test*

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Liquid soap	18.52	78	,00	3.35	2.99	3.72
Chocolate	24.88	78	,00	4.54	4.18	4.91
Facial care products	32.82	78	,00	5.75	5.40	6.10

Source: Authors' research

Results of one sample t test also confirm that the observed differences between mean values estimates of perceived risk are significantly different. Therefore, selected product categories are eligible for further studies.

## 5.2. Main study

As it was stated before, the aim of the research was to comprehend consumer attitudes towards private labels in different product categories in the growth stage of the product life cycle and assess the influence perceived risk has on attitudes towards private labels. The study was conducted using a questionnaire which consisted of series of statements to which respondents expressed their agreement or disagreement using Likert-type scales. Likert type scale is used to measure attitudes toward certain concepts (McDaniel and Gates, 2008) and is therefore suitable for use in research into attitudes towards private labels. Statements were taken from existing literature and translated to Croatian. A scale for perceived risk was designed according to the Sheinin and Wagner (2003). A scale for measuring attitudes towards private labels was developed according to papers from Burton et al (1998) and Lymperopoulos et al (2010). A scale of 7 degrees was used to measure attitudes and risk whereby 1 denoted "strongly disagree" and 7 is "strongly agree." Respondents expressed their (dis)agreement for each claim individually since Likert-type scale does not provide the possibility of multiple responses.

With the objective of pre-testing comprehensibility and appropriateness of the measuring instrument, a pre-test was conducted on a sample of 86 graduate students at the Faculty of Economics and Business, University of Zagreb. Students filled out questionnaires, but were also asked to indicate possible ambiguities for individual statements or other elements of the questionnaire. All comments respondents gave during pre-testing were discussed among authors after whom statements were modified.

The main study was conducted in December 2011 on the convenience sample of 841 respondents whose characteristics are shown in Table 4.

Table 4: *Distribution of respondents by demographic characteristics*

CHARACTERISTIC	NUMBER OF RESPONDENTS	PROPORTION OF RESPONDENTS
<b>Gender</b>		
Female	586	69.7%
Male	248	29.5%
<b>Age</b>		
15 – 25	282	33.5%
26 – 35	270	32.1%
36 – 45	139	16.5%
46 – 55	94	11.2%
56 – 65	33	3.9%
66 +	21	2.5%
<b>Education</b>		
Uncompleted primary school	2	0.2%
Completed primary school	35	4.2%
Completed high school	354	42.1%
College or university degree	328	39.0%
Master's or doctorate degree	121	14.4%
<b>Average monthly income of a household</b>		
up to 4.000 HRK	104	12.4%
4.001 – 8.000 HRK	283	33.7%
8.001 – 15.000 HRK	315	37.5%
more than 15.000 HRK	137	16.3%
<b>Number of household members</b>		
1.00	66	7.8%
2.00	177	21.0%
3.00	176	20.9%
4.00	255	30.3%
5.00	120	14.3%
6 +	46	5.5%

Source: Authors' research

The survey was conducted in person and via the Internet electronic survey. A total of 398 responses were collected through personal interviews with respondents, chosen according to their availability in high traffic areas, promenades and shopping centers. The remaining 443 responses were collected through online research using software Survey Methods. Dual research methods were used in order to obtain wider consumer sample and ensure additional sample variety. Respondents who participated in online research were mostly younger and with above average education so additional personal interviews were conducted with respondents of different demographic characteristics. Questionnaire used in research was self-administered and the same regardless of the research method used.



### 5.3. Data analysis

In the analysis of empirical data collected, a number of statistical techniques and methods were used. All data analysis was performed using statistical package Statistica 6.0 and PASW Statistics 18. To test the convergent validity, factor analysis was conducted. It is considered that the measurement scale has convergent validity if the claims that form the scale have high factor loadings on the same factor, and low factor loadings on other factors. Variables that did not meet the above criteria and had high loading on multiple factors are extracted from the analysis.

