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Corporate brand image, satisfaction and store loyalty

A study of the store as a brand, store brands and manufacturer brands

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Abstract

Purpose – To study the impact of the corporate store image on customer satisfaction and store loyalty in grocery retailing. Corporate (store) image is defined as the combined effect of how the retailer as a brand, manufacturer brands, and store brands are perceived. The reason for including store brands and manufacturer brands in this definition is that the image and equity of retailer brands depends on the product brands they carry and the equity of those product brands.

Design/methodology/approach – A mail survey to consumers, 1,000 usable answers. The test of the proposed model was based on a simple path model that related the latent variables to the dependent manifest variable store loyalty.

Findings – Most important for customer satisfaction is the store as a brand. Retailers must be good at retailing. Customers are satisfied when the store is neat and pleasant and when they feel that the store understands their needs. Only certain customer segments are interested in store brands. Satisfied customers are loyal.

Research limitations/implications – A limitation is the way store loyalty was measured, i.e. as an estimate of how much the respondent's household spent in the main store. Another limitation is the fact that the study is based on "manufacturer brands" and "store brands," rather than specifically mentioned real brands.

Practical implications – The growth rate for store brands in grocery retailing is twice as high as for manufacturer brands. Wisely launched, store brands may be profitable to retailers. However, although gross margins are much higher for store brands than for manufacturer brands, net margins are equal. It is therefore important to find out how important store brands are in a customer perspective. After all, retailers prosper when they have satisfied and loyal customers.

Originality/value – The paper is based on a more holistic definition of corporate store image than prior studies, which should give a more accurate picture of the relative importance of the store as a brand, and manufacturer as well as store brands.

Keywords Brands, Customer satisfaction, Customer loyalty, Retailing

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Introduction and purpose

Today, some of the most successful corporate brands in the world are retail brands. These retailers make large investments to build brand image and brand equity. One part of this branding strategy is to launch store brands. One of the leading grocery retailers, the British supermarket chain Tesco, has developed a look and feel for its own-brand products that reflect its brand values rather than the values of the established brands in each category (Wolff Olins, n.d.). A coherent look and feel that reflects the values of the corporate brand is assumed to have a positive impact on the store brands carrying the corporate name. Before that, the Tesco store brands had

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a packaging style that reflected the existing cues in that category, effectively "me-too-ing" the established brands, rather than reflecting any of the values of the Tesco brand itself. The case study of Tesco, as well as prior academic studies, suggests that a favorable store image may influence consumers' perceptions of store brands. The profitability of store brands versus manufacturer brands varies between product categories. A study by McKinsey showed that when retailers introduce store brands the impact on profits can be an increase by 80 percent in the best category and a decline of 1 percent in the worst category (Glémet *et al.*, 1995). When all cost and revenue items are taken into account, store brands are often less profitable than branded equivalents. Since, retailers allocate an excessive amount of shelf space to store brands in relation to brand leaders, the former generate lower ratios of profit per cubic meter in almost half of the categories analyzed. An obvious question is, therefore, to what extent store brands contribute to the corporate image of retailers and make the store more attractive to its customers.

The value of the European store brand market is estimated to €100 billion. Recent data from Nielsen (2005) shows that store brands have a higher market share in Europe (23 percent vs an overall average of 17 percent). The markets with highest share in 2005 were Switzerland 45 percent, Germany 30 percent, Great Britain 28 percent, Spain 26 percent, Belgium 25 percent, and Sweden 14 percent. The growth rate of store brands is twice as high as that of traditional manufacturer brands (2 percent). The most important product categories are cold products (milk, cheese, and ready-to-eat food), paper, plastics, wrappings, etc. The market shares are highest in frozen food (25 percent), and animal food (21percent), whereas they are the lowest in baby food (2 percent), cosmetics (2 percent), and hygiene products (5 percent). Store brands have been much more successful in Europe than in the USA, and researchers as well as practitioners attribute the difference to the higher quality of European store brands (Erdem *et al.*, 2004). The average store brand sells for approximately 30 percent less than national brands, and national brand promotions typically deliver discounts of 20-30 percent (Ailawadi *et al.*, 2001; Nielsen, 2005). It should be noted, however, that retailers have different types of store brands, such as premium store brands sold under the corporate name, and budget brands with no mention of the store name. Academic researchers usually do not distinguish between different types of store brands in their studies, although various tests published by leading newspapers as well as by cooking magazines show that store brands sometimes are the best brands in the category and sometimes they have a very low quality.

