

An Empirical Investigation into the Perception of Customer's Toward Premiumisation of Brands



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The competitive landscape in the food industry has been heated up with differentiation and premiumisation strategies. The aim of this research is an in-depth analysis of the perception of customers towards premiumisation of products in the food industry. It aims to test the validity of the existing assumptions, claims, theories and generalizations on the topic. The methodology followed is Dashboard analysis with a sample size of 230 respondents. The output of factor loadings revealed that uniqueness and superior experience are prominent purchase influencing factors and also to explore premiumisation in the times of recession. This research also explores the challenges involved in premiumisation to move up in the value chain.

Keywords: Premiumisation, Differentiation, Perception, Recession, Mega-Trends

1. Introduction

The term premiumisation came up in the '90s by alcohol and beverage companies to market their product as a top-shelf offering or premium product to the consumer. We can observe this trend in a discrete section as premium value gives higher value. Premiumisation made a great impact on the consumer because, it provided brand authenticity, heritage and gave a feeling of luxurious life with the experimentation of new products. The companies offer premiumisation by bringing uniqueness in the product by enhancing the quality of the product and ingredients used, colour, rebranding, exclusive locations, performance, position so on and so forth.

Premiumisation has given larger committed consumers who may not be able to afford the high-end goods but still wouldn't mind going for luxury products as a standard of living has improved overtime, since it's becoming prevalent among the users. Millennial is the most subjected to a wave of premiumisation as they are latent consumers. Premiumisation has increased the demand for customisation and luxury goods, allowing consumers to personalise their product which gives the product an extra exclusivity and distinctiveness. Premiumisation helped the companies to carve out the niche market by giving them pleasure in the way the customer shop helped to relive the shopping stress. Premiumisation is all about one's priorities whether to buy a high-end product and economise elsewhere. The brand takes this opportunity and does research to understand the consumer priorities to exploit the difference between "commanding a premium" and "becoming a commodity" Premiumisation will be the main drift till 2030. The consumer purchase decision is changing to spend more on a product that makes them healthier, exclusive and efficient. This is making a demand for the products and service that makes them a better version of themselves. Premiumisation is not something that is new but now it is the reason that changed the impulse behind consumer's purchase decisions.

2. Literature Review

Premiumisation and recession: The two powerful and contradictory forces that shape the market is premiumisation (better is better) and economisation (good is enough). In premiumisation the one main factor of premiumisation is the escalation in personal disposable income of the big population and it also gratifies a higher level of satisfaction and self-actualization. Premiumisation has demonstrated progress over the economic cycle. The market study tells that premiumisation is persistent in most categories and the product is retrieving growth. In some categories we can see that the super-premium segment products are brought down to the premium segment. Recession can change price and value proposition and make the product more reasonable to the consumer. The effects of recession people delayed purchases, bring down the quality and exit the segment totally. The traditional management belief and methods are effective anymore, lesser profit, low shares. Companies have to use the strategy process in market structure's four dimension, these are, High brand value creation, real customer need, favourable price, constructive competition and trade relation. (Norkus, 2019)

Megatrends: Megatrend means what's happening. It tells the swing in the attitude and behaviour that has impact the industries around the world and it is not short term. One of the megatrends seen is premiumisation. Premiumisation is all about priorities. As there are number of substitute product at different price points, customer can buy products that are more desired at higher quality and price, giving opportunity cost to that is not significant. Premiumisation has taken control of United States retail pet food by offering premium product that is resulting for 61% increase in value sales in cat and dog food (2016). Premiumisation is more relevant in the present than ever as the not only the beverage industries and pet food industries have taken over but also all other industries like automobiles, cosmetics and all other business (Boumpfrey, 2017)

Adapting Premium in FMCG: The research paper states that FMCG Company is adopting premiumisation due to the pressure of the value chain implication of the luxury market and also because of the white brands (private label brands). We can differentiate a premium product and luxury product, premium products are products that are frequently existing FMCG product that gone through a premiumisation process to give a better benefits and profitability. The different strategies that could be used for premiumisation of FMCG goods are to use new technology like social media etc. to reach the customer, create Customer Relationship Centers, standardize worldwide production, adapting distribution network to dynamic of the market, use of new distribution channels, Multilevel organisation for network orchestration . Premiumisation is basically changing a company to high-volume, and penetrating into bespoke model.(Luis Solís, 2017)

