

Factors Influencing Consumers' Purchase Decision of Private Label Brand Products

by

Azhar Ahmad, Sallehuddin Mohd Noor, Che Aniza Che Wel
Universiti Kebangsaan Malaysia (*National University of Malaysia*)
azah@ukm.my, smn@ukm.my, aniza@ukm.my

Abstract. Private label brand products have increasingly becoming popular since consumers' loyalty toward store is higher than their loyalty to brands. Consumers also perceived private label brand products as value purchase and the quality level of these products have improved. Hence, this study investigates the factors influencing the purchase of store brand products in Malaysia. The factors include; perceived quality, perceived price, brand image, and promotion. All four factors have shown positive relationship with purchase decision among the respondents. Brand image is found to have the strongest correlation while promotion depicted weakest link with purchase decision. Socio-economic variables are also included in this study. In the findings, household income shows significant differences in the price perception towards TESCO store brand products. In addition, level of education is significantly difference towards the perceived quality of store brand products. Several implications could be derived from the study. TESCO should improve the quality of its store brand products and reposition itself as a retailer that also promotes quality products. The store could improve the perceived price of its private brands by increasing the benefits of the products to enhance consumers' value.

Keywords: Private label brands, purchase decision, brand image, perceived quality and retailer.

JEL classification: M31

1 Introduction

In the past, retailers producing their store brand did not think it would compete well with the national brand. This is because manufacturers have low branding, non eye-catching packaging and low quality images (McMaster, 1987). With current development, many retailers have introduced high quality private brand products in order to compete with the big national brands. Dhar and Hoch (1997) noted that development of private labels is due to retailer's target for more profits and they are becoming more proficient at managing store brands.

Store brands or private label brands are products created by retailers that put their own name on the products and sold at their retail stores (Karp, 2009). Currently, store brands are in a wide range of consumer products with a higher market share as compared to the whole brands. Store brands in USA have contributed total sales of 15% (Quelch and Harding, 1996) while European countries have more market shares as compared to USA (Ashley, 1998). AC Nielsen Report (2005) listed the top five countries that

contributed in Europe as Switzerland (44%), Germany (29%), Great Britain (27%), Spain (25%) and Belgium (24%).

Private label is still a relatively new concept in Asia (Stany Wee, 2010). The share of modern supermarket trade in Asia is running at about 50% in 2005. In some markets where the retail landscape is highly fragmented, a lot of shoppers are just getting used to visiting supermarkets and hypermarkets for their grocery needs. However, a study by A.C. Nielsen reported that Malaysia is one of the countries in Asia that has a growth of 30% of store brands in 2008. There is a need for further research on the acceptance of private label brands among Asians. Therefore, this study aims to analyse the acceptance of Malaysians towards private label brands especially TESCO's store brand products. The purchase decisions are based on factors such as perceived quality, perceived price, brand image and promotion.

2 Literature Review

2.1 Store Brand Development

Shutte (1969) defined store brands as products that are branded and owned by companies with a main purpose of selling these products through distribution. Products that are sold only in some particular store are also known as store brand products. Sudhir and Talukdar (2004) mentioned that private label branding started in the middle of the 1960's. Through branding, customer could be more loyal to store brands since there is a stronger relationship between customers and the products.

Store brands appear to have an advantage in competing with the national brands in terms of value for money. Baltas (2003) studies showed that there were increased in store brands especially in European countries. According to Jin and Young (2005), studies on store brands acceptance by the US government have concluded that store brands are mostly accepted by the American people. In 2008, the total spending on store brands in Malaysia is worth RM240 million and this number will increase about 30% annually (A.C. Nielsen, 2005).

2.2 Factors of Purchase Decision

The success of private label brands depends on various factors such as the country's retail structure, level of retailer concentration, advertising rate of manufacturer brands, economies of scale and imagination (Jin and Young, 2005). According to Baltas (1997), acceptance of private label products include factors such as familiarity, extrinsic cues, perceived quality, perceived risk, perceived value for money and income level. Hence, four independent variables are common as success factors for private label brands such as perceived quality, perceived price, perceived image and promotion. These four variables are controllable by the retailers and contribute to the purchase decision of private label brands by consumers.

