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Brand, value and relationship equities and loyalty-intentions in the Australian supermarket industry

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ABSTRACT

The current study advances the emergent literature pertaining to the impacts of brand, value and relationship equities on consumer loyalty-intentions along three major fronts. First, key inter-relationships among the equities are examined; thus advancing theory. Second, procedural advancement occurs via examining the hypothesised effects after controlling for several demographic covariates. Third, the current study presents an aggregate level and a firm level analysis, providing additional insight. The chosen supermarket scenario also adds value to the study. A large national survey of supermarket consumers supports the hypotheses. Micro level analysis reveals that Woolworths does best in leveraging value-equity, Coles does best in leveraging brand-equity, while IGA does best in leveraging relationship-equity. Overall, the study makes important theoretical and managerial contributions to the literature.

1. Introduction

Customer loyalty is generally considered as a vital metric for firms due to its favourable implications on market share and financial performance (Reichheld, 2003). A key issue for managers therefore is deciding how to allocate scarce marketing resources to strategic decision areas in order to generate maximum consumer loyalty. Although the retailing literature outlines several antecedents of loyalty, it is largely fragmented in nature. The majority of the studies investigate the influence of selected store-related antecedents on consumer loyalty in a rather piecemeal fashion, to the extent that up to thirty-four antecedents can be identified (e.g., Paul et al., 2009). Although theoretically enriching, a large number of variables may add to decision-making complexity from a managerial perspective. However, an emergent school-of-thought posits that enhanced consumer loyalty-intentions can be effectively attained by designing strategic marketing investments that directly strengthen the three 'equities' of a firm, namely, *brand-equity*, *value-equity* and *relationship-equity* (Rust et al., 2004; Vogel et al., 2008).

The equities are derived from the customer-equity theory proposed by Rust et al. (2004); according to which long-term value of a firm (customer-equity) is maximised when firms invest in three major strategic marketing areas: brand-equity, value-equity and relationship-equity. Later, Vogel et al. (2008) empirically formalised the Rust et al. framework within a store-based retailing context. By explicating a direct positive impact of the three equities on loyalty-intentions, Vogel et al. provide credence to the argument that managers can now focus on the three strategic areas that span almost all major marketing expenses (Rust et al., 2004), in order to foster long-term consumer loyalty. An additional benefit is that managers can now devise strategies along the three equities instead of focusing on a multitude of factors, as indicated in the retailing literature (e.g., Pan and Zinkhan, 2006; Walsh and Beatty, 2007). The 'three equity' framework has lately been used to explain consumer purchase-intentions and long-term value across various industries (Holehonnur et al., 2009; Hyun, 2009; Sublaban and Aranha, 2008), thus further substantiating its value to researchers and managers.

The current study contributes to the emergent literature along four fronts, namely, theoretical, procedural, empirical and contextual. The first contribution (theoretical) pertains to examining inter-relationships among the three equities. To date, the literature has not explicitly investigated these inter-relationships under one framework, though Vogel et al. (2008) do signal such potential inter-relationships. Intuitively, visible value-creating investments by a supermarket, such as price-cuts and installation of self-checkout counters, may foster positive consumer brand attitudes, thus influencing brand-equity. Such influence is

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consistent with cue-utilization theory (Richardson et al., 1994), according to which consumers use extrinsic cues in the marketplace to make quality-related assessments. Similarly, self-expansion theory (Park et al., 2010) may help explain the impact of relationship-equity on brand-equity. In accordance with the theory, consumers' relationship with their supermarkets (manifest via inter-personal relationships or social bonds) is likely to foster positive consumer evaluations by way of creating favourable brand-associations in memory (Keller, 2008), hence influencing overall brand-equity. Thus, an empirical examination of these inter-relational dynamics would enrich theory, as well as assist practitioners in allocating resources among the three equities more judiciously.

The second contribution (procedural) pertains to examining whether the three-equity framework is robust to consumer-level characteristics. Existing investigations into the impact of the three equities on consumer loyalty-intentions do not control for such potential demographic drivers of loyalty (e.g., Holehonnur et al., 2009; Vogel et al., 2008), although the literature clearly establishes significant influences of consumer demographics such as gender, age, education, income and marital status on loyalty (Mittal and Kamakura, 2001; Zeithaml, 1985), as well as on brand-equity (Meyers-Levy and Maheswaran, 1991; Sethuraman, 2003). The current study overcomes this methodological limitation by including respondent demographics as control variables (Nijssen et al., 2003), thereby adding additional confidence in the framework for theoreticians and practitioners alike.

