Income Inequality and Consumer Preference For Private Labels Versus National Brands

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We find that Americans living in places with high versus low income inequality hold less favorable attitudes toward private label items, exhibit greater search interest for branded grocery products and less search interest for a commonly available private label, and include fewer private label items in their shopping baskets.

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EXTENDED ABSTRACT

Income inequality in the U.S. is at an all-time high (World Bank 2017). Although many argue that income inequality is detrimental to consumer welfare, little is known whether and how income inequality affects everyday consumer decision-making. To shed some light on this issue, we examine the relation between income inequality and grocery shoppers' preference for private labels (i.e., store brands) versus national brands. The demand for private labels, which are cheaper alternatives to national brands, has been hampered as shoppers tend to perceive them as a "sacrifice" (Deloitte, 2015). Thus, it is important to examine the role of income inequality and social comparisons in consumer demand for private labels, contributing to the literature by demonstrating the implications of inequality for consumers' routine purchase decisions.

Prior studies on inequality and consumer behavior have focused primarily on conspicuous consumption. For instance, as compared with those living in low income inequality states, Americans who live in high income inequality states exhibit greater online search interest for positional goods such as designer clothes and expensive jewelry (Walasek & Brown, 2015) and are more likely to tweet about luxury brands (Walasek et al., 2018). These results are consistent with the social rank hypothesis, which posits that inequality enhances people's attention to status symbols. Nevertheless, when it comes to actual spending, household expenditure on conspicuous consumption decreases with income inequality (Hwang & Lee, 2017). As Ordabayeva and Chandon (2010) argues, high inequality decreases bottom-tier consumers' desire for conspicuous consumption because acquiring positional goods would have limited impact on one's relative status in the society.

The goal of our research is to extend the focus of extant literature on income inequality beyond the domain of conspicuous consumption and luxury products, many of which cannot be afforded by the average American consumer. Our context is grocery shopping for which social comparison and interpersonal influence are still relevant factors (e.g., Calder & Burnkrant, 1977; Hui et al., 2009). As pointed out by Veblen (1899), consumption patterns and tastes of the upper class serve as a reference point for those in other social classes, which holds true for inconspicuous consumption as well (Currid-Halkett 2017). In particular, while national brands are often associated with the consumption activity of upper-class consumers, private labels are perceived to have lower quality and typically characterized as value options for lower-class consumers (e.g., Richardson et al., 1996; Sethuraman & Cole, 1999; Steenkamp et al., 2010). We maintain that income inequality catalyzes social comparisons targeted toward achieving a "better" living through the purchase and consumption of premium, national brands rather than cheap, private labels. Accordingly, we predict that grocery shoppers' preference for private labels versus national brands decreases with income inequality. We test our thesis in six studies using both field and experimental data. Our measure of income inequality is the Gini coefficient measured at the state- or county-level (depending on data availability).

Study 1 tests the premise that shoppers living in places with high versus low inequality hold less favorable attitudes toward private label items. For this test, we analyze a sample of online product reviews of a private label sold by Amazon—"365 Everyday Value". We find that reviewers living in states with high income inequality rate private label items less favorably than those living in states with low income inequality.

Study 2 uses online search data from Google Trends for the period 2010-2016. We regressed state-level relative search interest for terms like "milk brands", "water brands", and "Great Value" (i.e., Walmart's private label) on state-level Gini coefficient and control variables. We find that relative search interest for grocery product brands in several categories increases with income inequality, whereas the opposite is true for a commonly available private label. This finding provides support for the premise that consumers' interest in national brands and private labels depends on income inequality.

Study 3 employs actual grocery purchase data from the Nielsen Consumer Panel for the period 2010-2016. For each year, we calculated households' private label purchases as a proportion of their total purchases. We regressed the proportion of private label purchases on county-level Gini coefficient and control variables. As expected, the results show that shoppers living in counties with high income inequality have a lower proportion of private label purchases than those living in counties with low income inequality.

Study 4 replicates this finding in a lab setting using a hypothetical grocery shopping task, in which MTurk participants were presented with four choices (2 national brands and 2 private labels) within five product categories such as milk and eggs. Supporting our prediction, the proportion of private label purchases again decreases with county-level income inequality.

Study 5 provides process evidence via a moderation analysis. MTurk participants completed the same grocery shopping task from study 3. As a moderator, we measured participants' social comparison orientation (SCO) using five items from Gibbons and Buunk (1999), e.g., "I always pay a lot of attention to how I do things compared with how others do things". As predicted, we find that the negative relation between the proportion of private label purchases and income inequality is magnified by participants' SCO.

Study 6 presents additional process evidence by priming perceived income inequality (via a short video clip) and measuring MTurk participants' tendency to believe they deserve to buy better things as a potential mediator (e.g., "I feel I deserve to buy better things"). Supporting the proposed underlying mechanism, a mediation analysis reveals that priming perceived income inequality has a negative indirect effect on the proportion of private label purchases through feelings of deserving to buy better things.

Our results demonstrate that consumers' preference for private labels versus national brands is a function of income inequality they experience. A desire to consume "better" brands reduces grocery shoppers' purchases of private labels in the face of high income inequality.

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