Perceived quality construct is included in the study since quality is identified as one of the

most crucial factors in the mind of consumers. In recent years, lots of reports noticed that decisions made by the consumers are not based on the brand of the product itself but to the quality of the product (Parasuraman et al., 1996). So, most marketers have begun to diversify and likely to focus more on quality that will directly effect on marketing. According to Cronin and Taylor (1992), researchers on perceived quality of store brands argued that perceived quality will affect the performance of marketing of the company. Based on studies conducted by Caruana (2002) and Tsiotsou (2006), perceived quality has a significant relationship with customers' satisfaction.

It short, quality perceived variable can be controlled by the firm itself but the element of satisfaction is beyond the control of the firm. Llusar, Zornoza and Tena (2001) advised that perceived quality and satisfaction are treated as a whole assessment. Hence, the proposed hypothesis for perceived quality is;

H1: The more positive the quality perceived by consumers, the more positive the purchase decision on Tesco store brands.

Perceived price is also used by customers to judge the performance and excellence of a product (Zeithaml, 1988). Price represents an extrinsic sign and provides one of the most important forms of information available to consumers when making a purchase decision (Jin and Sternquist, 2002). Quality affects the selling price of a product and consumers have positive behavior in price and quality that will link to the market (Monroe, 1990; Teas and Agarwal, 2000).

Private label brands are under full control of the retailers and they are free from the manufacturer's pricing strategies and considerations (Uusitalo and Rokman, 2007). According to Zeithaml (1988), customers frequently encoded prices in ways that are meaningful to them. He added that price perceived is different from price since price itself represents monetary value. Perceived price is a combination of "monetary value" and "non-monetary value" including factors such as time, search costs and convenience.

Lichtenstein and colleagues (1993) defined price as the degree of which consumers focus on paying. Consumers that prefer to buy store brands tend to be price sensitive (Raju et al., 1995) and values conscious (Burton et al., 1998). Therefore, the proposed hypothesis is;

H2: The more positive the price perceived by consumers, the more positive the purchase decision on Tesco store brands.

Brand image is the set of belief held by consumers about a particular brand (Kotler and Keller, 2009). Meanwhile, Aaker (1991) defines brand image as a set of associations usually organized in some meaningful way. If consumers do not have complete information about a store, they make assumptions from available cues before forming perceptions towards the store (Monroe and Krishnan, 1985). Brand image provides consumer a rough idea of knowledge that will be stored in their memory as an association to the brand attributes (Peter and Olson, 1994). Also, store image forms explanation on how consumers build and receives images of the retail organizations (Bloemer and Ruyter, 1998).

Baker and colleagues (1994) found that consumers make assumption of the product quality based on the brand image itself. Store brand products will affect the mind of the consumers since they have incomplete information about the quality of the products. Hence, consumers will use signals to make assumptions of the quality of the store brands. Most consumers nowadays rely heavily on the brand name of the store while evaluating the quality of the products (Mazursky and Jacoby, 1986). Brand image is important in the development of consumer's perception towards the product and will directly influence the purchase decision (Zimmer and Golden, 1988). Thus, the proposed hypothesis for brand image;

H3: The more positive the store brand image, the more positive the purchase decision on Tesco store brands.

Promotions are marketing and communication activities that change the value of a product or service as perceived by the target market (Schultz et al., 1998). In the case of supermarket

retailers, communications are becoming increasingly important for product differentiation (Uusitalo, 2001). According to Baltas (2003), advertising plays a vital role in private label brands in differentiating themselves from manufacturers' brands. In short, promotion has a key role in the success of private label products. The channels used as promotional tools include advertising, direct marketing, public relations and publicity, personal selling, sponsorship and sales promotion (Rowley, 1998).

Tesco has used sales promotion as their primary promotional tool. For instance, they implement price discounts on products and distribute coupons to encourage purchases. They also develop membership program, *Tesco Clubcard* to achieve loyalty among customers. Through *Tesco Clubcard*, customers are able collect points each time they shop at Tesco which can be converted to cash vouchers. As agreed by Lewis (2004), retailers increasingly use coupons to give their loyalty program members an incentive to visit the stores and increase their spending. In order to identify the influence of promotion, the proposed hypothesis is created.

H4: The more positive the store's promotion, the more positive the purchase decision on Tesco store brands.

