

# Role of Retailer Positioning and Product Category on the Relationship Between Store Brand Consumption and Store Loyalty

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## Abstract

Recent empirical evidence regarding the relationship between store brand purchase and store loyalty suggests a nonmonotonic relationship (inverted U): positive up to a certain store brand consumption level, after which it becomes negative. To investigate this idea further, this research analyzes the role of (1) the retailer's competitive positioning, and specifically its price positioning, and (2) the product category. On the one hand, the more price oriented the retailer's positioning, the more favorable is the relationship between store brand consumption and store loyalty. The threshold level of store brand purchasing at which the relationship becomes negative occurs later, and this negative relationship is less prominent. On the other hand, the relationship between store brand consumption and store loyalty appears to differ across product categories as a consequence of several factors, including perceived risk. The relationship therefore appears more favorable for risky categories. An empirical study of ten retailers that adopt different price positions corroborates these propositions.

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## Introduction

The recent growth of store brands has significantly influenced the retail industry, especially in the context of nondurable consumer goods; the modern economic downturn may induce further growth (Lamey et al. 2007). Various research efforts have analyzed the potential of store brands to improve retail performance, including how the effective marketing of store brands might differentiate a retailer in the marketplace (Richardson, Dick, & Jain 1994) and thereby enhance customer loyalty, sales, and, eventually, the retailer's profitability (Baltas, Argouslidis, & Skarmas 2010; Corstjens & Lal 2000; Steenkamp & Dekimpe 1997; Sudhir & Talukdar 2004). From a more general perspective, recent research has analyzed whether brand mix management might enhance store loyalty and retail performance (Grewal, Levy, & Lehmann 2004; Mantrala et al. 2009; Sloot & Verhoef 2008). Other studies consider the relationship between store brand consumption and store loyalty from an opposite perspective, with the recognition that store loyalty relates to

familiarity with, attitude toward, and trust in the retailer, as well as ultimately to the evaluation and acceptance of its private-label brands (Ailawadi, Pauwels, & Steenkamp 2008).

Whatever the direction of causality though, most contributions in this field focus on testing a monotonic relationship between in-store private-label share and store loyalty. The findings are not conclusive: Some studies find direct relationships, others find inverse relationships, and still others do not find any relationship. Ailawadi et al. (2008) propose a nonmonotonic relationship between in-store private-label share and store loyalty, which is positive up to a threshold level of store brand loyalty and negative thereafter (inverted U). Their findings for two retail chains in Holland support this assertion, but because private-label strategies differ across retailers in terms of their value propositions and category focus (Choi & Coughlan 2006; Kumar & Steenkamp 2007; Sayman & Raju 2004), they call for further research to assess whether their findings generalize to other countries and formats. In response to this call, as the first objective of this study, we test the nonmonotonic relationship between store brand purchases and store loyalty for top retailers operating in the Spanish grocery market, which employ different formats and competitive positioning tactics.

Moreover, we extend this idea to analyze the role of a retailer's competitive price positioning on the relationship between store brand purchases and store loyalty—a research question with

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increasing relevance as discount retailers evolve in contemporary markets. Discounters such as Walmart, Aldi, and Lidl challenge and distinguish themselves from traditional retail formats (BusinessWeek 2003) by adopting a low-price strategy, relying heavily on their own brands, and offering a relatively limited number of stockkeeping units (SKUs) in each category (IGD Research 2007). The close relationship between store brands and discounters also has prompted Kumar and Steenkamp (2007) to define a store brand profile linked to this business model.

As these developments imply, retail price positioning affects the offer of private labels and customers' motivations to purchase them: Price-oriented retailers tend to develop price-oriented store brand strategies, and their customers tend to be more price sensitive. Therefore, we expect that retailer positioning influences the relationship between store brand purchases and store loyalty. In particular, when a retailer's positioning focuses on price (e.g., discounters), the relationship between store brand consumption and store loyalty may be more favorable. Within the predicted nonmonotonic relationship (inverted U), the threshold level of store brand purchasing at which the relationship turns negative occurs later, and this negative relationship should be less prominent when the retailer focuses mainly on a price instead of quality positioning. Therefore, as a second research objective, we provide a theoretical argument and empirical evidence about the moderating effect of retailers' competitive price positioning on the relationship between in-store private-label share and store loyalty.