The rise of the retailer as a brand is considered as one of the most important trends in retailing (Grewal *et al.*, 2004). It is for example of critical importance to understand how the brand assortment sold by retailers is related to their image (Ailawadi and Keller, 2004). By carrying well-known and popular manufacturer brands, retailers increase their own image as well as equity. When they substitute these well-known brands with their own brands, they also influence their position on the market. As emphasized by Ailawadi and Keller (2004) as well as by Grewal *et al.* (2004), there are three critical facets that need to be examined for us to understand more about the role of store brands in building retailer brand equity, namely: the role of (national) manufacturer brands, the role of store brands and the role that the store itself plays as a brand. The purpose of this paper is to investigate these three critical facets to see their impact on customer satisfaction as well as store loyalty in the grocery market.

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Theoretical frame of reference

Research on corporate identity-image-reputation (Barnett *et al.*, 2006) suggests that stores with favorable store image create customer satisfaction which in turn leads to store loyalty. The corporate image of the store is defined as a combination of the store as a brand, and the selection of store brands and manufacturer brands offered by the store (Grewal *et al.*, 2004). The model used in this study is influenced by the model developed by Grewal *et al.* (2004) (Figure 1). The model shows that the corporate image of the store consists of the store as a brand, the manufacturer brands carried as well as the store brands. If consumers like how the retailer operates as a retailer and the choice of brands in the store, they are assumed to be satisfied with the store. Satisfied customers are assumed to be loyal customers.

Corporate (store) image

The corporate brand is a valuable intangible asset, that is difficult to imitate, and which may help to achieve sustained superior financial performance (Roberts and Dowling, 2002). The corporate brand and the product brand play different roles in the organization (Aaker, 1996). The end benefit of the corporate brand is to provide a value proposition or customer relationship based on the organizational associations, to provide credibility to other brands (expertise, trustworthiness, and liking), and to be a vehicle to clarify and crystallize the organizational culture and values inside the organization (Aaker, 1996).

The corporate image is based on what people associate with the company or all the information (perceptions, inferences, and beliefs) about it that people hold. Whereas, some researchers use image and reputation as substitutes, others such as Fombrun (1996) see reputation as the esteem in a long-term perspective that the company has, as opposed to image that can be more short-term in nature. In this paper, image and reputation are used as substitutes, since it is likely that the early studies on store image would have used the concept "reputation" had they been done today. A company's reputation can act as a signal that summarizes its past behavior and which can be used to forecast future actions. A general assumption in the branding literature is that a favorable brand image will have a positive impact on consumers' behavior towards the brand, such as the opportunity to command premium prices, buyers who are more loyal, and more positive word-of-mouth. Translated to a retailing context, it is likely that a favorable store image increases satisfaction with the store which in turn increases store loyalty (Osman, 1993; Bloemer and de Ruyter, 1998).

Despite such a central position of the image concept, there is a surprising lack of evidence on how, when, and what types of corporate associations affect product responses (Dacin and Brown, 1997). When consumers have difficulties evaluating a store brand or a manufacturer brand *per se,* their perception of the company's ability to produce or be responsible for the production of that product might influence their interest in the brand in question (Dacin and Brown, 1997). When corporate associations provide cues about the likely standing of a new brand, they will influence consumer

Figure 1.
Proposed model

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perceptions of the quality of the brand. The main purpose of retailers is to be good at retailing and not manufacturing. As a consequence, it is unclear what advantage consumers see in being offered store brands if there are good manufacturer brands already available on the market.

Retailers and traditional manufacturers have chosen different brand architectures (brand portfolio structures). Retailers have branded houses and use their corporate names to promote their most important store brands. Manufacturers of grocery products have houses of brands, where each brand competes on its own merits. Usually, no mention is made of the manufacturer behind the brand. Generally, the branded house strategy is considered more efficient than the house of brand strategy, and should be the default alternative according to branding experts such as David Aaker. The most well-known company pursuing the branded house strategy is P&G. Despite the fact that P&G was the largest advertiser among manufacturers in Sweden in 2003, its advertising budget was only half of the budgets of the leading grocery retailers. In 2005, both the largest (ICA) and the second largest (Coop) grocery retailers in Sweden had larger advertising budgets than P&G. P&G as well as other multinational consumer packaged goods manufacturers have been forced to reduce their brand portfolios and to concentrate on fewer brands to remain competitive. Nevertheless, they still spread their budgets over a larger number of brands than retailers do. Signaling theory can partly explain the power of concentrating advertising budgets to one name, product or corporate name (see Rao *et al.*, 1999 for a review). The theory is based on the assumption that consumers may think that companies spending a lot of money on advertising have a lot to loose if they sell low-quality products. Retailers, consequently, have the most to loose if they put their name on products with a low quality. They risk everything since they use a corporate branding strategy, whereas P&G does not risk the P&G corporate brand name but only a product brand name.

