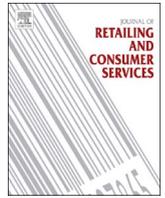




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# Creation of consumer loyalty and trust in the retailer through store brands: The moderating effect of choice of store brand name

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## ABSTRACT

Within the current economic context, store brands play an important role in differentiation strategies based on assortment and positioning in terms of distributor prices. To begin with, this study identifies three determining aspects of retail loyalty and trust: satisfaction with price levels, the perceived image of the assortment and loyalty to the store brands (SB). Secondly, this study proposes a theoretical relational model among the aforementioned aspects. Finally, this study analyzes the moderating role that the strategy of choosing SB name (umbrella brand label vs. brands different from the label brand) plays in the relationship between loyalty to SB and loyalty to and trust in the retailer. By including this moderating variable, we seek to contribute to current academic research and to provide insights into the importance that SB strategy (label vs. own name) has for the effect of loyalty to SB on the relative results of the retail company. Our research results show that making the umbrella SB name the same as the label brand name increases the positive effect of customer loyalty to SB on loyalty to the retailer, but not the effect of trust on this loyalty compared to chains that use SB names different from those of the label. These results have important implications for management.

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## 1. Introduction

In recent decades, a phenomenon that has marked retailer distribution strategies is the growing penetration of store brands and their role in the manufacturer-distributor and distributor-consumer relationship. The economic recession in Europe, and more specifically in Spain, has aided in intensifying in the use of store brands. According to the PLMA, in 2014 the quota for the store brands in consumer products reached 52% of the total market in Spain, just behind Switzerland (53%).

In the light of profound consumer stagnation, exacerbated by the economic recession, with staunch competition in distribution channels, businesses in the sector recognize the importance of maintaining a solid customer base for both survival and growth. In this regard, from the academic and management point of view, valuable proposals have an impact on customers through a differentiated offer with regards to competitors and in this sense, store brands play an essential role (Collins-Dodd and Lindley, 2003), although recent research indicates that store brands from the various establishments are perceived as similar (Szymanowski

and Gijbrecchts, 2012). The favorable consequences that store brands have for distributors motivate greater study of this matter. For example, there is empiric evidence that loyalty to store brands increase the brand equity of the establishment marketing it (Bigné et al., 2013), and the positive attitude towards store brands expands within the scope of store brands with different positions within the establishment (Palmeira and Thomas, 2011) as well as among the various product categories (Erdem and Chang, 2012). This, in turn, has a positive impact on the margin and profitability obtained by distributors, and its negotiating power (Ailawadi and Harlam, 2004).

Among the favorable consequences of store brand presence, retailer loyalty is noteworthy, which has also been studied in depth (Martos-Partal and González-Benito, 2011). However, studying the effect of store brands on retailer trust has been approached to a lesser degree, despite being an extremely relevant variable within the framework of relationship marketing (Garbarino and Johnson, 1999). Therefore, this current study, together the retailer loyalty, incorporates trust in retailer as a variable to be explained. Moreover, in addition to loyalty to store brands, two variables are integrated to explain the characteristics of the retailer offer: assortment and price level.

Therefore, this work enriches empirical applications that are made until the moment focused exclusively on quantifying the effect of loyalty to store brands on store loyalty (Ailawadi and

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Harlam, 2004; Bonfrer and Chintagunta, 2004; Martos-Partal and González-Benito, 2011; Hansen et al., 2006) by incorporating a new consequent in the modeling, the customer trust, which had not been considered so far in this line of research, and yet represents a level of high customer linkage with the commercial chain, with the consequent positive effect on business performance. The importance of the proposed modeling is that the contribution of the three considered antecedents on loyalty and trust in the chain is analyzed, which allows to know the role of each of the antecedents depending on whether the business objective is to increase customer loyalty to retailer, trust in it, or both. In addition, by incorporating the image of the assortment and the price level, the interrelationships of both variables with loyalty to SB are discussed; relationships that have not been proven so far despite its relevance to the retail management.

Thus, the objective of this current work is to develop an explicative model for customer loyalty and trust towards the commercial chain based on the perception of assortment and the price levels that the distributor offers, as well as the loyalty towards store brands. This study represents an advance in retail strategy research and its consequences, and their results provide practical implications for distributors, which have to decide how to allocate limited resources to enhance the perception of assortment, price levels or loyalty to their own brands and, thus, maximize loyalty and improve consumer trust in the chain.

