



## Does store image influence demand for organic store brands? ☆

Paul-Valentin Ngobo<sup>a,\*</sup>, Sylvie Jean<sup>b</sup>

<sup>a</sup> IAE, Université d'Orléans, Rue de Blois 45000 Orléans Cedex, France

<sup>b</sup> EDHEC Business School, 24 avenue Gustave Delory, CS 50411, F-59057 Roubaix Cedex 1, France

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### ABSTRACT

This research examines the effects of store image on the demand for store brand organic brands. We conduct an empirical study using a unique dataset that combines households' organic product purchases and their ratings of the same stores' images. We find that *the type of images consumers develop about a store influences the demand for organic products* from that store. In addition, the influence of store image on the demand for store-brand organic products depends on the *store brand branding strategy*. Although own brands are accepted in stores with quality produce and with quality store brands, they are less likely to be adopted in stores with varied selections. Furthermore, the own-brand strategy (the use of the retailer's own name) is not always an effective branding strategy for organic products, except in some stores.

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### 1. Introduction

One of the recent developments in the organic product market has been the introduction of *store brand organic brands*. This is not surprising per se given the fact that store brands now account for a large part of items sold in the US and Europe, but also because mainstream retail chains like Carrefour, Tesco and Walmart are the primary outlets for organic products. In France, organic store brands have been pioneers in many product categories and contributed to the development of demand for organic products through supermarkets/hypermarkets. Generally speaking, these products have generated tremendous interest in various academic disciplines. Researchers have addressed a wide variety of issues, such as the reasons for buying organic products (e.g. Huang (1996), Roddy et al. (1996)), the factors that inhibit the purchase of organic products (see e.g. Byrne et al. (1992), Tregear et al. (1994)), the profile of organic product buyers (e.g. Govindasamy et al. (2000), Schifferstein and Ophuis (1998)), and the role of marketing mix variables (e.g. Ngobo (2011a)).

Despite extensive research on store brands, our knowledge of how these brands fare in the organic product domain remains very limited. The majority of the studies have concerned (i) the characteristics of store brand buyers (e.g. Richardson et al. (1996)), (ii) the drivers of the retailer's store brand share (Dhar and Hoch (1997), Quelch and Harding (1996)), (iii) the influence

of store brand entry (Pauwels and Shubash, 2004; Bonfer and Chintagunta, 2004), (iv) the moderating role of the category's store brand share (e.g. Srinivasan et al. (2004)) and more recently (v) the effects of store brand usage in households (Ailawadi and Harman, 2004; Ailawadi et al., 2008).

There are two problems with store brand organic brands. First, organic products are unique in that they are systematically more expensive than conventional products. Even organic store brands are more expensive than conventional products. One survey conducted in 2009 by *UFC-Que Choisir*, a French consumer activist organization, reveals that a shopping basket containing organic store brand products is 22 percent more expensive than one with only conventional products. Prior research shows that price is the most important driver of the demand for organic products (see e.g. Byrne et al. (1992) Ngobo (2011a)). This raises a second question: *why do buyers who tend to have a poor image of store brands, on average, buy organic store brands, specifically from grocery supermarkets and hypermarkets?* This question is important because even though in 2007 Walmart failed with its "Walmart price" program, designed to reduce the price premium to just 10 percent more than conventional products,<sup>1</sup> in France organic store brands have been faring quite well compared to some national brands.

Second, store brands might suffer from a lack of legitimacy, as organic products imply a different type of relationship between consumers and producers. Regular consumers tend to prefer organic products which are produced by easily identifiable local farmers. They buy organics not only because of (1) health concerns (e.g. Huang (1996)), (2) their better taste (e.g. Roddy et al. (1996)), (3) their

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\* Corresponding author. Tel.: +33 0238494505.

E-mail addresses: paul-valentin.ngobo@univ-orleans.fr (P.-V. Ngobo), sylvie.jean@edhec.edu (S. Jean).

<sup>1</sup> *Business Week*, April 12, 2007, 'Organics: A Poor Harvest for Wal-Mart'.

concern for the environment (Schlegelmilch et al. (1996)) or (4) food safety concerns (e.g. Baker et al. (2004)), but also for (5) their concern over animal welfare (e.g. Hill and Lynchehaun (2002)) or to support local farmers (e.g. Fotopoulos and Krystallis (2002)). Yet many organic store brands are extensions of the retailers' existing brands. Therefore, given that store brands tend to have a poorer image than national brands, this could discourage organic consumers from buying organic food from conventional supermarkets (Ngobo (2011b)). This raises the following question: *does store image matter when consumers decide to buy organic store products in grocery retail stores?*

In this paper, we study the effects of store image on the demand for store brand organic brands. We use a dataset that combines household organic product purchase data, brand marketing mix data, household demographics and consumer perceptions of store image. We begin by providing some theoretical background to our research before going on to describe the dataset. Next, we develop the econometric model and present our projected findings. The paper concludes with some research implications.