The store as a brand

Store image in the sense of the store as a brand is usually measured as consumers' perceptions of store performance. This choice is based on the notion of a value-percept diversity, i.e. customers are likely to be more satisfied with the offering as the ability of the offering to provide consumers what they need, want, or desire increases relative to the costs incurred (Johnson, 1998; Szymanski and Henard, 2001). Store image can be defined as the way that consumers view the store, i.e. their impression or perception of the store (for a review of various definitions of store image see Hartman and Spiro, 2005). One of the earliest studies of store image was done by Martineau (1958), and the concept has been one of the primary conceptual topics in academic retailing research (Mayer, 1989). Several studies demonstrate that corporate image affects consumer product judgments and responses in a positive manner (Dacin and Brown, 1997). A French study showed that the store image offers recognition, familiarity, confidence, and other associations that make it easier for consumers to make the decision to try the product (Dimitriadis and Langeard, 1990). Although there is a reciprocal influence between store image and individual store brand image, the influence is stronger from the store to the brand than in the opposite direction. In other words, when consumers have tried the store brand, their opinion about it will have a potential influence on the store image, but it is more likely that the image of the store already influenced consumers' willingness to try the brand. Another result was that retailers' corporate brands are not credible for

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certain types of products, like home appliances or champagne, and that store brands will not be bought for certain high involvement consumption-usage contexts. There are, however, also studies showing a negative effect from corporate image. One study showed that the quality rating of store brands increased by 21 percent, if the store had an attractive store atmosphere (Richardson *et al.*, 1996). Thus, it is not only the quality of the products offered but also how the store is managed that influence the image of store brands (but not manufacturer brands).

Store brands

To be a competitive and trusted alternative, store brands must be perceived to be an attractive alternative (substitute) to manufacturer brands. The fact that more than 50 percent of US manufacturers of branded consumer package goods make store brands and private labels as well may not be enough (Quelch and Harding, 1996). Research has shown that identical products sold under different brand names will be perceived differently by consumers (Sullivan, 1990; Sullivan, 1998).

Prior research has found that store brands contribute to greater store differentiation rather than to greater price sensitivity in the market (Sudhir and Talukdar, 2004). Other researchers conclude that it is important for retailers to retain a balance between store brands and national brands to attract and retain the most profitable customers (Ailawadi and Harlam, 2004). National brands are traffic builders and a reduction of national brand choices may make a store less attractive to profitable customers. There is little evidence about the difference in net margins between store brands and national brands when the retailer's direct product costs are taken into account (Ailawadi and Harlam, 2004). Consequently, there is much more prior research in support of the positive impact on store loyalty as a consequence of customer satisfaction than there are studies demonstrating the positive role of store brands for customer loyalty.

Manufacturer brands

Traditionally, retailers have used manufacturer brands to generate consumer interest, patronage, and store loyalty (Ailawadi and Keller, 2004). In that respect, manufacturer brands have operated almost as ingredient brands. Competitive prices on attractive leading brands have pulled consumers to the store. Manufacturer brands sold by almost all stores do however not differentiate the individual store, which is a problem on markets with intense price competition between stores. Earlier studies have, as expected, shown that consumers trust the quality of manufacturer brands the most, and the quality of generics the least, and that the situation is the opposite regarding the risk of paying too much or not (Dunn *et al.*, 1986). In both these respects, store brands take a middle position. Consumers' reliance on extrinsic cues in quality assessment was earlier a clear disadvantage for retailers, because store brands used to suffer from extrinsic cue inadequacies (e.g. packaging). A study by Richardson *et al.* (1994) showed that regardless of the product category or real ingredient differences manipulated, ingredients disclosed to be of national manufacture received significantly more favorable quality assessment than ingredients disclosed to be of store brand origin. They also found that real differences in ingredients between national and store brands had less impact and were more likely to affect consumers' judgments when the ingredients were disclosed to be sponsored by a national manufacturer. Leading manufacturers have a strong reputation for their ability to produce high quality brands.