Global Trends Grocery Retailing Implications for Suppliers and Manufacturers: The key trends in grocery retailing have been affected by Global economy; due to this the companies offer more and more discounts. But premiumisation will improve significant product advancement. The value received becomes supreme. Customers are ready to pay more for the things that can offer them something extra or create a value which is the product will be better in quality, lower environmental impact, and competitive prices. More the middle incomer consumer increases the premiumisation will have more presence in the market. Although the recession has affected the premiumisation to slow pace but still premium grocery was positioned better to result to result in the inclination of catering from scratch. This also benefitted the community by increasing the demand for environmentally friendly and ethically sourced products. Premiumisation faces a challenge as rich consumer are cutting their spendthrift in the slow economy. (Global trends : grocery retailing implications for suppliers and manufacturers., 2010)

Recent Trend in Consumer Market and Retail: The trend of premiumisation started in India in the year 2016 and was one of the main trendsetters in the consumer market. The main reasons for these are rising of personal disposable income, change in lifestyle to more standards, and giving preference to convenience. Retail sector apparels, food and beverages, FMCG, electronics and consumer durables are following this trend. The high increase in the millennials as the main consumer segment, the perception of premiumisation and product's value has also changed. 31% of people choose value for money emerging amongst the young consumer. (Stilinovic, 2016)

It has been observed in Indian market that people are more brand centric and brand loyal as product provide value proposition. Consumers have become more health conscious, which has led to branding of organic products as premium. This has led to a new pathway for brand to focus on untapped segments of market. Innovation, digitisation and renovation of local products has given an upper hand to the brands to increase their market share as they are releasing it as premium products in this era. (Avlon, 2017)

Strategies for Premiumisation: Effective premiumisation for a company can lead to 10 to 15% growth in sales. This can be achieved by differentiation in product line of the company by releasing new innovative products or by rereleasing existing product by upgrading to premium quality. It has to be taken into account only few products can be launched as premium after doing the market research. This growth is seen as economy is raising and income of the people has been hiked so they are willing out new premium products. This trend has been established by liquor and yogurt brands, as they provided differentiated flavouring in the name of premium products. In today's world premium products are made available in small stores at affordable prices in reasonable quantities. (Jit Lodd, 2016)

3. Research Methodology

The purpose of methodology section in the report making is to describe the research process that is followed while doing the main part. This would however include the research design, the sampling procedure, and the data collection method. This section is perhaps difficult to write as it would also involve some technical terms and may be much of the audience will not be able to understand the terminology used. The methodology followed by the researcher, during the preparation of the report was:

Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. The survey research was used in this project, because consumer's feedback was necessary for obtaining the data.

Research Instrument and Mode of Survey

For doing the survey research, structured questionnaire with both open-ended and closed-ended questions was asked via Google forms which were rolled out to different audiences. Cluster analysis has been used to identify the demographic of the participant and dashboard also has been created for the survey. Each question in the questionnaire was analysed separately and have made interpretation for the same. These were the different sampling technique that was used.

Sample Element and Sample Unit

- 230 people participated for the survey from various age, gender, across in India.
- Participant also has different income levels

- Putting their perspective about the topic premiumisation,

Cluster Analysis

The data has been analysed in clustered and grouped according more similar (in some sense) to each other than to those in other groups.