The third contribution (empirical) relates to the analytic phases introduced in the current study. A characteristic of the emergent literature on the three equities is that the investigations estimate the explanatory relationships on data collected from consumers of a single firm within an industry. This feature limits a framework's ability to capture greater variability in terms of consumer composition, potentially limiting external validity of the findings. For instance, Vogel et al. (2008) survey consumers enrolled on a loyalty program of a large retailer representing an entire industry. Other studies use student surveys (e.g., Chen and Myagmarsuren, 2011; Holehonnur et al., 2009). Alternatively, the current study estimates the model firstly at an aggregate level whereby the model is estimated using data collected from the top three firms in an industry. This is followed by a separate firm-by-firm analysis, in which the model is estimated separately using data collected from consumers of each of the three firms. This analytical approach provides certain benefits. The aggregate level analysis validates the three equity framework of Rust et al. (2004) and Vogel et al. (2008), and the firm-level analysis enables useful comparisons to be made across the three major players.

The fourth contribution (contextual) pertains to the added value of the specific situation in which the study is embedded, that is, the Australian supermarket industry. The Australian supermarket industry is worth around 80 billion dollars annually. It is a highly concentrated industry with its top three players controlling around 90% of market share. Woolworths leads with around 40% of market-share, followed by Coles and IGA with approximately 30% and 20% of market share, respectively (The Courier Mail, 2011). Given the oligopolistic nature of the industry, the firms consistently strive to maintain a loyal consumer base and even battle for future consumer loyalty.

In recent times, however, consumer loyalty in the Australian supermarket industry is falling (Collier, 2011a). To combat this loyalty attrition, the three players have launched major strategic initiatives. Coles recently initiated a major price-reduction strategy; a move likely geared towards enhancing consumer value perceptions (i.e., value-equity). Similarly, Woolworths re-branding strategy and adoption of a new logo (Lee, 2009) is geared towards adding force to its brand positioning, and thereby, enhance its consumer-perceived brand-equity. IGA focuses on developing relationships with its local community (Dunn, 2010), thereby seeking to enhance its relationship-equity perceptions. Furthermore, recent marketplace reports signal a change in consumers' grocery buying patterns (Knight, 2011). Thus, an in-depth understanding of the major drivers of consumers' future loyalty-intentions, as well as equity inter-relationships is likely to be of much managerial relevance.

The current paper is organised into seven subsequent sections. The conceptual foundations of this paper are first established in Section 2. The hypotheses of the study are then developed in Section 3. The methodology is presented in Section 4 and, the results of the study are outlined in Section 5. The results are then discussed in Section 6 and managerial implications are outlined in Section 7. Finally, the paper ends with an acknowledgement of the current study's limitations and outlining pertinent future research directions in Section 8.

2. Literature review

2.1. The three equities

2.1.1. Brand-equity

Brand-equity is defined as consumers' overall intangible assessment of a brand, beyond its objectively perceived value (Rust et al., 2004; Vogel et al., 2008). This definition is consistent with prominent conceptualisations of brand-equity; which consider brand-equity as consumers' attitudinal dispositions (Rangaswamy et al., 1993), its incremental utility (Kamakura and Russell, 1993) and consumers' overall brand knowledge (Keller, 2008). Key advantages accrue to a firm as a result of favourable brand-equity, such as greater share of consumers' product-category purchases (Aaker, 1996), enhanced opportunities to extend a brand (Keller, 2008), enhanced consumer loyalty and ultimately greater market share (Chaudhuri and Holbrook, 2001). Research in the retailing literature investigates the impact of major antecedents impacting consumer loyalty, some of which may be considered as close correlates of the brand-equity construct. Such key influences on loyalty include product assortment (Borle et al., 2005), retailer's product and service quality (Corstjens and Lal, 2000; Zeithaml et al., 1996), store atmospherics (Grewal et al., 2003), firm reputation (Walsh and Beatty, 2007), and store image (Sirgy and Samli, 1985).

2.1.2. Value-equity

Value-equity is defined as consumers' objective assessment of utility derived from a brand based on perceptions of what is given up for what is received (Rust et al., 2004; Vogel et al., 2008); consistent with Zeithaml's (1988) conceptualisation of value. Such conceptualisation of value-equity encompasses propensity of the consumer to bundle various aspects of the offering when arriving at a benefit-cost ratio. The various aspects of the offering may include its competitive pricing, convenience, quality of product information, value-for-money perceptions and customer service (Burke, 2002; Zeithaml, 1988). Key marketing outcomes of perceived value are enhanced customer satisfaction (Fornell et al., 1996; Wang et al., 2004), greater purchase and re-purchase intentions (Teas and Agarwal, 2000) and enhanced brand-loyalty (Wang et al., 2004). The literature on retailing corroborates the impact of value-equity on loyalty. Variables such as self-service provision and convenience value (Berry et al., 2002; Dabholkar, 1996), low prices (Pan and Zinkhan, 2006), and price-quality