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Satisfaction
Customer satisfaction can be seen as a fulfillment of consumers' consumption goals as experienced and described by consumers (Oliver, 2006). Satisfaction is consumers' "judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment" (Oliver, 1997, p. 13). A review of 50 empirical studies on customer satisfaction showed that the antecedents to satisfaction varied between studies (Szymanski and Henard, 2001). Usually expectations, disconfirmation of expectations, performance, affect, and equity were used to model buyers' level of satisfaction. Since, store image is usually measured as store performance, it was natural to choose performance in this study as well.

Store loyalty
The ultimate goal of most retailers is to have loyal customers. Loyalty can be an outcome of customer satisfaction (Oliver, 1997). In a review of earlier studies, there was a positive significant correlation between satisfaction and repeat-purchase in 15 of the 17 correlations studied (Szymanski and Henard, 2001). It is therefore most likely that satisfied customers will be more loyal to their main store.

Methodology
The study is based on a survey mailed to a nationally representative sample of consumers aged 30-50 years. These age groups are in a life-cycle phase characterized by large purchases of groceries (big families, since their children still live at home) and by relatively seen stable brand relationships. Earlier studies usually show that younger consumers are much less brand loyal than more mature consumers. Consequently, the sample of respondents consists of the age groups that are most interested in both stores and brand suppliers (manufacturer or retailer controlled). A total of 1,000 usable answers were returned in time to be included (37 percent response rate). The variables were measured by different 5-graded scales such as the Likert scale.

The latent variable "Store as a Brand" included the manifest variables "low prices," "value for money," "trust," "a neat store," "a pleasure to shop in," "an unusual store," "a competent store," "customer oriented," "environmentally concerned," "assortment," "understands customer needs," "customer relationships."

The latent variable "Store Brands" included the following product categories: gourmet food, lunch food, detergent, toothpaste, skin products, deodorant, hair care products, vitamins, micro wave oven, and vacuum cleaner.

The latent variable "Manufacturer Brands" included the manifest variables "manufacturer brands making it easier to select brand," "reduce risk of making wrong choice," and "saves time," "trust in manufacturer brands," "serves as a guarantee," "makes it fun to shop," "says something about the buyer," "value for money," and "good packaging."

Overall satisfaction with main store
Customers may use different expectation referents when they evaluate how satisfied they are, such as ideal, predicted, should, will, desired, or likely. Research in services marketing (Parasuraman *et al.*, 1991) has often chosen companies providing excellent service as a reference, and that choice was made in the present study as well.

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Finally, "Store Loyalty" was measured by a 4-graded scale based on how much the respondent purchased in the main store (up to 25 percent, 26-50, 51-75, and 76-100 percent). Groceries are low involvement products and it is difficult for consumers to know exactly how much they spend in different stores, which explains the choice of the scale.

Structural equation modeling

The theoretical model was specified as a structural equation model, and parameters for the model were estimated with maximum-likelihood (ML) methods through the use of the Lisrel 8.30 program (Jöreskog and Sörbom, 1999) under the STREAMS 3.0 (Gustafsson and Stahl, 2006) modeling environment. The χ^2 goodness-of-fit test guided evaluation of model fit, along with established fit indices such as RMR, GFI, AGFI, NFI, NNFI, CFI, and IFI (Byrne, 2001; Hu and Bentler, 1995). Most emphasis was however put on the root mean square error of approximation (RMSEA) index (Browne and Cudek, 1993), which on an absolute scale measures the amount of deviation between model and data taking sample size and model complexity into account. For a model to be regarded as well-fitting, the rules have been followed that the RMSEA point estimate should be lower than 0.05 and the upper limit of the 90 percent confidence interval of the estimate should be lower than 0.07. Modification indices (Sörbom, 1989), computed by the Lisrel program, were primarily used for diagnosis of sources of model misspecification (Figure 2).

Results

The test of the proposed model was based on a simple path model that related the latent variables to the dependent manifest variable "Store Loyalty" via another manifest variable "Satisfaction" with main store. The proposed model was fitted against the data and the following results were generated: ($\chi^2 = 1064.1$, $N = 1{,}000$, df $= 473$, $p < 0.00$, RMSEA $= 0.036$; 0.033-0.039, the two numbers indicating the lower and upper limits, respectively, of the 90 percent confidence interval of RMSEA), RMR $= 0.050$, GFI $= 0.94$, AGFI $= 0.93$, NFI $= 0.94$, NNFI $= 0.96$, CFI $= 0.97$, IFI $= 0.97$. This shows that the model fits the data well.

