



## Relationship marketing management: Its importance in private label extension<sup>☆</sup>



Maria José Miquel-Romero<sup>a,\*</sup>, Eva María Caplliure-Giner<sup>a,\*</sup>, Consolación Adame-Sánchez<sup>b</sup>

<sup>a</sup> Department of Marketing, Juan José Renau Piqueras, University of Valencia, Av. Tarongers s/n, 46022 Valencia, Spain

<sup>b</sup> Department of Business Management, Juan José Renau Piqueras, University of Valencia, Av. Tarongers s/n, 46022 Valencia, Spain

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### ABSTRACT

Relationship marketing aims to generate long-term profitable relationships between partners. In the context of the convenience goods market, the present study considers private labels in traditional categories as a tool to develop effective relationships. The main contribution of the study is the use of the relationship approach to explain private label loyalty and the success of store brand extension strategies. Drawing upon a sample of 434 individual and using EQS software, this study shows that customer experience, satisfaction, trust, and commitment to private labels play an important role in customer loyalty toward private labels in convenience goods, increasing consumers' propensity to buy private labels in new categories such as durable goods. Generating trust and commitment, which ultimately result in loyalty, is therefore a strategic goal and a source of long-term profitability for retailers.

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### 1. Introduction

Retailers are aware that a strong brand is a source of competitive advantage for any company. In recent years, private labels (PLs) are becoming very important for retailers as a means of differentiating themselves from competitors, to grow through PL extension, and to strengthen their relationships with consumers (e.g., Dhar & Hoch, 1997; Narasimhan & Wilcox, 1998; Pepe, Abratt, & Dion, 2011).

The Private Label Manufacturers Association (PLMA, 2013) defines PL products as all merchandise sold under a retailer's brand, which may be the chain's own name or a brand name that the retailer uses exclusively for their stores. Across Europe, private labels are becoming very popular among shoppers, with 46% of consumers frequently purchasing PLs (PLMA, 2013). Manufacturer and retailer brands compete for consumer loyalty within the same product categories (Bustos-Reyes & González-Benito, 2008; Grewal, Levy, & Lehmann, 2004). PLs exist in almost every category of grocery, drugstore, and perfumery products, and retailers are extending their PLs to new categories such as shopping products (textiles, household appliances, and electronic devices), and even services (financial, insurance, and mobile services).

To counter the advance of PLs, Grossman (1998) advises manufacturers to exploit relationship marketing (RM), as a mechanism to

provide value added to the customer. Nowadays, retailers implement relationship strategies to retain customers. Customer RM focuses on developing mutually valuable long-term relationships with customers (Ravald & Grönross, 1996) on the basis of the core variables of satisfaction, trust, and commitment (Payne, Christopher, Clark, & Peck, 1995). For the company, appropriate RM leads to effective customer retention and loyalty, resulting in a gradual increase in the customer base, a rise in customer lifespan, a greater acceptance of brand extension, and improvements in business performance (Sirohi, McLaughlin, & Witink, 1998).

Despite the abundant academic research into RM, PL, and brand extension, only partial or indirect linkages appear among these concepts in the context of retailers. In their review of 142 PL research papers, Gooner and Nadler (2012) conclude that the consolidation of customer goods leads to a greater PL market share.

Experience and satisfaction with the PL in regular products instill trust in customers, making purchasing PLs in new product categories easier (Steenkamp & Dekimpe, 1997) because of a fall in perceived risk (Sheth & Parvatlyar, 1995). Retailers are adopting brand equity as their strategy (Pappu & Quester, 2006) by creating a unique selling proposition (Gutwilling, 2000; Steiner, 2004). New offers must be consistent with earlier ones to demonstrate commitment to the consumer. To keep the consumer's interest in maintaining the relationship, the retailer has to match its offers with customers' desires better than competitors do (Reinartz & Kumar, 2000), bolstering customer loyalty to the brand and establishment. The concepts in the above discussion come under the umbrella of RM.

In view of the growing presence of PLs in new categories (PLMA, 2013), this study attempts to analyze to what extent the fundamentals

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\* Corresponding authors.

E-mail addresses: maria.j.miquel@uv.es (M.J. Miquel-Romero), eva.caplliure@uv.es (E.M. Caplliure-Giner), consolacion.adame@uv.es (C. Adame-Sánchez).

of RM apply to PL in convenience goods, enhancing PL extension acceptance in durable goods. The goal is to analyze whether satisfaction stemming from experience, trust, and commitment to the PL in convenience goods (CG) favors PL loyalty, and, consequently, acceptance of brand extension into new product categories. The new product category is complex durable goods (DG), whose characteristics make the purchase decision more complex. Customers are likely to perceive higher risk in purchasing DG products from PLs, increasing the perception that a negative outcome may occur (Burnham, Frels, & Mahajan, 2003).

Following this introduction, Section 2 reviews the literature on RM and PL, presenting the conceptual model and research hypotheses. Section 3 covers the study methodology, and Section 4 presents the results and findings. Section 5 discusses the conclusions and limitations, and proposes suggestions for future research.

## 2. Literature review: relationship marketing model for private label extension to durable goods

RM entails the development of strategies to build relationships with customers, to develop these relationships further and maintain them over the long term, and, through this process, add value. The aim of RM is to create customer loyalty on the basis of customer satisfaction (Berry & Parasuraman, 1991; Kotler, 1994). Mutual benefits for both company and customer are possible. RM increases levels of customer satisfaction and loyalty (Evans & Laskin, 1994), and simplifies purchasing procedures. RM reduces the need to collect information and subsequently process this data, and diminishes purchasing risk by bolstering psychological well-being and satisfaction (Sheth & Parvatlyar, 1995).