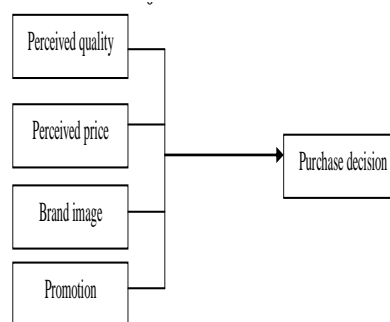


Figure 1: Research Framework

3 Methodology

Survey was conducted at Melaka Tesco Hypermarket as it is the only Tesco store in the city of Melaka. Questionnaire survey was used since it required fewer resources, lower cost and could be used in larger sample size. Due to

limited time and budget, non-probability sampling method was used in the respondents' selection. Sampling on personal judgment or convenience is chosen when any particular member of the population is unknown (Zikmund and Babin, 2010). Self-administered and mall intercept methods were done to 300 respondents at the premise of Tesco Melaka. The data were then coded and analysed using SPSS.

The questionnaire comprises two sections. The first section measures the variables of purchase decision and the decision factors of perceived price, perceived quality, brand image and promotion. The measurement scales for these variables are adopted from Taylor and Todd (1995) and Conner and Sparks (1996). Respondents were asked to evaluate using a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5). Second section focuses on respondents' profiles including gender, marital status, age, ethnicity, educational level and monthly income.

4 Analysis

4.1 Reliability of Variables

Reliability refers to the ability of producing the results when repeated calculation is made. Internal consistency via Cronbach Alpha showed that the measurements are reliable and acceptable. Both perceived quality (0.651) and brand image (0.650) scores are above 0.60 which indicate acceptable reliability (Nunnally, 1967). While the other three variables of purchase decision (0.530), perceived price (0.559) and promotion (0.536) demonstrate minimal reliability value (Malhorta, 2006).

4.2 Demographic Profiles of Respondents

Table 1 depicts the demographic profiles of the respondents. In the survey, majority of respondents are females (60.7%). In terms of ethnicity, 47.7% of them are Chinese followed by Malay (42.0%) and Indian (8.3%). Meanwhile, 43.3% of the respondents have tertiary education and only 10% of them are

primary school leavers. The marital status among the respondents is about equal with 49.7% of them single and 49.3% of them are married. For monthly income, nearly 40% of the respondents are earning between RM2000 to RM4000 a month. Another 35% of them earn less than RM2000 per month and only 7.3% of them earn more than RM5000 a month. The findings also show that majority of the respondents (58.7%) is not a Tesco Clubcard member.

Table 1: Demographic Profiles of Respondents (N = 300)

| Items | Details | Frequency | % |
|-----------------|------------------|-----------|------|
| Gender | Male | 118 | 60.7 |
| | Female | 182 | 39.3 |
| Ethnicity | Malay | 126 | 42.0 |
| | Chinese | 143 | 47.7 |
| | Indian | 25 | 8.3 |
| | Others | 6 | 2.0 |
| Education Level | Lower secondary | 30 | 10 |
| | Upper secondary | 140 | 46.7 |
| | College Diploma | 67 | 22.3 |
| | Bachelor Degree | 47 | 15.7 |
| | Master and above | 16 | 5.3 |
| Marital Status | Single | 149 | 49.7 |
| | Married | 148 | 49.3 |
| | Divorce | 3 | 1.0 |
| Monthly Income | RM500 – RM999 | 29 | 9.6 |
| | RM1000 – RM1999 | 89 | 29.7 |
| | RM2000 – RM2999 | 55 | 18.3 |
| | RM3000 – RM3999 | 63 | 21.0 |
| | RM4000 – RM4999 | 42 | 14.0 |
| | Above RM5000 | 22 | 7.3 |
| Tesco Clubcard | Yes | 121 | 40.3 |
| | No | 176 | 58.7 |

4.3 Hypothesis Testing

The highest mean among the factors is promotion (3.35) followed by perceived price (3.11) and perceived quality (2.64). Brand image has the lowest mean of 2.50. The results demonstrated that only promotion and perceived price influenced the respondents purchase decision of Tesco store brand products since both variables have mean score of above 3.0. Pearson Correlation Coefficient is used to measure the strength of linear relationship between the variables. As shown in Table 2, the correlation between purchase decision and

perceived quality (H1) is moderate since the *r* score is 0.452. This means perceived quality has positive influence on the purchase decision of Tesco store brands. For H2, the correlation score is 0.294. However, the influence of perceived price in the decision making is weak. For H3, the influence of brand image in the purchase decision of store brand products is moderate ($r = 0.455$). In the final hypothesis H4, the relationship between purchase decision and promotion is weak with *r* score of 0.299.