In addition, using choice of SB name as a moderating variable in the modeling proposed substantially enriches research on SBs. Although strategies for brand name choice (umbrella vs. individual brands) have received considerable attention in studies of manufacturer brands, few studies tackle this issue for SBs (Amrouche, et al., 2014; Erdem and Chang, 2012; Wang et al., 2007). Although all such studies agree that using an umbrella brand in SBs has positive strategic impact for the retailer, we find no studies that compare the effects on retailers' results when using an umbrella brand strategy with the same name as the label brand (umbrella label brand), as opposed to a strategy of different SB names not connected to the label, hence the relevance and originality of using this variable as moderator in the relationship between customer loyalty to SB and customer loyalty to and trust in the retailer.

## 2. Literature review and hypotheses

### 2.1. Retailer loyalty

The importance of relationships in marketing has received considerable research attention, particularly in service and channel contexts. Research on relationships in retailing has not been as extensive, even though many retail stores are using relationship building programs in the hope of enhancing loyalty (Hemetsberger and Thelen, 2003). In the area of retail, various studies stress the conceptual and practical importance of loyalty and identify its determining factors (e.g., Baker et al., 2002; Grewal et al., 2003; Sirohi et al., 1998). A small increase in customer retention ratios greatly increases entrepreneurial benefits, as loyal customers buy more, pay higher prices, and generate word of mouth (Sirohi et al., 1998; Zeithaml et al., 1996). The review reveals, however that many antecedents have been considered and that it is necessary to focus on those with larger effects when explaining loyalty.

According to Wallace et al. (2004), we conceptualize customer retailer loyalty as the customer's attitudinal preference for the retailer when compared with available competitive alternatives. Loyalty has been researched from the behavioral and attitudinal point of view. This latter is covered in this research. Authors such as Chaudhuri and Holbrook (2001) underscore the importance of attitudinal loyalty measurements when incorporating psychological variables

containing long-term behavior commitment that customers have with the company.

Through a meta-analysis, Pan and Zinkhan (2006) find the antecedents of loyalty most often used in the area of retail. The authors organize the numerous antecedents identified into three categories: (1) factors related to product characteristics, such as product quality, variety, and price; (2) factors related to retailer's action in the market, primarily to service provided; and (3) personal factors, such as buyer characteristics. Of the three categories, they find that the factor product characteristics has the largest influence in explaining loyalty to a particular chain. Based on these results, our research focuses on analyzing the effect that product factors have on loyalty to the label. Specifically, we conceive perceived variety of assortment and satisfaction with price policy as exogenous antecedents and examine the mediating role of loyalty to the label's SBs.

### 2.2. Trust in the retailer

Examining the linkages between relationships in retailing and loyalty requires identifying additional key constructs and tying them to an existing loyalty framework (Macintosh and Lockshin, 1997). With this objective, researchers attempting to model marketing relationships have identified trust as a key variable (Garbarino and Johnson, 1999; Moorman et al., 1993; Morgan and Hunt, 1994) so that exchanges between buyers and sellers occur in a long-term context (Berry, 1983; Grönroos, 1990). Trust is usually considered a multidimensional construct that differentiates between honesty and benevolence perceived in the behavior of the other part. Honesty is the belief that another person will keep his or her word, fulfil promises and be sincere. Benevolence is the belief that one of the parties is interested in the well-being of the other without intention of opportunistic behavior and motivated by a search for a mutually beneficial relationship.<sup>1</sup>

Looking at consumer trust from a theoretical point of view, it is apparent that two requirements have to be fulfilled for trust to develop: the supplier needs to be able (i.e. competent) and willing to deliver a product or service at the expected quality (Singh and Sirdeshmukh, 2000). The competence of a distributor comprises the qualifications, skills, competences and knowledge of the distributor required to deliver the product or service in the expected quality (Mayer and Davis, 1999). Without being competent, a distributor cannot deliver good quality. Therefore, a consumer will only trust a distributor if s/he is convinced that the distributor is competent enough to fulfil her/his demands. This is corroborated by several studies that demonstrate that competence has a positive impact on consumer trust (Moorman et al., 1993). Traditionally, trust is defined as a group of beliefs held by a person derived from his or her perceptions about certain attributes; in marketing this involves the products or services, and the establishment where they are bought and sold.

Sirdeshmukh et al. (2002, p. 17) define trust as "the expectation held by the consumer that the service provider is dependable and can be relied on to deliver on its promises." This definition conveniently translates to the area of retail the fact that the customer's trust is built on the competence of the company's actions and that this trust is grounded in two fundamental ideas: trust in the employees who deliver the service and trust in the chain's practices and policies. Our study focuses only on formation of trust in the distributor in the second component of this definition, the assumption that the retailer's decisions relative to its assortment and price policies dominate formation of customer trust.

<sup>1</sup> Some researchers like Flavián and Guinalú (2006) have discussed other dimensions of trust (e.g., the perceived competence of the second partie).

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