Results of the factor analysis show that, based on the Kaiser-Guttman rule, two factors that have intrinsic value greater than 1 were extracted, namely attitudes towards private labels in a product category (factor 1) and the perceived risk of private labels in the product category (factor 2). Results of the factor analysis were the same for all three product categories analyzed. Distinguished factors explained 61.4% of the total variance in the liquid soap category, 59% of variance in the chocolate category and 57,9% variance in the facial care products category.

Reliability of measurement scales was primarily analyzed using the Cronbach alpha coefficient and the convergent validity was tested using exploratory factor analysis. Alongside Cronbach alpha coefficients, indicators "alpha-if-deleted" were also calculated to identify statements that reduced Cronbach alpha coefficient value and these statements were eliminated from the analysis (Churchill, 1979). The statements which were retained for further analysis are stated in Table 5.

Table 5: *Items used in the final measuring instrument*

CONSTRUCT	SCALE ITEMS	AUTHOR
Private label attitude	Buying private label brands makes me feel good.	Burton, Lichtenstein,
	I love it when private label brands are available for product category I purchase.	Netemeyer, & Garretson, 1998
	For most product categories, the best buy is usually the private label brand.	Lymperopoulos,
	My attitude towards retail brands in a category is positive.	Chaniotakis & Rigopoulou, 2010
Perceived private label risk	Considering the monetary investment associated with purchasing category, I consider purchasing private labels to be risky.	Sheinin & Wagner, 2003
	Considering that people judge me by the brand of category that I use, I consider purchasing private labels to be risky.	
	Considering how I like to feel after using category, I consider purchasing private labels to be risky.	

Cronbach alpha coefficient values for defined measuring constructs at the level of analyzed categories are shown in the table 6.

Table 6: *Cronbach alpha coefficient values for defined measuring constructs at the category level*

CONSTRUCT	PRODUCT CATEGORY	CRONBACH ALPHA COEFFICIENT VALUE
Private label attitude	Liquid soap	0.81
	Chocolate	0.80
	Facial care products	0.80
Perceived private label risk	Liquid soap	0.61
	Chocolate	0.60
	Facial care products	0.62

Source: Authors' research

Cronbach alpha value for both constructs and in all categories are at the acceptable level what suggests that defined constructs can be used further in the analysis.

#### 5.4. Research results

Attitudes and level of perceived risk of private labels were analyzed at the product category level. Table 7 shows the mean values for attitudes towards private labels and the degree of perceived risk at the product category level.

Table 7: *Mean values of private label attitudes and perceived risk in various categories*

Product category	The attitudes toward private labels in the category		Perceived risk of private labels in the category	
	Mean value	p-value	Mean value	p-value
Liquid soap	4.5	0.000	3.1	0.000
Chocolate	3.9	0.000	3.7	0.000
Facial care products	3.6	0.000	4.0	0.000

Source: Authors' research

It is evident that the mean value of perceived risk increases which means that consumers perceive the lowest risk in buying private labels in the liquid soap category (3.1), higher risk when buying chocolate (3.7), and the highest risk in the facial care products category (4.0). On the other hand, mean values of consumer attitudes to private labels are moving in the opposite direction which means that consumers have the best attitude about private labels in the liquid soap category (4.5), less positive in the chocolate category (3.9) and the least positive attitude in the facial care products category. The differences in mean values for attitude and perceived risk were tested and results are shown in Table 7. Since p-values are smaller than 0.001 for all combinations of perceived risk and attitudes at the product category level, it can be concluded that the differences between them is statistically significant. Results shown in table 7 corroborate hypothesis H1 stating that private label perceived risk follows the pattern of general category perceived risk i.e. private label perceived risk increases with an increase in product category risk level.

In order to determine the influence of perceived risk on attitude towards private labels, correlation analysis was conducted. Correlation coefficients between the attitudes towards private labels perceived risk at the product category level are presented in Table 8.

