SUSTAINABILITY LABELLING FOR CONSUMER PACKAGED GOODS AND THE IMPLICATIONS FOR RETAILER VERSUS MANUFACTURER BRANDS

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SUMMARY: This study examines the effectiveness of adopting a sustainability labeling strategy to enhance brand evaluations. While retailers try to maximize profit by marketing store-owned brands as well as manufacturer-owned brands, it remains unclear under what circumstances retailers can benefit from the inclusion of sustainable product labels. Building on Cue Utilization Theory, we take an experimental approach to examining the importance of including sustainability cues in product labeling in the marketing promotional strategies of retailer- and manufacturer-owned brands. The results of this study indicate disproportionate outcomes for retailer versus manufacturer-owned brands and suggest that this difference is largely influenced by consumer familiarity.

Keywords: sustainability labeling, retailer brand, manufacturer brand, cue utilization theory.

INTRODUCTION

In recent years, a growing preference and demand among consumers for sustainable products (namely, those products which are fair-trade certified, made from natural ingredients or materials, made from recycled materials, reusable packaged goods, as well as those which are made or grown locally) has led to an increase in the volume and variety of such products in the marketplace (Lin and Chang 2012; Scott 2019; Wilson 2018, Winsight Grocery Business, 2019). According to the results of Nielsen Research's "The global, socially conscious [consumer]" survey of more than 28,000 online consumers from 56 countries, two-thirds (66 percent) of consumers prefer to purchase products and services from companies that give back to society, and more than half (59 percent) are willing to invest in such companies (Nielsen, 2012). Furthermore, by adopting sustainability elements into their production practices and product features, companies are able to signal values consistent with a growing share of consumers who readily support brands which demonstrate pro-environmental and pro-social agendas (Gupta and Sen 2013; Irwin and Naylor 2009; Luchs, Naylor, Irwin, and Raghunathan, 2010).

In addition to globally distributed manufacturer brands, the growing interest in sustainability-conscious production efforts and product offerings has also garnered the attention of retailers—evidenced by a notable increase in the availability of retailer-owned brands (retailer brands) with sustainable features (e.g., Walmart's initiative to achieve 100 percent recycle packaging by 2025; Winsight Grocery Business, 2019a). Retailer brands, also commonly referred to as store brands, are brands owned and marketed exclusively by retailers—notable examples include Walmart's Great Value and Target's Up and Up branded product lines. According to a report from Nielsen data (Winsight Grocery Business, 2019b), the dollar volume of retailer brands grew 41 percent over a five-year period from 2013 ($43.1 billion) to 2018 ($60.8 billion) whereas manufacturer brands only grew 7.4 percent (from $236.1 billion to $253.6 billion). As retailer brands increase in popularity and gain market share, they often do so at the expense of established manufacturer brands (i.e., brands owned and marketed globally by large manufacturers such as Kraft and Procter & Gamble) with whom they compete for both in-store shelf-space and consumer sales. According to a survey by the Nielsen Company (Nielsen, 2019), 40 percent of the surveyed Americans indicated that they would pay the same or more for the right retailer-owned brands while only 26 percent of those surveyed were willing to the extra price for counterpart manufacturer brands. However, more recent evidence shows that the presence of retailer brands in a shelf-set helps the overall shopping experience and choice ease for consumers with high product category knowledge (Kelting, Duhachek, and Whitler, 2017). Given the growing relevance of sustainability to consumer preference and consumption along with the steady increase in the market share associated with retailer brands, it is not surprising to find popular retailers increasingly offering products with sustainability features. For example, Target Corporation has launched 70 sustainable store brand products that are bio-based or made with recycled materials or natural fibers (Loza 2019). Similarly, Walmart plans to market 100 percent recyclable packaging for its own store brands by 2025 (WGB 2019).