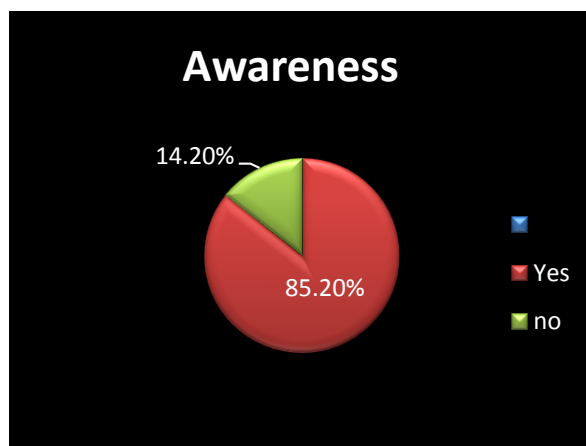
Gender	Male	160	69.56522
	Female	70	30.43478
	Total	230	100
Salary	Pocket money (5k)	93	40.78947
	below 19K	17	7.45614
	20K-39K	31	13.59649
	40k-59k	30	13.15789
	60k-99k	15	6.578947
	100k-199k	19	8.333333
	200k-500k	13	5.701754
	Above 500k	10	4.385965
Total	228	100	
Age	Below 20	4	1.73913
	20-30	154	66.95652
	30-40	15	6.521739
	40-50	30	13.04348
	50 above	27	11.73913
	Total	230	100

The researcher has clustered the data into 3 categories that are gender, Salary and age. From that we could understand that the proportionate amount of people is male has pocket money of 5000rs and of the age 20-30.

Survey Analysis

Awareness of Premium Food Product or Premiumisation of Food Products

Particular	Response	Percentage
Yes	196	85.20%
No	34	14.80%



Interpretation

The research shows that 85% people are aware about premiumisation in India and only 15% of people are not aware that there is difference between in the product as basic product and premium product.

Customers Brand Loyalty towards a Particular Food Company

Particular	Response	Percentage
Yes	130	56.5%
No	100	43.5%

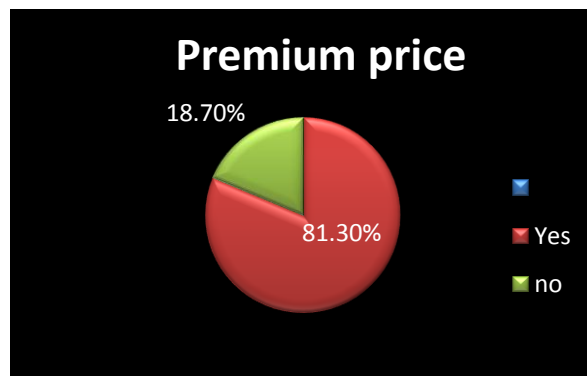


Interpretation

The research show that only 56.50% people are loyal to a particular brand and rest all are not. This is because the companies in this industry have failed in brand positioning in the minds of the people.

Do People Pay Premium Price for Premium Products?

Particular	Response	Percentage
Yes	130	56.5%
No	100	43.5%

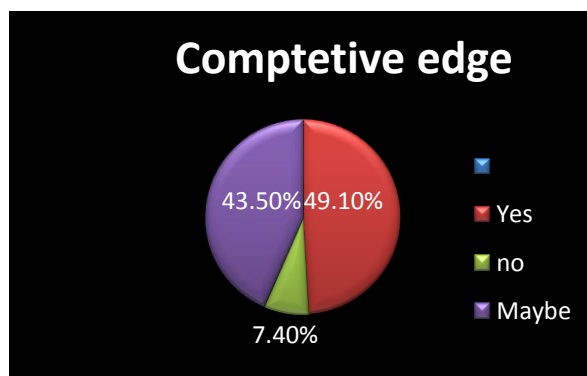


Interpretation

The research tells that, the people are ready pay to extra for premium product but the products are good in quality and has something unique to it than other product. This is also because to show a social status.