Table 8: *Correlation matrix between attitudes and perceived risk of private labels in different product categories*

Product category	Correlation coefficient
Liquid soap	-0.28
Chocolate	-0.17
Facial cream products	-0.18

Source: Authors' research

The correlation between attitude and risk is negative as expected, but an unexpected result is that the correlation is higher in the category of liquid soap compared to chocolate and facial care products categories. As hypothesized, perceived risk has a negative influence on private label attitude regardless of the product category. Thus hypothesis H2 can be accepted.

In order to obtain a better insight into the nature of influence perceived risk has on the attitudes towards private labels additional analysis was conducted in which perceived risk was analyzed through three components - functional, social, and financial risk measured as a single item construct shown in table 5. Multiple regression analysis was chosen because it analyzes the impact of a number of independent on a dependent variable (Diamantopoulos & Schlegelmilch 2000). In regression, components of perceived risk were used as independent variables while attitude toward private labels was used as a dependent variable. Results of multiple regression analysis are depicted in tables 9, 10 and 11.

Table 9: *Multiple regression analysis results in liquid soap category*

	Beta	Std. Err. of Beta	B	Std. Err. of B	t(829)	p-level
Intercept			5,453036	0,117593	46,37196	0,000000
Functional risk	-0,264929	0,036543	-0,209001	0,028829	-7,24969	0,000000
Financial risk	-0,089940	0,038234	-0,076328	0,032447	-2,35235	0,018888
Social risk	-0,022230	0,035595	-0,016332	0,026151	-0,62452	0,532456

R= ,32163218 R2= ,10344726 Adjusted R2= ,10020280 F(3,829)=31,884 p<0,0000 Std. Error of estimate: 1,3445

Source: Authors' research

In the liquid soap category functional risk and financial risk have significant negative influence on attitudes towards private labels while social risk has no influence. This result is not surprising if we take into account that liquid soap is a product used in consumers' homes and is not highly visible to others in order to induce social risk. Influence of financial risk is low as expected giving that private labels in this category have lower

prices compared to national brands and that purchase of liquid soap does not require high monetary investment.

Table 10: *Multiple regression analysis results in chocolate category*

	Beta	Std. Err. of Beta	B	Std. Err. of B	t(834)	p-level
Intercept			4,668860	0,138552	33,69765	0,000000
Functional risk	-0,324617	0,034434	-0,239835	0,025441	-9,42710	0,000000
Financial risk	0,005215	0,035462	0,004203	0,028579	0,14705	0,883127
Social risk	0,089090	0,034242	0,064204	0,024677	2,60178	0,009439

R= ,32227126 R<sup>2</sup>= ,10385876 Adjusted R<sup>2</sup>= ,10063523 F(3,834)=32,219 p<0,0000 Std. Error of estimate: 1,3033

Source: Authors' research

Analysis at the chocolate category level reveals that functional and social risks have significant influence on private label attitude while financial risk has no influence. Surprisingly, results show that social risk has very small but positive influence on private label attitude. These results are contradictory to results of qualitative research conducted on Croatian market where most consumers have stated that they would not use private labels in front of others or give them as a gift because they would be ashamed. Giving these contradictory results interrelation between social component of perceived risk and private label attitude should be analyzed in more detail.

Table 11: *Multiple regression analysis results in facial care products*

	Beta	Std. Err. of Beta	B	Std. Err. of B	t(831)	p-level
Intercept			4,463677	0,141435	31,56001	0,000000
Functional risk	-0,295279	0,034922	-0,209456	0,024772	-8,45544	0,000000
Financial risk	-0,015336	0,035419	-0,011094	0,025623	-0,43299	0,665135
Social risk	0,054320	0,034239	0,036181	0,022806	1,58649	0,113008

R= ,29577277 R<sup>2</sup>= ,08748153 Adjusted R<sup>2</sup>= ,08418724 F(3,831)=26,556 p<,00000 Std. Error of estimate: 1,3042

Source: Authors' research

In the facial care category functional risk is the only component of perceived risk which has significant influence on private label attitude. Results shown in tables 9-11 indicate that hypothesis H3a can be accepted but the other two supporting hypothesis (H3b i H3c) have to be rejected. Because two out of three supporting hypothesis are rejected the main hypothesis H3 also has to be rejected.