A growing subset of sustainability marketing literature demonstrates the implications of product sustainability features on product evaluation and preference (Bodur, Gao, and Grohmann, 2013; Han et al., 2017; Luchs et al. 2010), brand attitude (Bodur, Tofighi, and Grohmann, 2016), purchase intentions (Gonçalves, Lourenço, and Silva, 2016; Peyer et al., 2017), and willingness to pay (Haws, Winterich, and Naylor, 2014; Kazeminia, Hultman, and Mostaghel, 2016). However, to date, the extant literature does not address the potentially influential role of sustainability cues in product labeling. To address this gap, the current research examines whether the inclusion of sustainability labels asymmetrically benefits retailers-owned (store-) brands compared to manufacturer-owned brands. Building on earlier research, we introduce brand familiarity as a moderating factor that explains how sustainability can improve preferences for retailer-owned brands over manufacturer-owned brands.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A product label highlighting sustainability can serve as a quality cue for brands to which consumers are less familiar with. Previous research indicates that a sustainability label asymmetrically affects known versus unknown brands. More specifically, in a study comparing the effect of a sustainability labeling (i.e., donation to the American Red Cross) on a known brand (i.e., manufacturer brand) versus an unknown brand (i.e., a fictional brand), Arora and Henderson (2007) find that the presence of a sustainability cue improved consumer attitudes towards an unknown brand to a greater extent than towards that of a known brand. Furthermore, while not empirically tested, the results of Arora and Henderson's research suggests that the greater positive effect of sustainability labeling observed for unknown brands may be the result of increased perceived quality of the unknown brand because known brands may already have established beliefs and values among consumers.

According to Cue Utilization Theory, when brand familiarity is low, consumers will look for cues to assess the quality of a product or brand (Burnkrant, 1978; Jacoby, Olsen, &

Haddock, 1971). More specifically, this theory posits that consumers make quality inferences based on a combination of available intrinsic (i.e., physical properties such as ingredients) and extrinsic cues (i.e., product-related attributes such as store quality perception) (Burnkrant, 1978; Rao & Monroe, 1989; Richardson et al., 1994). The underlying argument of Cue Utilization Theory suggests that in the absence of information about brands and products, consumers are likely to draw quality perception based on quality signaling cues. In the context of product packaging sustainability cues and consumers' choice intentions, prior studies have consistently demonstrated that consumers' perception of sustainability is strongly influenced by the visual features and overall appearance of its packaging (Magnier and Schoormans, 2015; Steenis et al., 2017; Krah, Tea, and Lise, 2019).

This study builds on the expectation that the effectiveness of adopting a sustainability labeling strategy in enhancing consumers' brand evaluations is contingent upon the type of brand and brand familiarity. In particular, it is proposed that when brand familiarity is high for retailer-owned brands, a sustainability label can signal the retailer's competence and ability to build high quality brands—thereby enhancing brand evaluation. When brand familiarity is low, for manufacturer brands, the sustainability label serves as a benefit to the brand name itself and hence enhances brand evaluation. The positive effect of sustainability is explained by enhanced perceived quality. Our study differs from Arora and Henderson's (2007) paper in that we focus on retailer-owned brands that are not completely unknown to consumers (somewhat familiar to consumers due to carrying store's parent brand name or other marketing strategies such as offered bundle discounts and coupons). As such, we investigate different levels of familiarity with brands (i.e., low versus high) and its effect on the favorability of offering sustainable labels. More specifically, it is expected that:

Hypothesis 1: When brand familiarity is low, offering a sustainability label enhances brand attitudes of a manufacturer brand but does not change brand attitudes of a retailer brand.

Hypothesis 2: When brand familiarity is high, offering a sustainability label does not change brand attitudes of a manufacturer brand but enhances brand attitudes of a retailer brand.

Hypothesis 3: Enhanced perceived quality serves as the underlying explanation for the positive effect of sustainability label for familiar retailer brands and the less familiar manufacturer brand.

METHODOLOGY

A sample of undergraduate students enrolled at a large North American university was recruited to facilitate the experiments designed to test the set of hypotheses presented in the previous section. In total, 100 students (50 percent female, between the ages of 17 and 33, M_{age} = 21.48, SD_{age} = 2.97) completed a Qualtrics-designed survey in a computer lab—for which they received course credit for an introductory marketing class. This experiment used a 2 (Sustainability label: present vs. absent) × 2 (Brand type: retailer-owned brand vs. manufacturer-owned brand) between-participants design. In the survey, participants were presented with a product image and a corresponding description for a retailer-owned brand (Sensations brand offered by IGA supermarket: a Chicago-based chain) or manufacturer-owned brand (Kettle Brand) of potato chips. The descriptions either included a sustainability label (Sustainability label present) or did not include a sustainability label (Sustainability label absent). See Figure 1 for more details.

The experiment was specifically designed to examine whether a sustainability label improves or hurts a retailer store brand compared to a manufacturer brand and what is the role of brand familiarity on consumer evaluation. The focus of the test was on the presence (vs. absence) of a sustainability label (i.e., made from natural and locally grown ingredients) in the evaluation of potato chips—a product category with strong retailer store brand presence. We chose this sustainability label because it consists of two sustainability features: (1) environmentally friendly feature (made from natural ingredients), and (2) social feature (locally grown ingredients) (Belz 2009). Furthermore, the description included the average price of three leading potato chip brands as observed at multiple retailers at the time of data collection. See Figure 1 for more details.