Premiumisation giving a competitive Edge towards the company

Particular	Response	Percentage
Yes	113	49.1%
NO	17	7.4%
Maybe	100	43.5%

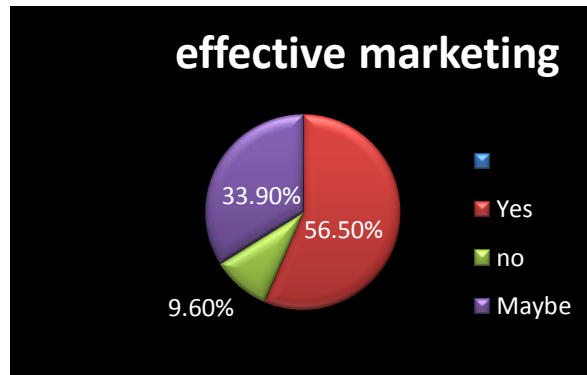


Interpretation

This shows that premiumisation is helping to differentiate the company with other company and giving a competitive edge for that company. This is because premium product brings uniqueness to the product than other competitors.

Premiumisation an Effective Marketing Strategy

Particular	Response	Percentage
Yes	130	56.5%
NO	22	9.6%
Maybe	79	33.9%

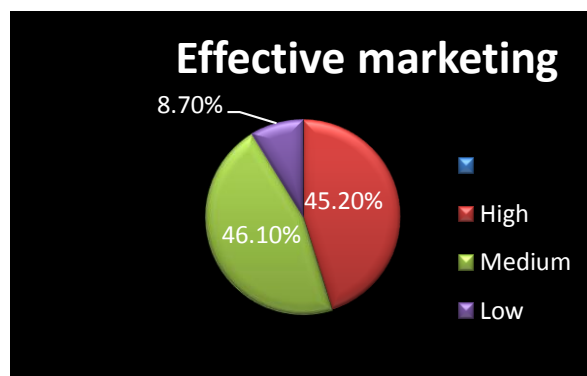


Interpretation

The research shows that premiumisation is effective marketing technique and people participated in the survey also agree. This is because of the competitive edge that is offered to the customer that they think the product is of high quality.

Is promotion needed to premium products compared to basic products?

Particular	Response	Percentage
High	104	45.2%
Medium	106	46.1%
Low	20	8.7%

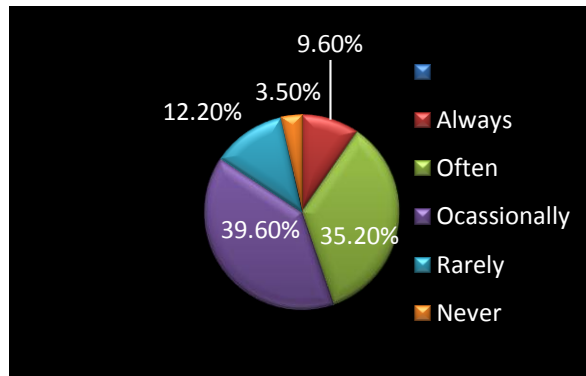


Interpretation

The research shows that the promotion needed for a premium product is medium and not high compared to the basic product. This is because an premium product is easily identifiable than a basic or substitute product.

Customer Preference of Premium Products over basic Product

Particular	Response	Percentage
Always	22	9.6%
Often	81	35.2%
Occasionally	91	39.6%
Rarely	28	12.2%
Never	8	3.5%

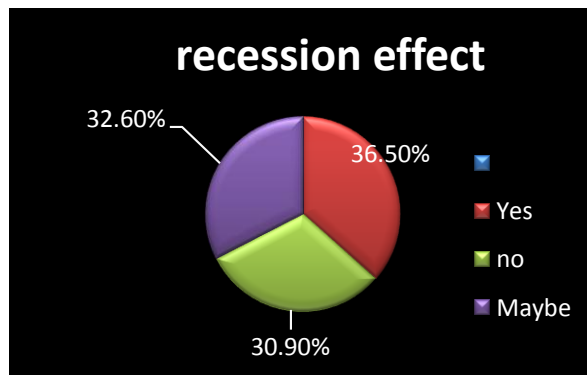


Interpretation

The above chart shows that people are ready to premium product most of the time but not always and for every products. This is due to the increase in the disposal income in the hands of the customer. Only 3.5% of people never buy the premium products.