These results can to some extent be misleading because they suggest that perceived risk, unlike previous findings, has greater influence in low risk categories like liquid soap compared to higher risk categories like chocolate and facial care products. However, the results can be interpreted in a different way because they show that perceived risk has higher impact in categories in which consumers have positive attitudes towards private

labels so they consider them as an alternative in making a purchase decision. If consumers do not consider private labels as a viable alternative in chocolate or facial care product categories they do not engage in risk assessment for private labels. It is therefore important for retailers to decrease perceived private label risk in low risk categories because if consumers realize private labels in those categories are of appropriate quality they will be more keen in considering private labels as an alternative in higher risk categories.

Chocolate and especially facial care products are product categories in which consumers use more variables when assessing brand value what can offset perceived risk influence on purchase decision. Consequently retailers must consider different aspects of brand development in categories with higher level of perceived risk. Perceived risk will always be present in those kind of categories but retailers' can decrease it by developing sophisticated packaging, providing evidence of high product quality level, using celebrities to endorse the brand etc.

### 5.5. Discussion and Research Implications

Conducted empirical studies have largely confirmed the theoretical assumptions outlined at the beginning of the paper. The research results showed that consumers associate certain level of perceived risk in evaluating private labels. This result is not surprising giving the fact that retailers have no previous experience in production and they appear in the role of brand owner responsible for all aspects of brand management. Consumers often do not know who produces products under a private label, which certainly increases the perceived risk and reduces their likelihood of purchase. It is therefore important that retailers "educate" consumers and make them understand that in development and production of private labels quality raw materials are used and that there are strict quality controls throughout entire manufacturing process. It is difficult to expect that consumers will immediately have confidence in private labels. However, investments in their quality, using private label strategies based on value and not on price, as well as ongoing consumer education can be very important for their future success. Such a strategy requires a large investment in design and product development, quality control and development of long-term relationships with suppliers to ensure quality consistency and development of innovative products that are instigated by market needs and modern trends. By applying these strategies in private label management, they can become brands in the true sense of the word: consumers will not evaluate brands on who manages the brand, but rather on the basis of their value for the consumer.

Analysis at the product category level confirmed that consumers do in fact perceive different levels of perceived risk among different product categories. As expected, consumers perceive the lowest level of perceived risk in liquid soap category, somewhat higher in chocolate category and the highest risk level in facial care product category. These results are consistent regardless is the research conducted at the general or private label level, as shown in prestudy and main study. On the other hand in product categories with higher level of perceived risk consumers' exhibit more negative attitudes compared to lower risk

categories and are therefore more likely to accept private labels as a viable alternative. For retailers this finding is particularly important because it implies that they have to pay special attention to quality of private labels in low risk categories. These categories are sometimes unjustly neglected by retailers because they are not highly profitable but that strategy can be contra productive giving that these are the categories consumers first come in contact with private labels. If private labels in low risk categories are not of adequate quality it would be all the more difficult to convince consumers that quality of private labels in higher risk categories is acceptable.

Aforementioned conclusion is also based on the more in-depth analysis of different risks levels associated with private labels in different product categories. Analysis shows that functional risk has the highest negative impact on private label attitudes in all analyzed product categories. Functional risk is also the only risk component which proved significant across categories. This finding implicates that consumers are still not convinced that retailers are always able to offer products of acceptable quality. One explanation for this kind of reasoning can be found in aforementioned inexperience of retailers in production and brand management and other can be found in low private label prices. High price gap between private labels and manufacturer brands raises doubts about quality of lower priced private labels.

As for the other risk components, financial risk was found to have small negative influence on private label attitude in liquid soap category. Liquid soap is a product essential for everyday hygiene and is often purchased so consumers associate certain level of financial risk with private labels although compared to manufacturer brands private labels have lower price.