Given the intrinsic characteristics of DG and the time that elapses between one purchase and the next, the initial choice of PL in durable goods categories is crucial and depends on previous experience of other PL product categories (Zielke & Dobbstein, 2007). Retailers are so confident in their ability to satisfy customers' needs and in the quality of the products they supply that they expect re-purchases of PL, thereby increasing customer familiarity (Alba & Hutchinson, 1987; Coupey, Irwin, & Payne, 1998), and resulting in a positive attitude towards PL (Richardson, Jain, & Dick, 1996).

Anderson, Fornell, and Lehman (1994) define satisfaction as an overall assessment of customer experience over time, or of a set of similar-type experiences. More recent contributions take a much broader approach, suggesting that satisfaction is an overall assessment of the experience as owner or customer of a product or service (Fullerton, 2005; Yu & Dean, 2001). When customers view the experience in a positive light, scholars refer to this concept as satisfaction (Batra & Sinha, 2000; Roselius, 1971; Sethuraman & Cole, 1999).

**H1.** Experience with PL CG has a direct, positive impact on customer satisfaction with PL CG.

Chaudhuri and Holbrook (2001) define brand trust as the willingness of the average customer to rely on the brand's ability to perform its function. Satisfaction is an attitude deriving from experience with another individual or entity. Undeniably, a certain amount of positive experience with a person or organization will at least support the development of trust towards such a person or organization. In customer-supplier relationships, the literature supports a strong relationship between customer satisfaction and trust (Anderson & Narus, 1990; Garbarino & Johnson, 1999). Therefore, the higher the degree of consumer satisfaction with PL products and services with which customers have some kind of bond, the greater the trust in the brand (Ganesan, 1994; Selnes, 1998).

**H2.** Satisfaction with PL CG has a direct, positive impact on trust in PL CG.

The RM literature widely acknowledges commitment as an integral part of any long-term business relationship (Gundlach, Achrol, &

Mentzer, 1995; Morgan & Hunt, 1994). In most cases, scholars describe RM as a kind of lasting intention to build and maintain a long-term relationship (e.g. Dwyer, Schurr, & Oh, 1987; Moorman, Zaltman, & Deshpandé, 1992). Trust diminishes perceived risk and vulnerability in a relationship, which leads to greater commitment to the relationship (Ganesan, 1994). Following Chumpitaz and Papatoidamis (2007), and Garbarino and Johnson (1999), the present study examines trust as a precursor of commitment.

**H3.** Trust in PL CG has a direct, positive impact on customer commitment to PL CG.

Satisfaction, trust, and commitment are outcomes of implementing RM. These three factors are the precursors of loyalty (Chumpitaz & Papatoidamis, 2007; Mittal & Kamakura, 2001; Moorman, Deshpandé, & Zaltman, 1993; Morgan & Hunt, 1994; Oliver, 1997), and develop into the strategic goals of companies (Aurier & Gilles, 2012a).

Oliver (1999, p. 34) defines loyalty as, "... a deeply held commitment to rebuy or repatronise a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing." This definition highlights the two different aspects of brand loyalty appearing in earlier works on attitude and behavioral concepts (Aaker, 1991; Jacoby & Kyner, 1973; Oliver, 1999). True loyalty is an attitudinal commitment to the brand and repurchase intention (Chumpitaz & Papatoidamis, 2007).

The relationship between customer brand satisfaction and brand loyalty appears extensively in the literature (Bitner & Hubbert, 1994; Oliver, 1999), with brand satisfaction being the most important antecedent of loyalty (Fornell, 1992). One of the more relevant premises for a PL to establish loyalty is the brand's ability to fulfill promises to its customer base. The continuing fulfillment of promises usually leads to a long-term profitable relationship between a retailer and its customers (Pepe et al., 2011). In such cases, the customer trusts the retailer's ability and motivation to behave in the expected way (Jarvenpaa, Tractinsky, & Vitale, 2000).

**H4.** PL satisfaction in CG has a direct, positive impact on PL customer loyalty in CG.

**H5.** PL trust in CG has a direct, positive impact on PL customer loyalty in CG.

**H6.** Commitment to PL CG has a direct, positive impact on PL customer loyalty in CG.

Brand extension, or brand stretching, is one of the growth strategies that distributors use when they are attempting to exploit PL equity by increasing the number of PL product categories, despite many of these new categories being non-traditional, as is the case of DG in this research paper. The brand extension strategy can also optimize relationships with customers (Scott & Halligan, 2002).

Brand equity includes multiple dimensions such as brand awareness, brand image and associations, and brand loyalty (Aaker, 1991; Keller, 2008). Abundant research on brand extension establishes a link between the first two categories of brand equity (Broniarczyk & Alba, 1994; Dacin & Smith, 1994; Keller & Aaker, 1992). Nonetheless, few studies analyze the effect of brand loyalty on customer assessment of retail brand extension. Exceptions to the rule are the studies by He and Li (2010), and Hem and Iversen (2003), which report that brand loyalty has a positive effect on the assessment of brand extension.

When retailers extend their PL to a new product category, customer loyalty to the parent brand indicates a good chance that the same retailers will try the extended brand, as long as loyalty remains within some reasonable limits (Reast, 2005). Brand loyalty refers to general preference towards the parent brand, whereas brand extension assessment is a product-specific brand attitude, specifically referring to purchase intention.

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