Retail brand architecture and consumer store loyalty

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Abstract

During the last decades the fight between manufacturer brands and retailer brands has intensified. While there seems to be several immediate benefits for a retailer to increase the number of own private labels, the impact on future store image and loyalty should also be considered. Our aim is to investigate the relationship between consumers perceived retail brand architecture, their store satisfaction and loyalty. Furthermore we use perceived store image as a mediating factor in our framework. In total 772 Danish households participated in a telephone interview and returned questionnaires by mail. The major contribution of this research is to conceptualise and empirically investigate the role of brand architecture for perceived store image, store satisfaction and loyalty.

Keywords: Brand architecture, satisfaction, store loyalty

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Introduction

Today the notion of (short-term) profitability seems to underlie much of existing thinking about retailer decisions regarding assortment and categories (Boatwright & Nunes, 2001; Broniarczyk, Hoyer & McAlister, 1998) and it has been raised in a special issue of *Journal of Retailing* that more research focusing on the understanding of how brands influence a retailers image and customer loyalty is needed e.g., that one key issue for future research is how perceived value and store image are influenced by different branding strategies (Grewal, Levy & Lehrmann, 2004). Furthermore, during the last decades the fight between manufacturer brands (MB) and retailer brands or private labels (PL) has intensified dramatically (Ailawadi, Pauwels, & Steenkamp, 2008). While there seems to be several immediate benefits for a retailer to increase the number of own private labels in the store (e.g., increased power in price negotiations with manufacturers, increased margins on own labels and the possibility to expand and/or differentiate product assortment from competitor chains (Ailawadi & Keller, 2004; Pauwels & Srinicasan, 2004), the impact on the future store image and customer loyalty must also be considered (Burt & Carralero-Encinas, 2000).

Looking back, the image of private labels (PL) has until recently been one of low prices with matching low quality (Sprott & Shimp, 2004). Today, private labels are found at several price and quality levels, from low priced/low quality products to premium quality/high priced products; a development and spectrum referred to as different 'generations' of retailer brands (Burt & Sparks, 2002), and it is evident that the strategy of shelved PL's across the generation spectrum varies a lot among retail chains, from only shelving discount PL's to having PL's on all quality levels like Sainsbury in UK. Earlier studies have reported that retailers can build store loyalty through strong private labels (Ailawadi & Keller, 2004), since private labels provide the opportunity for a chain to differentiate itself from other retailers and build store image. However, it is also a well known fact that the fundamental requirement for a successful differentiation strategy is a strong relationship between the retail store products and the image it has (Collins-Dodd & Lindley, 2003). Recent results from a Danish study of three specific product categories revealed that private labels were not the consumers' favourite brand in any of three investigated product categories, that consumers did not have private labels as typical top of mind brands, and compared with established manufacturer brands big differences with respect to likelihood of recall was found (Juhl, Esbjerg, Grunert, Bech-Larsen & Brunsø, 2006). In another recent Dutch study investigating the relationship between consumer's PL purchases and their total spending in particular retail chains using an impressive dataset including household scanner-data, psychographics and demographic information, findings are mixed and concludes that there are no linear relationship between PL strategy and store loyalty (Ailawadi, Pauwels & Steenkamp, 2008).

As revealed above, it is still not evident what impact an increase in number (and in quality) of private labelled products in a retail chain could potentially have on the chain image held by consumers or on store loyalty. Earlier studies investigating the effects of store image on retail (store) brands (Collins-Dodd & Lindley, 2003; Semeijn, Van Riel & Ambrosini, 2004) have mentioned the possibility of the reverse effect. In this study we focus on this reverse effect from a consumer perception point of view, namely on the measurement of *perceived* retailer brand architecture and its impact on *perceived* store image and loyalty. We propose two measures of retailer brand architecture in a framework linking retail brand architecture to constructs of store image and loyalty from a consumer point of view – and excludes deliberately measures of performance, which has earlier been used as the dependent variable for store brand effects (Ailawadi & Keller, 2004), and proven to be determined among other things by loyalty (Zeithaml, Berry & Parasuraman, 1996). Our aim is to investigate the relationship between consumers perceived brand architecture of a retail chain and their store satisfaction and loyalty. Furthermore we use the concept of perceived store image as an intervening / mediating factor in our framework. Below we present our approach to the four main concepts in our framework: 'retail brand architecture', 'store image', and 'satisfaction and loyalty'.