Effect of Upcoming Recession on Premiumisation

Particular	Response	Percentage
Yes	84	36.5%
NO	71	30.9%
Maybe	75	32.6%

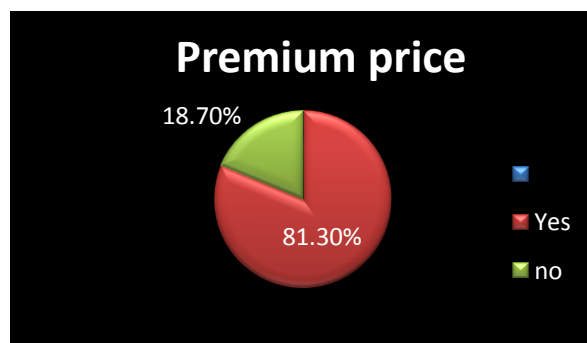


Interpretation

36.5% People think that the upcoming recession will affect the premiumisation but in but 32.6% people think that it does not affect the premium product. This is because a person who is buying a premium product is coming from stable salary tenure family so recession won't make much effect on them.

Premiumisation silently changing the buying behaviour of the people

Particular	Response	Percentage
Yes	153	66.5%
No	77	33.5%

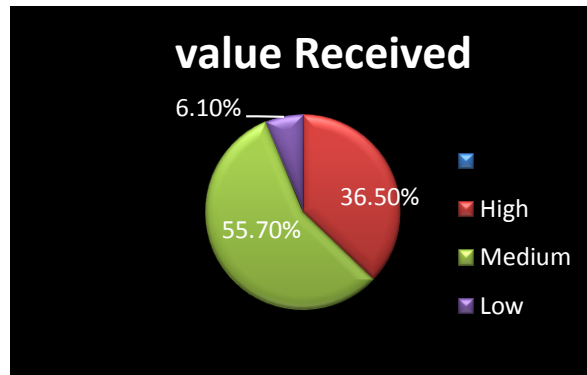


Interpretation

177 people participated in the survey tells that premiumisation of the product has changed their buying behaviour, which tells that people have started to use premium products over basic products

Value Received from Premium Products

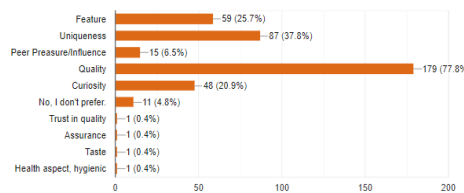
Particular	Response	Percentage
High	88	36.3%
Medium	128	55.7%
Low	14	6.1%



Interpretation

The value received from the premium product is medium. This is because of the price that they pay will not be equal to the value they have received from the product.