## 2. Research background

Organic products are credence goods (Nelson, 1970; Darby and Karni, 1973), which are difficult and sometimes impossible to evaluate even after the consumption experience. For example, consumers cannot be certain that there has been no contamination during the production process even after the consumption experience. Information about an organic product is asymmetric. Therefore, buying organic products in a grocery store is risky for consumers. Credence characteristics are not freely available to consumers. They are difficult if not impossible to evaluate through research or experience. Consumers have to find a way to transform credence attributes into quasi-search attributes. One way for them to do so is to look at the product label and its certification (Mathios, 1998). The certification alone is not a sufficient quality cue (Canavari et al., 2002), partly because of the many cases of mislabeling which have negatively affected consumer trust in organic products. Organic providers therefore need to provide additional indications about their brands in order to increase their credibility. Brand credibility refers to the "believability of the product information contained in a brand" (Erdem and Swait, 1998). Brand credibility has two components: expertise (or the ability to deliver) and trustworthiness (perceived willingness of the brand to deliver). According to Erdem and Swait (1998), a credible brand reduces the consumer's perceived risk, the time and effort spent gathering information about product quality. Consequently, it enhances the expected utility from that brand, and finally its consideration by the consumer during a shopping occasion. Like Erdem and Swait (1998), we assume that any factor that is likely to strengthen the credibility of an organic brand will increase its purchase probability. During their product evaluations, consumers can rely on various quality cues (signals) such as the brand name (e.g., Erdem and Swait (1998)), the price level (e.g., Dodds et al. (1991)), the country of origin (e.g., Terpstra and Han (1988)), advertising (e.g. Kirmani (1997)) and store name (e.g. Dodds, et al. (1991)). We focus on the role of the latter, namely store equity.

Various authors have conceptualized store equity (e.g. Hartman and Spiro (2005), Arnett et al. (2003), Pappu and Quester (2006), Baldauf et al. (2009)). Baldauf et al. (2009) adopt a reflective approach; others (e.g. Arnett et al. (2003)) create an overall index by summing the dimensions of retailer equity. They argue that a latent model is more appropriate given the interrelationships between the dimensions of retailer equity. Of these dimensions, store associations or store image have been the most studied of all.

Martineau (1958) defined store image as the way in which the store is defined in the shopper's mind, partly by its functional qualities and partly by an aura of psychological attributes. Subsequent papers have focused on whether store image should be viewed as the sum of attributes (Lindquist, 1974), or as the overall perception that consumers have about the store (Doyle and Fenwick, 1974; Keaveney and Hunt, 1992). The former approach has dominated the literature. One reason is that while an overall indicator of brand equity is meaningful, this may not be the case for store equity. For example, charging a lower price than competitors does not mean the store or retailer does not have equity (Ailawadi and Keller, 2004). Consequently, an overall index of store image may be irrelevant. Rather, it is more appropriate to define store image as a network of associations that form part of a consumer's cognitive structure (Keller, 1993). These associations can influence the price premium consumers will pay, the extra effort they will be willing to expend in order to shop with the retailer and their behavior towards the retailer (Ailawadi and Keller, 2004). Therefore, we conceptualize store equity in terms of store name awareness and store associations. Given the increased awareness of retail chain names in our study, we focus on the second dimension, i.e. store associations or store image. The premise of our research model is that *the degree as well as the type of images that consumers develop about a store will influence the demand for organic products from that store.*

## 3. Data

We use data from the MarketingScan Panel. The panel was drawn up from two cities in France and covers purchases made between January 2004 and June 2009, inclusive. The two cities have 26 stores that are partners of MarketingScan and cover over 95% of sales in both cities. These cities were chosen by MarketingScan because they have most of the characteristics of the French population but also because households have no alternative stores within 10 km of these cities. Consequently, the company is able to track the grocery purchases made by its panelists in all the participating grocery stores. We had access to household purchases, demographics, some marketing mix variables, and store image data (see Table 1). We selected all the households that bought an organic store brand at least once during the period of study. We also selected all the product categories in which there are organic store brands (see Table 2). We distinguish between store brands that bear the retailer's name, i.e. own brands, and those that do not, i.e. other store brands, in line with Rao et al. (2004). Overall, consumers buy organic own brands more than other store brands.

Table 2 presents the measurements of the key variables while Table 3 provides some descriptive statistics about store image. Every year (in early January), MarketingScan® sends a store image questionnaire to all the panelists. For this research, six waves of store image data are available. We conducted an Exploratory Factor Analysis (EFA) to assess the dimensionality of these data. The results show a stable structure of six components: (1) produce quality, (2) price image, (3) sales staff quality of service, (4) perceived variety of assortment, (5) locational convenience and (6) store brand quality. We estimated confirmatory factor analysis models. The one-factor model yielded the following fit: Chi-Square=5902.20,  $df=135$ ,  $p=0.000$ , RMSEA=0.130. We then estimated the six-factor model. This model yielded a better fit: Chi-Square=2057.26,  $df=125$ ,  $P\text{-value}=0.00000$ , RMSEA=0.078. We also estimated a second-order CFA model in which we considered that store image attributes are just components of a higher-order construct called "store image". This model yielded the following fit: Chi-Square=2125.88,  $df=130$ ,  $P\text{-value}=0.00000$ , RMSEA=0.078. More importantly, the variance in

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