Retail Brand Architecture

When discussing relations between brands Aaker & Joachimsthaler (2000) introduce what they consider a "powerful brand architecture tool": the brand relationship spectrum. They identify four basic strategies: At one end of the brand relationship spectrum is the *house-of-brands* strategy, which involves a set of independent, stand-alone brands. At the opposite end is the *branded-house* strategy, where a master brand is the primary driver across multiple offerings. In between these two end-points are the *endorsed brand* strategy (independent brands endorsed by another brand) and the *subbrand* strategy, where brands are connected to a master brand. All four strategies can be observed in food retailing. Later Aaker & Joachimsthaler (2002) define brand architecture as "an organising structure of the brand portfolio that specifies the brand roles and the relationships among brands … and different product-market brand contexts". The concept is based on the assumption that brands are not evaluated in isolation, but are placed in and evaluated within a boarder context. This assumption is also important in a retail context. Consumers do not look at an isolated product or brand on the shelf. Their evaluation of the individual brand depends also on the context; for instance, what other products are offered in the product category and in the retail outlet, previous experiences with the product or other products from the same manufacturer, as well as previous experiences with the retailer in question (Ailawadi, Pauwels & Steenkamp, 2008). Seen in this light, we propose that the concept of *retailer brand architecture* can be defined as the combination of manufacturer brands, retailer brands and generic products in a retailer's assortment.

Over the past 25 years, retailer brand ranges have evolved from being mainly generic private labels sold primarily on price to also include added value products with quality and prices equivalent to or higher than the leading manufacturer brands (Laaksonen & Reynolds, 1994; Sprott & Shimp, 2004). In the literature, distinction has been made between five generations of retailer brands: 'Generic', 'Low Price', 'Me-too', 'Value Added' and 'Corporate' (Burt & Sparks, 2002; Laaksonen & Reynolds, 1994). All five generations of retailer brands can be observed in the assortments of different European food retailers, and most recently, the retailer as such has become the brand for some leading retailers such as Tesco or Sainsbury's (Burt & Sparks, 2002). Furthermore, different types of retailer brands exist. The brand relationship spectrum (Aaker & Joachimsthaler, 2002) can be used to analyse the relations between a retailer's different brands. A retailer can be said to follow a house-of-brands strategy when it sells its own brand merchandise under a variety of un-related names. At the other extreme, a retailer can be said to follow a branded-house strategy when all of its own merchandise is sold under the same name, typically the name of the chain. To follow a branded-house strategy will be inevitable to achieve the fifth-generation strategy explained above.

In our present study we focus on the dimensions of brand architecture that, from a customer point of view, may differentiate one retail chain or -store from others. As noted earlier, retailer brand architectures typically comprise manufacturer brands, retailer brands and generic brands. The retailer assembles an assortment of products and brands which together are expected to appeal to consumers. We expect that the interplay between manufacturer brands, retailer brands and generic products is important for how consumers perceive and evaluate the brand architecture of food retailers and their overall evaluation of a retail concept and image. We propose two dimensions as a way to measure retail brand architecture, namely 'visibility of retail brands' and 'quality of retail brands'. Visibility of retail brands deals with the extent to which consumers can associate private labels with the name of the retailer. One of the major reasons for developing private labels is the possibility to differentiate the retailer from competitors by offering a unique assortment that the consumer can only purchase in that particular retail chain. But a prerequisite for this to happen is that consumers actually are aware of this, e.g. that they know that particular brands can only be bought at that particular store. In order to measure how consumers perceive the retail store on this dimension we propose to measure *Perceived visibility of retailer brands compared to manufacturer brands in a given store.*

Quality of retail brands cover to which extent private labels span over more quality levels from low to high, where 'higher quality' has to be seen in the light of the general positioning level of the retailer. As discussed above it is possible to distinguish between several generations of retailer brands (Burt & Sparks, 2002; Laaksonen & Reynolds, 1994), depending on basically the price and quality of the retailer brands provided in the store. In order to measure how consumers perceive the retail store on this dimension we propose to measure *Perceived quality/value of retailer brands compared to manufacturer brands*.

Finally, in order to investigate the relationships between consumers perceived brand architecture of a retail chain and their store satisfaction and loyalty using the concept of perceived store image as an intervening / mediating factor in our framework, we also measure store image, customer satisfaction and loyalty.

