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# The impact of private labels on consumer store loyalty: An integrative perspective



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## ABSTRACT

This research studies the role of private labels (PLs) on consumers' store loyalty. It offers an integrative approach that comprises several store loyalty drivers (in-store and economic factors), analyzing the role that PLs play among different types of retailers. Data were collected through an online survey. Using structural equation modeling, we run our analysis across different retail formats, assessing which factors lead to store loyalty and to what extent PLs contribute to it. Findings suggest that depending on retailers' market positioning, different factors contribute to loyalty and that the impact of PLs is mostly significant for medium-cost and premium supermarkets.

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## 1. Introduction

Private labels (PLs) have been gaining increasing importance throughout the world (Sethuraman and Gielens, 2014) with store brands being present in almost every product category (Geyskens et al., 2010; Nielsen, 2014). Some of the advantages referred to explain this phenomenon is that private labels offer retailers a mechanism to reach differentiation in the consumers' market by providing a set of distinctive products to its customers (Sayman et al., 2002), as well as to help retailers strengthen consumer loyalty (Ailawadi et al., 2008; Corjstens and Lal, 2000). However, despite all the previous research on this topic, the relationship between private labels and store loyalty is still quite uncertain (Martos-Partal and González-Benito, 2011; Seenivasan et al., 2015) and can be quite complex (Koschate-Fischer et al., 2014).

In the present research we aim to address this gap, following an integrative approach to determine the level of importance of private labels loyalty on store brands loyalty. We include in our model not only the consumers' loyalty towards the private labels, but also control for other factors that can significantly influence consumers' store loyalty and that are not so commonly analyzed: a variety of in-store driven factors (e.g., stores' convenience, and stores' appearance, Maruyama and Wu, 2014), as also several

economic factors (e.g., store pricing policy and store loyalty programs; Bridson et al., 2008). Moreover, because each retailer can invest in specific differentiating factors, we run our analysis across different types of retailers, following a classification that combines both pricing policies as well as levels of services offered (Low-cost: EDLP strategy, minimum level of services-; Medium-cost: hi-low pricing strategy, medium level of services; and Premium: high pricing policy, high level of services), in order to assess which factors lead to store loyalty and to what extent PLs contribute to them. To the best of our knowledge, no previous studies adopted before such an integrative perspective when analyzing the impact of PLs on consumers store loyalty.

## 2. Theoretical background

### 2.1. Store loyalty

Regarding the conceptualization of store loyalty, there is no universal agreement on its definition (Blut et al., 2007; Kumar and Shah, 2004), with customer loyalty remaining a topic of great interest for companies (Martos-Partal and González-Benito, 2013). While some authors propose it can be measured focusing on consumers' intentions to continue purchasing (Meyer-Waarden, 2015; Sirohi et al., 1998), others suggest it can also be measured focusing on consumers' behavioral characteristics as frequency of store visits or relative volume spent (Ailawadi et al., 2008; Bustos-Reyes and González-Benito, 2008; Seenivasan et al., 2015).

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Moreover, loyalty is also often defined as a pattern of repeated purchase behavior of a specific brand that can lead to the development of a relationship with it (Blut et al., 2007), generating purchase routines. Despite all efforts from previous studies interested in analyzing the store loyalty construct and factors that lead to it, the findings so far are not conclusive (Martos-Partal and González-Benito, 2013; Meyer-Waarden, 2015).

In the present research we define store loyalty as the propensity for consumers to use a store with this propensity translating simultaneously into consumers' both attitudinal and behavioral characteristics (Blut et al., 2007), building on Oliver (1999) four-stage loyalty model.

## 2.2. Store loyalty driving factors

A set of store loyalty driving factors is related with specific characteristics of the stores. In fact, product assortment, location service quality, and store atmosphere, can also affect consumers' store evaluations and store choices (Maruyama and Wu, 2014; Mesquita and Lara, 2007; Pan and Zinkhan, 2006). We build on this idea and include in our integrative analysis, six of the most commonly cited in-store factors: (1) *appearance and environment* of the store, typically associated with store comfort and its physical aspects, such as its layout (Dabholkar et al., 1996; Shukla and Babin, 2013); (2) *store convenience*, which encompasses store characteristics that facilitate consumers interaction with it such as delivery services and multi-payment alternatives (Dabholkar et al., 1996; Orel and Kara, 2014; Maruyama and Wu, 2014); (3) *store employees*, often considered as a main motivating factor for consumers to visit stores (Odekerken-Schroder et al., 2001) and that help strengthen consumers' confidence in the supplier; (4) *merchandising quality perception*, influenced by the assortment characteristics (e.g., number of brands and type of products offered; Briesch et al., 2009; Maruyama and Wu, 2014); (5) *service quality*, which includes an adequate and proactive employees response to consumers' needs and directly influences customer satisfaction and shopping experience (Odekerken-Schroder et al., 2001; Martos-Partal and González-Benito, 2013), and finally (6) *social groups*, which refer to consumers' level of empathy and recognition with the *other* consumers that share the store environment (Wood and Hayes, 2012), and that have been suggested to play a role when choosing in which store to shop (Child et al., 2002).