Table 2: Correlation between Purchase Decision and Store Brands Factors

| Factors | Purchase Decision | |
|-------------------|-------------------|------|
| | r | p |
| Perceived Quality | 0.452 | 0.00 |
| Perceived Price | 0.294 | 0.00 |
| Brand Image | 0.455 | 0.00 |
| Promotion | 0.229 | 0.00 |

4.4 Patron Intention of Store Brands

Multiple regression analysis was conducted to predict the factors contributing to the purchase decision of Tesco store brands. The factors were analyzed simultaneously to make prediction of the target variables on purchase decision. Only two factors were found to be good predictors such as quality perceived and brand image. Meanwhile, perceived price and promotion had significant values of more than 0.05.

A stepwise regression was then carried out in order to find out the extent of each predictor on the future intention of the respondents. In Table 3, two factors contributed significantly towards the R square value. Brand image was found to be the largest contributor followed by perceived quality. These two predictors explained 27.1% of the variation in purchase intention among the customers. In addition, R square value of 0.271 indicated low purchase behavior of respondents towards Tesco store brand products.

4.5 Socio-Demographic Influences

Socio-demographic also influences the customers' decision making towards purchasing store brand products (Baltas and Argouslidis,

2007). The research also discusses the demographic differences of customers towards their purchase decision and their perceptions of store brands.

Table 3: Regression Analysis of Purchase Decision with Predictor Variables

| Variables | R | Purchase Decision | | P |
|--------------|-------|-------------------|---------------|------|
| | | R Square | Adjusted R Sq | |
| Brand Image | 0.455 | 0.207 | 0.204 | 0.00 |
| Perceived Q. | 0.521 | 0.271 | 0.266 | 0.00 |
| (Constant) | | | | 0.69 |

Female respondents had higher means in all the variables compared to males. This means female customers have more positive perceptions of purchase decision, brand image, perceived price, perceived quality and promotion of Tesco store brands. However, there is no significant difference between male and female respondents in their purchase decision. Table 4 also shows no significant difference between gender in relation to brand image, perceived price, perceived quality and promotion of Tesco store brands.

Table 4: T-test for Variables by Gender

| Variables | Gender | n | Composite | | Sig. |
|-------------|--------|-----|-----------|---------|------|
| | | | mean | Std Dev | |
| Purchase D | Male | 118 | 2.21 | .66 | 0.57 |
| | Female | 182 | 2.31 | .67 | |
| Brand Image | Male | 118 | 2.42 | .72 | 0.12 |
| | Female | 182 | 2.56 | .66 | |
| Perceived Q | Male | 118 | 2.58 | .61 | 0.98 |
| | Female | 182 | 2.68 | .62 | |
| Perceived P | Male | 118 | 2.99 | .59 | 0.20 |
| | Female | 182 | 3.19 | .65 | |
| Promotion | Male | 118 | 3.14 | .62 | 0.12 |
| | Female | 182 | 3.49 | .73 | |

Table 5 indicates that marital status does not have significant influence since the results show that purchase decision has F value of 0.36 and significant value of 0.71. In addition, the significant values of all the factors are above 0.05. Thus, there is no difference between single, married and divorced respondents in their perceptions towards Tesco store brands.

Table 5: ANOVA between Variables and Marital Status

| Variables | Sum of Sq | Mean Sq | F | Sig. |
|--------------------------|-----------|---------|------|------|
| Purchase Decision | | | | |
| - Between Groups | .316 | .158 | .356 | .701 |
| - Within Groups | 131.791 | .444 | | |
| Brand Image | | | | |
| - Between Groups | .178 | .089 | .188 | .829 |
| - Within Groups | 140.341 | .473 | | |
| Perceived Price | | | | |
| - Between Groups | .603 | .301 | .745 | .476 |
| - Within Groups | 120.214 | .405 | | |
| Perceived Quality | | | | |
| - Between Groups | .088 | 0.44 | .115 | .892 |
| - Within Groups | 113.763 | 0.383 | | |
| Promotion | | | | |
| - Between Groups | .333 | .166 | .332 | .717 |
| - Within Groups | 148.597 | .500 | | |

There is also no significant difference between ethnic groups and their decision making on factors related to store brand products. In Table 6, the significant values of all the variables are above 0.05. Therefore, ethnicity of consumers such as Chinese, Malay and Indian does not influence their purchase decision, brand image, perceived price, perceived quality and promotion of Tesco store brand products.