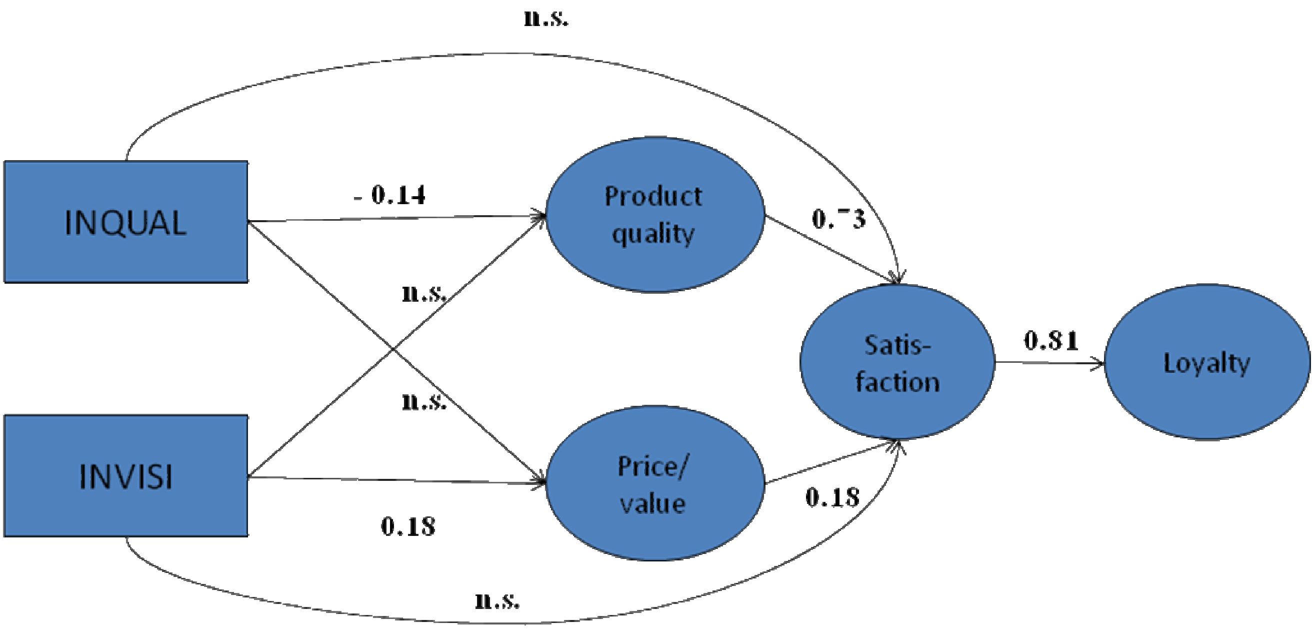
Methodology

Data collection was carried out by means of both telephone interviewing and a mailed questionnaire in Denmark. First, households were contacted by telephone, and respondents were screened by the following criteria: (1) Should be the person in the household mainly responsible for grocery shopping; (2) Should be shopping in (at least) one of five selected major retail chains in Denmark; (3) Should be willing to participate in the telephone interview and a postal survey. In order to support the participation in both parts of the survey, a competition of a week-end hotel stay for 2 persons was included, but only respondents returning the postal questionnaire were able to participate in this competition. A representative sample of 1005 households agreed to participate in the telephone interview, and received afterwards by mail a questionnaire which had to be filled out and returned by mail within 10 days. The questionnaire was thus divided in two parts; one for the telephone survey and one for the mail survey. Eight items about perceived brand architecture were included in the telephone interview, while items covering store image, loyalty and satisfaction were part of the mail survey: 6 items was included to estimate two image dimensions on 'product quality' and 'price' adapted from Chowdhury, Reardon & Srivastava (1998) and 5 items to measure satisfaction and loyalty respectively. All items were measured on a 10 point Likert scale. To be able to estimate relations among all the different constructs, all respondents must have answered all relevant questions, and therefore our sample is obtained from the 772 households who participated in both surveys, and form the basis for the analysis below.

Analysis, results and discussion

First the two retail brand architecture indexes 'INQUAL' measuring the quality dimension of PL versus manufacturer brands and 'INVISI' measuring the PL visibility in the store were calculated in SPSS 16.0. Next the scales of the two store image factors 'product quality' image and 'price' image as well as the scales for 'satisfaction' and 'loyalty' was analysed for internal consistency by means of Cronbach's Alpha reliability analysis, all achieving fine results (ranging from 0.77 to 0.89). In order to investigate the direct and indirect effects between the different constructs, structural equation modelling was carried out by means of LISREL 8.71. Results can be seen in Figure 1.

Figure 1: Structural equation model of the effect of retail brand architecture



Chi-Square=354.65, df=57; Standardized RMR=0.075; RMSEA=0.083; GFI=0.93

As can be seen in Figure 1 results show that the brand architecture index covering quality of private labels versus manufacturer brand has a significant negative influence on the store image factor 'product quality'. This means that the better the perceived quality of private labels, the more positive the store image of 'product quality' is perceived, since the index goes from minus (private labels perceived to have better quality than manufacturer brands) to plus (manufacturer brands perceived to have better quality than private labels). The result also show that the brand architecture index covering visibility of private labels in the retail chain has a significant positive influence on the store image factor 'price'. The other relations from the indexes were insignificant. Furthermore, both store image factors have a significant positive influence on satisfaction (‘product quality’ = 0.73 and ‘price’ = 0.18), and finally we found that ‘satisfaction’ has a strong significant positive influence on overall ‘loyalty’ (0.81).

We also tested the model allowing the two brand architecture indexes to influence ‘satisfaction’ directly, but here both relations turned out to be insignificant – indicating that the effect of brand architecture is mediated by the image factors as expected. All in all, our results show that even though most consumers are not very conscious about choosing between private labels versus manufacturer brands at category level (Juhl, Esbjerg, Grunert, Bech-Larsen, & Brunsø, 2006), the retail brand architecture still has a significant effect when it comes to store image, and also indirectly influences satisfaction and loyalty.

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