Surprisingly, social risk component was found to have minimal but positive influence on private label attitude. Giving that this finding is contrary to all previous research findings additional research is needed to comprehend what is behind this result. One explanation can arise from methodology used because private labels were examined at the general level and some research indicate that consumers in Croatia perceive private labels of foreign retailers as superior compared to domestic ones. Another problem can be that consumers do not even perceive some private labels as private labels but rather as foreign manufacture brands. This can also apply to facial care products category where only functional risk has significant influence on private label attitude.

## 5.6. Research limitations

Combined method of data collection can be considered as a first research limitation. Combination of personal interviews and internet survey was used in order to reach more heterogeneous sample what would not be possible, giving the limited resources available, with one research method. Specifically, younger respondents and respondents with higher levels of education mostly responded to the internet survey while older or less educated respondents with lower income were reached through individual interviews.



Analysis on both samples revealed that there are some differences in the level of private label attitude and perceived risk but these differences can also arise from difference in demographic characteristics of respondents and do not necessarily present research bias. Therefore authors have concluded to treat the sample as a single sample although that poses another research limitation.

Convenience sample used can also be considered as a research limitation. Despite large number of respondents who participated in the research, convenience sample precludes generalization of the results because it is not based on probability. Also, younger respondents, as well as respondents with higher level of education, were disproportionally represented in the sample with regard to demographic structure of Croatian citizens. Despite aforementioned limitations, a large sample still allows for relevant conclusions.

Number of categories analyzed in the research is also a limitation. In order to gain deeper understanding of influence perceived risk has on private label attitudes it is necessary to conduct additional studies that would involve some other product categories. The research results indicate that the attitude of the private labels varies among categories of varying degrees of risk, but further studies are necessary to confirm the knowledge specified in as many product categories.

## 6. CONCLUSION

Private labels in Croatia are, on an industry level, in the growth stage of the product life cycle. This fact is especially important for retailers because the appropriate marketing strategy at this stage can have a significant impact on the success of private labels in the later life cycle stages. Analysis of private label development on Croatian market follows the three stages described by Kapferer (2010): reactive, mimicking and the stage based on the identity development. In the first stage, retailers have used private labels as a tool to achieve greater bargaining power with manufacturers and were focused only on achieving the lowest price regardless of the quality level. Such focus resulted in negative consumer attitudes to private labels which were perceived as cheap products with low and variable quality due to frequent changes of manufacturers. The second stage called mimicking is based on the development of private labels in as many product categories as possible. Most retailers follow similar development pattern, which leads to development of basic private labels categories. At this stage, most retailers do not invest resources in the identity development for their private label but rather use copycat strategy trying to imitate packaging of leading national brands in the product category. A large number of retailers which develop private labels on Croatian market are currently in this stage of their development. This especially applies to domestic retailers who, in contrast to foreign retailers, had no previous experience in the private label development. Retailers which have realized the true significance of private labels have already reached the third stage of development where they use private labels as a real instrument of strategic differentiation through the expression of their own identity and associated values which creates consumer loyalty towards private labels, and consequently towards the retailer

itself. This is generally the stage where retailers, as the main advantage of private labels, do not emphasize the lower price, but the concept of private labels itself which delivers greater value to the consumer through the optimal price-quality ratio (Kapferer, 2010). Private labels, which are managed in this way, have greater value in the eyes of consumers and are therefore more profitable despite greater investments needed.

It is encouraging for retailers in Croatia that consumer attitudes towards private labels are not negative, but are predominantly indifferent, and in the low risk categories even positive. This result indicates that in the growth stage of the life cycle consumers are starting to accept private labels and their market presence. Consumers will not necessarily buy private labels in categories with higher levels of purchase risk because they lack confidence in their quality; however, the mere fact that they are considering private labels as an alternative in their purchase decision is reassuring for retailers. The main goal of retailers, at this point of private label development, is to find a way to turn consumers' indifferent attitudes to positive ones, thus ensuring the success of private labels in the subsequent stages of the product life cycle.

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