We also analyze the role of the product category on the relationship between store brand consumption and store loyalty. Corstjens and Lal (2000) call for research to extend the analysis of store brand share and store loyalty to multiple categories; Ailawadi et al. (2008) suggest that modeling the influence of the product category could be a fruitful area of research, but no cross-category comparative studies have been published yet. Product categories can determine a store's potential to engender differentiation, the importance of branding to customers, and customers' price sensitivity, because the different categories entail different levels of perceived risk. As a consequence, we posit that the relationship between store brand consumption and store loyalty differs across categories. In particular, the relationship turns negative later and is less extreme when the private-label product represents a risky category. Therefore, as a third objective, we attempt to provide a theoretical foundation and empirical evidence about this moderating effect of product category on the relationship between in-store private-label share and store loyalty.

Our analysis of ten leading retailers operating in the Spanish grocery market enables us to test our proposed hypotheses. We use data from a household panel, which conditions our research scope. That is, our research contribution pertains to the shape of the relationship between private-label purchases and store loyalty and the moderating role of a retailer's price positioning, not the direction of causality of that relationship. Our data do not include enough information to isolate the directions of causality. Moreover, we employ a behavioral perspective and measure store loyalty as shopping budget concentration with the retailer. Prior literature has conceptualized loyalty as the relationship

between a consumer's relative attitude and patronage behavior (Dick & Basu 1994), and Chaudhuri and Ligas (2009) provide evidence regarding the relevance of both loyalty dimensions for retail performance. Analogously, we focus on the share of wallet that consumers grant to the store brands of each retailer.

In the next sections, we present a review of previous research and offer some theoretical support for our proposed hypothesis. After we describe the methodology for our empirical analysis, we present and discuss the findings. Finally, we outline our main conclusions and some implications.

### Store brand consumption and store loyalty

Store brands are offered exclusively by the retailers that own them, which means they can differentiate the owner from other retailers. According to this perspective, by contributing to retailers' differentiation, store brands foster customers' store loyalty (Collins-Dodd & Lindley 2003; Dhar, Hoch, & Kumar 2001; Richardson, Jain, & Dick 1996). This claim receives extensive empirical support (Ailawadi, Neslin, & Gedenk 2001; Baltas et al. 2010; Bonfrer & Chintagunta 2004; Kumar & Steenkamp 2007; Sudhir & Talukdar 2004). Corstjens and Lal (2000) suggest that store brands can generate store differentiation if consumers accept that the store brand offers sufficient quality. They also note another possible reason for the positive association between store brand purchase and store loyalty: the development of a global store brand strategy across many product categories. When customers purchase store brands in many categories, they may exhibit less propensity to visit other stores because of the high switching costs involved in moving beyond their store brand-based purchase inertia across various product categories.

In contrast, some private labels emphasize price discounts in comparison with national labels, which could cause them to attract price-conscious customers who shop across stores to find the best price option. According to this alternative perspective, store brand purchases relate inversely to store loyalty; Ailawadi and Harlam (2004) find that heavy store brand buyers spend significantly less with the retailer than do light store brand buyers, perhaps because heavy store brand buyers shop at multiple stores and are loyal to store brands in general, not to the store brand of a particular store (Richardson 1997). According to Baltas et al. (2010), consumers' store brand proneness increases the size of their patronage set; Hansen and Singh (2008) also find that high store brand patronage across multiple categories is associated with lower store loyalty. The underlying argument behind this inverse relationship is that store brand users are more price sensitive than average consumers (e.g., Dick, Jain, & Richardson 1995; Hansen, Singh, & Chintagunta 2006; Sethuraman 2006).

The foregoing arguments rely on the assertion that store brand share influences store loyalty, because the store brand differentiates retailers or is a convenient price option that attracts price-oriented shoppers. However, the opposite direction of causality is also plausible: Store loyalty could be an antecedent of store brand consumption, such that customers who are loyal to the retailer exhibit a greater propensity to choose its store brand. In recent work, Ailawadi et al. (2008) argue that this effect stems

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