Table 6: ANOVA between Variables and Ethnicity

| Variables | Sum of Sq | Mean Sq | F | Sig. |
|--------------------------|-----------|---------|------|------|
| Purchase Decision | | | | |
| - Between Groups | .159 | .053 | .119 | .949 |
| - Within Groups | 131.947 | .446 | | |
| Brand Image | | | | |
| - Between Groups | .903 | .301 | .638 | .591 |
| - Within Groups | 139.616 | .472 | | |
| Perceived Price | | | | |
| - Between Groups | .706 | .235 | .580 | .629 |
| - Within Groups | 120.212 | .406 | | |
| Perceived Quality | | | | |
| - Between Groups | .885 | .295 | .773 | .510 |
| - Within Groups | 112.967 | .382 | | |
| Promotion | | | | |
| - Between Groups | .883 | .294 | .589 | .623 |
| - Within Groups | 148.046 | .500 | | |

Information on the respondents' monthly income was also collected and analysed. As shown in Table 7, there are some significant differences between the monthly income groups and perceived price of Tesco store brands. However, there is no difference between

monthly income and other variables such as purchase decision, brand image, perceived quality and promotion. Thus, customers' monthly income has a big influence on perceived price of Tesco store brand products.

Table 7: ANOVA between Variables and Monthly Income

| Variables | Sum of Sq | Mean Sq | F | Sig. |
|--------------------------|-----------|---------|-------|--------------|
| Purchase Decision | | | | |
| - Between Groups | 2.274 | .379 | .855 | .528 |
| - Within Groups | 129.833 | .443 | | |
| Brand Image | | | | |
| - Between Groups | 1.240 | .207 | .435 | .855 |
| - Within Groups | 139.279 | .475 | | |
| Perceived Price | | | | |
| - Between Groups | 6.499 | 1.083 | 2.776 | .012* |
| - Within Groups | 114.319 | .390 | | |
| Perceived Quality | | | | |
| - Between Groups | .902 | .150 | .390 | .885 |
| - Within Groups | 112.950 | .385 | | |
| Promotion | | | | |
| - Between Groups | 2.862 | .477 | .957 | .455 |
| - Within Groups | 146.068 | .499 | | |

The study also looked at consumers' educational level on the purchase decision of Tesco store brand products. Table 8 shows significant difference between the educational level of respondents and their perceptions of the quality of store brands. Meanwhile, there is no significant difference between education and other variables such as purchase decision, brand image, perceived price and promotion.

Table 8: ANOVA between Variables and Education

| Variables | Sum of Sq | Mean Sq | F | Sig. |
|--------------------------|-----------|---------|-------|--------------|
| Purchase Decision | | | | |
| - Between Groups | 3.070 | .614 | 1.399 | .225 |
| - Within Groups | 129.037 | .439 | | |
| Brand Image | | | | |
| - Between Groups | 1.961 | .392 | .832 | .528 |
| - Within Groups | 138.558 | .471 | | |
| Perceived Price | | | | |
| - Between Groups | 3.392 | .678 | 1.699 | .135 |
| - Within Groups | 117.425 | .399 | | |
| Perceived Quality | | | | |
| - Between Groups | 4.472 | .894 | 2.404 | .037* |
| - Within Groups | 109.380 | .372 | | |
| Promotion | | | | |
| - Between Groups | 4.862 | .972 | 1.984 | .081 |
| - Within Groups | 144.068 | .490 | | |

Tesco establishes its membership program by issuing Tesco Clubcard that allows their customers to collect points and redeem cash vouchers. Independent t-test was conducted to analyse the influence of this program to the purchase decision of respondents. From Table 9, Tesco Clubcard owners have higher means than those who do not join the membership program. In addition, the results show that there are differences between Clubcard members and non-Clubcard owners regarding promotion. Thus, the membership program is significant in promoting Tesco store brand products.

Table 9: T-test for Variables by Tesco Clubcard Membership

| Variables | Card | n | Composite | | | Sig. |
|-------------|------|-----|-----------|-------|-------|-------|
| | | | mean | Std D | t | |
| Purchase D | Yes | 121 | 2.461 | .684 | 4.279 | .251 |
| | No | 176 | 2.129 | .614 | | |
| Brand Image | Yes | 121 | 2.645 | .667 | 3.072 | .763 |
| | No | 176 | 2.400 | .668 | | |
| Perceived Q | Yes | 121 | 3.228 | .582 | 2.798 | .501 |
| | No | 176 | 3.025 | .660 | | |
| Perceived P | Yes | 121 | 2.760 | .645 | 2.943 | .539 |
| | No | 176 | 2.544 | .585 | | |
| Promotion | Yes | 121 | 3.484 | .766 | 2.759 | .046* |
| | No | 176 | 3.250 | .645 | | |

In summary, only three socio-demographic aspects show significant differences towards the proposed variables. Monthly income shows significant difference in respondents' perceptions toward the price of Tesco store brands. The level of education among respondents also influences their perceptions on the quality of Tesco products while membership program shows significant difference in promoting Tesco store brand products.