Additionally, previous studies have identified that there are also economic drivers that can influence consumers' store choice (Meyer-Waarden, 2015; Nagengast et al., 2014). Four economic factors seem to be of special relevance in terms of ability to influence customers' loyalty. First, the importance of stores *pricing policy* as a determinant factor of loyalty is well documented (Bell et al., 1998), with prices having a negative influence on store choice (Pan and Zinkhan, 2006), being critical that stores are aligned with customers' pricing expectations in order to enhance loyalty (Dabholkar et al., 1996; Koschate-Fischer et al., 2014). Second, *switching costs*- the inherent cost associated with switching to a different store- are also reported by several studies as potential store loyalty influencing factor (Blut et al., 2014; Jones et al., 2000; Nagengast et al., 2014; Tsai et al., 2010), including a high variety of costs such as new product adoption costs, shopping/search costs, and psychological costs (Dubé et al., 2009). Third, also the influence of *loyalty schemes* on store loyalty is often referred as a potential critical driving-factor (Bridson et al., 2008; Demoulin and Zidda, 2008; Dorotic et al., 2012). Loyalty rewarding programs, based on collection and redemption rules (Meyer-Waarden, 2015) and/or frequency reward programs (Dorotic et al., 2012), offer retailers the opportunity to accelerate consumers' loyalty life cycle (Liu, 2007), encouraging enduring repeat purchase. Finally, also store *promotional policies* can act as short-term

loyalty instruments, since the promotional mix of products offered by stores can influence store patronage (Martos-Partal and González-Benito, 2013), affecting consumers' store perceived value (Maruyama and Wu, 2014).

## 2.3. Private labels' loyalty driving factors

When referring to *private labels*, since they are exclusively sold and advertised by retailers (Kumar and Steenkamp, 2007) they can play a critical and distinctive role on consumer loyalty behavior (Koschate-Fischer et al., 2014). In fact, private labels are retailer-specific and cannot be purchased elsewhere (Ailawadi et al., 2008), being likely to affect loyalty towards the retailing chain itself (Martos-Partal and González-Benito, 2009). Therefore, and according to the integrative approach followed in the present research, it is also relevant to determine which store and PLs assortment characteristics can enhance consumers' loyalty towards the store brand, since this one is likely to have a positive influence on consumers' store loyalty (Martos-Partal and González-Benito, 2011). Previous research has identified four main critical factors of PLs loyalty: (1) store brand image (Liu and Wang, 2008), (2) trust in retailer's store brand (Chaniotakis et al., 2009), (3) PLs quality perception (Steiner, 2004), and (4) PLs price (Koschate-Fischer et al., 2014).

Regarding *store image*, it is defined as the manner in which stores are perceived by shoppers (Pan and Zinkhan, 2006). According to Collins-Dodd and Lindley (2003), a strong relationship between store image and store brand image is a fundamental requirement for a successful differentiating private label strategy, since it influences store brand evaluation. Also findings from Liu and Wang (2008) reveal that store image is a strong predictor of positive attitudes towards private labels. Moreover, it is also likely that the level of loyalty towards private labels is dependent on the level of *trust* in the retailers' store brand. As shown by Chaniotakis et al. (2009), the higher the level of trust in the chain, the bigger the benefits consumers perceive they can get from its store branded products. In fact, a high level of trust on the store brand can make consumers more motivated to buy private labels exclusively (Miquel-Romero et al., 2014) and to become more aware of the private labels oriented-marketing activities. Also the overall *perceived quality of the store brand products* can play an important role on private labels loyalty (Chaniotakis et al., 2009), with high-quality PLs helping retailers to differentiate their stores (Kumar and Steenkamp, 2007). Lastly, the *pricing positioning* of store brand products is often referred to as one of the most important explanatory factors for the purchase of private labels (Collins-Dodd and Lindley, 2003; Dawes and Nenycz-Thiel, 2013). In fact, results from a recent study (Koschate-Fischer et al., 2014) revealed that consumers' price sensitivity play a major moderating role on the relationship between PLs market share and store loyalty. However, as outlined by Hansen et al. (2006) when consumers perceive PLs as being of high quality, price considerations may be a less important driver for PLs purchase.

According to the insights obtained with this literature revision, the relationship between private labels and consumers' store loyalty is increasingly relevant for both practitioners and academics being important the offer of a comprehensive empirical analysis. Previous studies have identified several moderating factors (e.g., Koschate-Fischer et al., 2014; Sethuraman and Gielens, 2014) being important a more detailed and integrative analysis of this relationship.

## 3. Conceptual framework and hypotheses

In order to assess the impact of private labels on consumer store loyalty we opted for an integrated approach where multiple

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