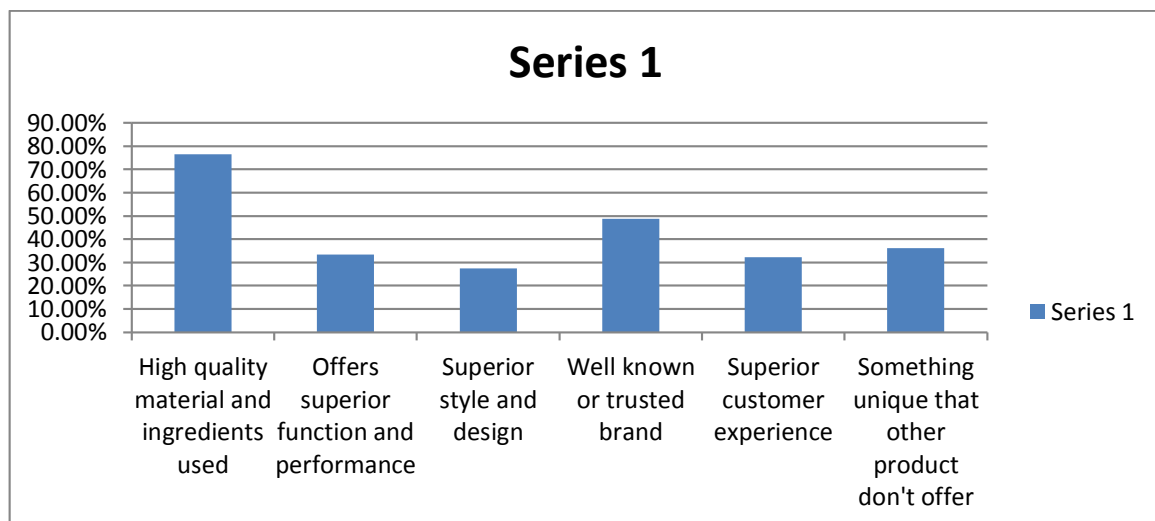
Reason for preferring premium products



Interpretation

People choose premium products because mainly of the Quality of the product, uniqueness that they bring and feature of the products and curiosity towards the product of what makes it premium. These are the primary reason why people choose premium product.

Products are Premium because of



Respondents tell that the product is because of high quality material and ingredients used make a product premium. Also the goodwill of the company also makes the product premium after that customer experience provided also make it premium product.

According to dashboard analysis we observe that the consumers of premium food products with a constant income above one lakh per month are more loyal to brands than the ones who earn less than 20,000 a month. Adult consumers above the age of 35 feel that premium food products especially FMCG have a competitive edge over basic products whereas the youth raise concerns as many new brands are popping up with nearly same quality as a premium product but at lesser prices. In youth, we can observe that premiumisation of products has created awareness among them and has silently impacted their buying behaviour as premium food products give a choice between wide variety of products. Among teenagers we can observe that, they are not brand loyal and they strongly think recession will hit premium food products as the pricing is high and millennial generation either prefer premium food products rarely or very less often due to wide range of new and innovative products that are in the current market.

4. Findings

The research has found that the premiumisation the current trend in the market and will exist in the market for long time. This is due to the increase in disposable income of the people. People are ready to pay more for higher quality of products. And 85% of people know what premiumisation is.

According to survey the main differentiator of premium product is Quality followed by the trust or goodwill in the brand; this is also the reason for purchasing the premium product. The survey tells that people are ready to pay premium price for premium products. The value received from product is higher than of basic product.

FMCG companies are adopting premiumisation because of value chain implication of luxury market. Premiumisation helps the value received to become supreme. The increase in the millennial is the main consumer segment. 31% of people choose value money emerging amongst the youngsters.

Premiumisation will give a competitive edge to the company and act as effective marketing technique as people think the higher the price the higher the quality. The company also need to do bit more of promotion than the basic product. The recession will not have direct effect on premiumisation but would indirectly have effect delaying the purchase or change in price and value proposition. This was also agreed by survey that recession will have effect on premiumisation as 36% people say it has effect and 30% do not agree to it.

The study shoes that premiumisation have changed the buying behaviour of the people, that people started to purchase more premium product than the basic products. It also tells that people buy premium products occasionally for some programs.

Business Implications

The survey implies that

1. If a company wants to enter the market, it has to do a market analysis and then set road maps to reach a market demands. Else, there is a chance that the company might fail in product market.
2. The new market entrant has to consider many factors that may affect its growth in initial days one of it being Economy of the market. Economy of the country/industry market may affect important decision clusters on a minor scale. Though the impact might be less, it is essential for a company to focus the economies that may lift up or bring down the company's growth scale.

5. Limitations

There were a few hindrances in the above research conducted such as:

1. Either people were not aware of premium products or they were not able to differentiate between premium and basic products
2. Study had a limited 256 respondents
3. There was a lack of previous research studies on the topic
4. Very high uncertainty about recession affecting premium products from the respondents

6. Future Scope

A further research can be conducted on this study focusing on upcoming recession. This study can be base for future work regarding in detail study about premium product and consumer behaviour towards it.

7. Conclusion

The research paper is an empirical investigation into the perception of customer towards premiumisation of brands. The aim of the research was to analyse the perception of customers towards premiumisation of products. Premiumisation made greater impact on consumer because it gave authentic feel and luxurious life with experimentation of life. The research helps to understand the awareness of premiumisation of the product. How FMCG companies are adopting premiumisation strategy and whether it give competitive edge form the companies. The study will help companies to tackle upcoming recession. It will give clear ideas for companies to come up with various strategies on improvising their existing products or launching of new products.

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