Table 10: Socio-Demographic on Variables

| Socio-Demo | P D | Image | Price | Quality | Promo |
|----------------|-----|-------|-------|---------|-------|
| Gender | | | | | |
| Marital Status | | | | | |
| Ethnicity | | | | | |
| Monthly Inc | | | ✓ | | |
| Education L | | | | ✓ | |
| Tesco Card | | | | | ✓ |

5 Conclusions

From the findings, customers have more positive perceptions towards the price and promotion of Tesco store brand products, while their perceptions are negative on brand image and quality of these products.

The results show there is significant relationship between the *perceived price* and the purchase decision of Tesco store brand products. Consumers do not usually remember the actual price of a product but instead, they compare actual prices with reference prices (Dodds et al., 1991). To improve the perceived price of its store brands, Tesco should increase benefits such as service quality, convenience and reduce customers' sacrifices (risk) to enhance customer value. Income level of shoppers significantly influenced their perceptions on the prices of Tesco store brand products. As noted by Beneke (2010), a decrease in store brand loyalty was evident as monthly income increased. To overcome this, Tesco needs to reposition itself as a retailer not only for the lower income group but also sells quality products to satisfy the high income customers.

Promotion has positive relationship on customers' purchase decision of Tesco store brands. As supported by Genenk and Neslin (1999), promotion had a stronger immediate effect on brand purchase. The findings also demonstrate that Tesco membership significantly influenced consumers' perceptions on promoting store brand products. Consequently, Tesco should continue and improve its loyalty program by adding new benefits (price discounts, sweepstakes, coupons, etc.) to existing and potential members. Retail loyalty programs are used as a mechanism to develop a retail-consumer relationship (Aniza et al., 2011).

Perceived quality is also found to be a predictor for customers to purchase Tesco store brands products. As concluded by Caruana (2002) and (Tsiotsou, 2006), if the quality of a product is high, the customer satisfaction is also high. In order to improve quality, Tesco should improve the sensory preferences of shoppers. This would

include differentiating Tesco store brands with others so that customers would notice the improvements of Tesco products (Schiffman & Kanuk, 2007). Packaging is one effective method to improve the perceptions of quality (Howell, 2004). In addition, the perceived quality of Tesco products is influenced by the educational level of the customers. As noted by Rusch (2002), lower income earners and lower education level group tend to buy trusted brand rather than wasting their money on unknown brands. In this case, Tesco products do not provide the consumption cues to determine the social standings of consumers. To overcome this, Tesco could reposition itself as a retailer not just focusing on the market share or economy of scale but also acts as a retailer of quality products.

Brand image is also a predictor of customer's purchase decision of Tesco products. Lin (2005) argued that customers respond better with purchase intention when the product is of higher brand image. Zimmer and Golden (1988) found that consumers sometimes used store names to describe a prototypical store. Similarly, Tesco shoppers show negative perceptions towards the brand image of Tesco store brands and this leads to negative purchase decision. Furthermore, none of the socio-demographic factors significantly influence the consumers' perception of brand image of Tesco products. In order to improve negative perceptions of Tesco brand image, the store should continually adjust their positioning strategies, altering its image in order to remain competitive.

In conclusion, this study only scratches the surface of private label brands in retailing. Its sampling area is limited to one Tesco store in Melaka. Moreover, the research only focuses on four main factors such as brand image, perceived price, perceived quality and promotion. Therefore, future research could be done on a bigger scale and include more uncaptured variables. In-depth interviews could also be included to obtain a more detail information.

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Authors

¹ *Azhar Ahmad* is an Associate Professor at School of Management of Universiti Kebangsaan Malaysia (UKM). He holds a PhD in Corporate Communication and his research interest is in Marketing and Promotion.

² *Sallehuddin Mohd Noor* is an Associate Professor at School of Management, UKM. He lectures Marketing and Retail Management and his research interest is in Retailing.

³ *Che Aniza Che Wel* is a senior lecturer at School of Management, UKM She holds a PhD in Service Marketing. Her research interest is in Service Marketing and Consumer Behavior.