Figure 1
Experimental Stimuli

Sustainability Label Present	
Manufacturer-owned Brand	Retailer-owned Brand
Potato Chips  **Kettle Brand** Crunchy and crispy, pure potato Made with natural and locally supplied ingredients 235 grams $3.29	Potato Chips  **Sensations Brand By IGA** Crunchy and crispy, pure potato Made with natural and locally supplied ingredients 235 grams $3.29

Sustainability Label Absent	
Manufacturer-owned Brand	Retailer-owned Brand
Potato Chips  **Kettle Brand** Crunchy and crispy, pure potato 235 grams $3.29	Potato Chips  **Sensations Brand By IGA** Crunchy and crispy, pure potato 235 grams $3.29

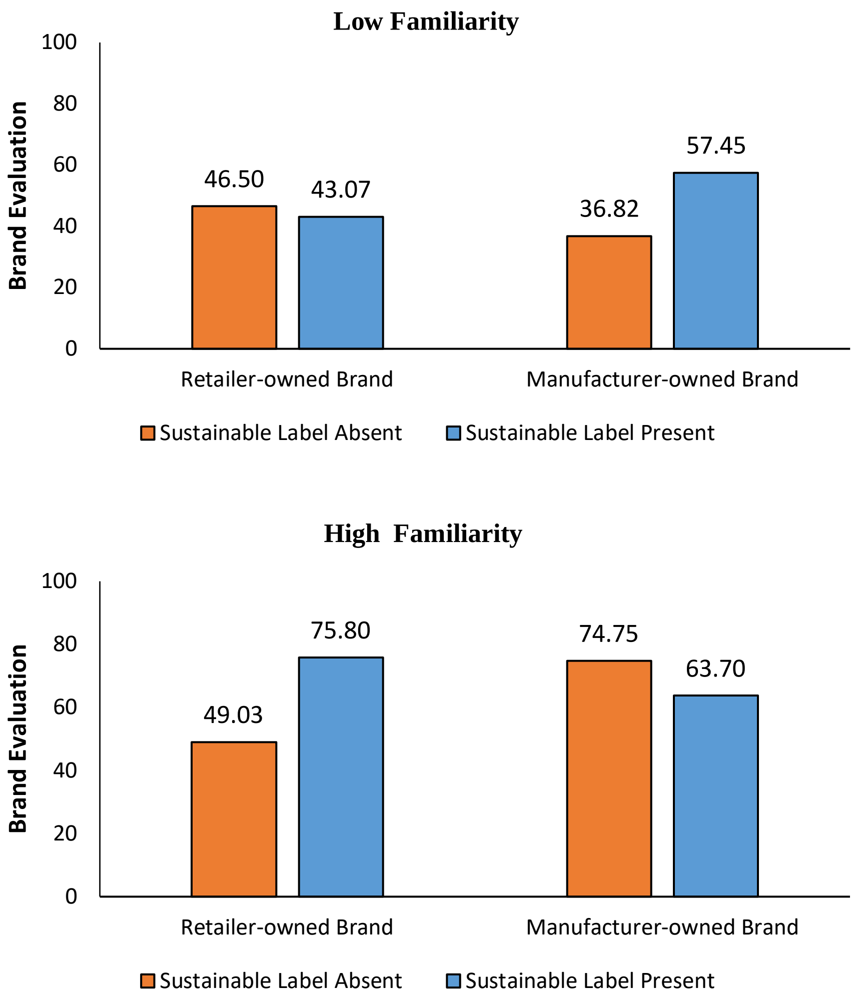
RESULTS

Consumer brand evaluation was measured on a 100-point scale ("How appealing is [brand] potato chips?" 1= extremely unappealing, 100= extremely appealing). Brand familiarity was measured on a 9-point scale ("How familiar are you with [brand]?" 1= not at all familiar, 9= very familiar). We measured the overall quality of the brand by asking participants ("How would you rate the overall quality of [brand] potato chips?" 1 = low quality, 7 = high quality).

As expected, the regression analysis revealed a significant effect of familiarity on brand evaluation of retailer store brand compared to manufacturer brand ($\beta = -2.21$, $t(100) = -2.58$, $p = .01$). Specifically, when the brand familiarity was low, consumers evaluated the manufacturer brand more favorably when it offered the sustainability label ($M_{GB\text{-}Sustainable} = 57.45$, $SD = 16.18$) versus not ($M_{GB\text{-}Non\text{-}Sustainable} = 36.82$, $SD = 23.96$; $t(100) = 2.15$, $p < .05$). However, for the retailer store brand, consumer brand evaluation did not change with offering the sustainability label ($M_{SB\text{-}Sustainable}$ = 43.07, SD = 11.09; $M_{SB\text{-}Non\text{-}Sustainable}$ = 46.50, SD = 12.65; t(100) = -.35, p > .73). These results support the propositions of Hypothesis 1.

When the brand familiarity was high, the inclusion of sustainability label flipped the effect for both brands, such that the retailer store brand with the sustainability label was evaluated more favorably ($M_{SB\text{-}Sustainable}$ = 75.80, SD = 21.87) versus not ($M_{SB\text{-}Non\text{-}Sustainable}$ = 49.03, SD = 18.33; t(100) = 2.44, p < .05). For the manufacturer brand, brand evaluation did not change with the introduction of the sustainability label ($M_{GB\text{-}Sustainable}$ = 63.70, SD = 15.90; $M_{GB\text{-}Non\text{-}Sustainable}$ = 74.75, SD = 14.32; t(100) = -.86, p > .39). These results are consistent with the expectations presented in Hypothesis 2. Figure 1 illustrates these effects.

Figure 2
The Effect of Brand Familiarity on Sustainable Brands



We further tested whether the perceived quality is the underlying explanation for the positive effect of sustainability for familiar store brands and the less familiar manufacturer brand. The regression analysis (PROCESS by Hayes, 2017) indicated that quality perceptions explained the effect of brand familiarity on brand evaluation (β = -1.15, SE = .55, 90 percent

CI [-2.11, -.29]). Specifically, for less familiar manufacturer brand, a sustainability label improved quality perceptions and consequently, brand appeal (β = -1.15, SE = .55, 90 percent CI [1.94, 12.76]). For *more* familiar store brand, a sustainability label improved quality perceptions and, consequently, brand appeal (β = 4.35, SE = 2.93, 90 percent CI [.02, 9.49]). As such, these results generate support Hypothesis 3.

CONCLUSIONS

Although offering sustainable products are generally valued by consumers, there are some boundary conditions with regards to the types of brands that can potentially benefit from the inclusion of sustainability practices. This paper builds on prior research in the area of sustainability and extends the investigation of circumstances that influence consumers' evaluation of different types of brands (i.e., retailer-owned (store) brands versus manufacturer-owned brands) implementing sustainability-inclusive product labels.

Guided by assumptions of Cue Utilization Theory and using recently gathered data focusing on consumer's attitudes towards retailer- and manufacturer-owned brands, this study utilized an experimental approach to examine the potentially differential implications of including sustainability cues on product labels. In doing so, this study generates statistical support for the view that adding a sustainability cue label to a brand may not always lead to beneficial outcomes for the focal brand. In addition, the results of this research highlight the need for enhanced marketing promotional strategies for retailers to increase their own brand awareness and familiarity in order to better leverage the benefits of sustainability labels. Manufacturer-owned brands are, however, shown to benefit more from offering sustainability labels when consumers are less familiar with their brands.

The results of this study correspond to managerial implications for both retailers and manufacturers by providing statistical support and practical direction for the relevance of brand familiarity to the inclusion of sustainability cues in their labeling strategies. For retailers, sustainability labeling can enhance brand attitudes for brands that are more recognizable and familiar to consumers. The enhanced consumer attitudes can potentially lead to greater long-term benefits for retailers in the areas of brand loyalty or store loyalty. For manufacturers, on the other hand, sustainability labeling can improve brand attitudes when consumers are less familiar with those brands. Manufacturers can benefit from this marketing strategy by offering sustainability features for brand extensions that do not carry out their parent brand names or symbols.

Given the disproportionate outcomes shown for retailer versus manufacturer-owned brands and the suggestion that this difference is largely influenced by consumer familiarity, we are hopeful that future research will specifically address the potential implications for this relationship for brand-level performance measures (i.e., sales, return on assets, firm value, etc.). Other potential limitations of this study to be addressed in future research relate to the types of products and the relative age of study participants. Future studies in the area of sustainability labeling may examine the potentially differentiating implications of brand familiarity among a broader variety of consumer goods and across a wider range of consumer groups.

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