The standardized factor loadings were quite high and all t-values for the indicators were significant ($t > 1.96$). The highest loading for "Corporate Image" was the "Store as a Brand." The highest loading for the "Store as a Brand" was the quality of the relations that the store had to its customers. The second most important dimension was that it was a neat store that it was a pleasure to shop in. The third most important dimension was that the store understood its customers and offered a good assortment. Finally, the fourth dimension of the "Store as a Brand" was the price dimension, i.e. that the store had low prices and offered value for money. It was much less important that the store offered "Store Brands" than that it was good at being a competent retailer. The least important for the "Corporate Image" was the "Manufacturer Brands" which indicates that these brands are found in most stores and do not differentiate one store from another. Manufacturer brands are very important to most consumers, although some customer segments are very favorable to more store brands.

There is a stronger relationship (standardized estimate) between "Corporate Image" and "Satisfaction" with main store (0.67, $t = 3.39$) than there is between "Satisfaction" and "Store Loyalty" (0.20, $t = 6.41$). It is likely that the way "Store Loyalty" was measured had

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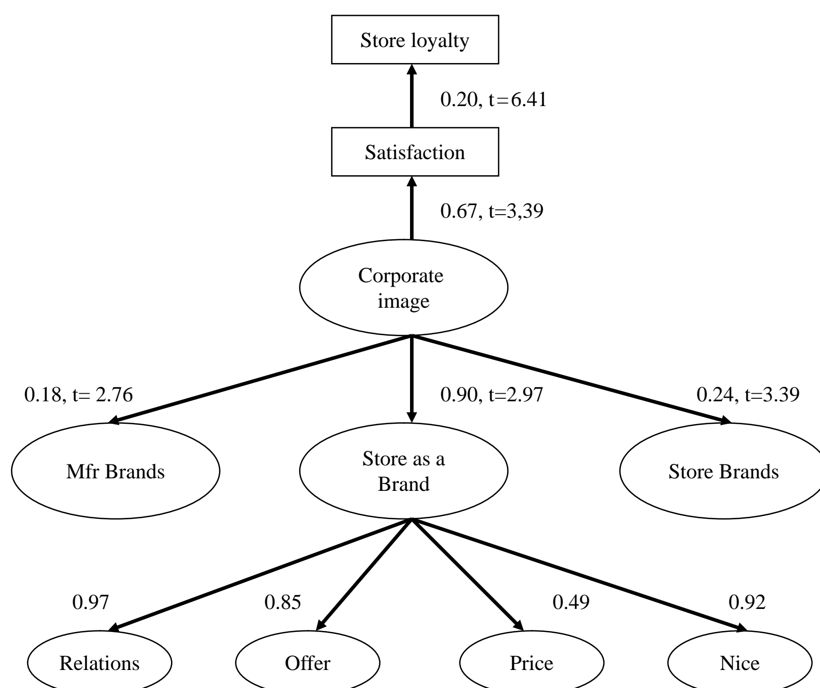

Notes: All standardized path coefficients are significant (t-values > 1.96, $p < 0.05$). All standardized coefficients in the measurement models are significant (t-values > 1.96, $p < 0.05$). Lowest t-value is 2.76 and highest t-value is 50.94. $\chi^2 = 1064.1$ (N = 1000, df = 473, $p < 0.000$) RMSEA .036

Figure 2. The role of store image for satisfaction and loyalty

an impact on the strength of the relationship between "Satisfaction" with main store and "Store Loyalty."

Conclusions and discussion

This study showed that the "Store as a Brand," i.e. how retailers perform their job, is more important than that the store offers store brands. Retailers are expected to be good at retailing, thereby creating a pleasant and attractive store environment as well as an efficient outlet for consumers. Consumers do not seem to have any expectations that retailers launch store brands. In other words, this indicates that store brands which offer something not available before will increase store loyalty but not necessarily otherwise. One example is environmentally friendly groceries. Another example is lower prices. Customers who prefer traditional manufacturer brands are more knowledgeable, more aware in many respects and some of them have not enough time to do their shopping. Therefore, traditional brands provide value to them even if they cost more.

Traditional manufacturer brands still play an important role for retailers in many ways. Traditional manufacturer brands offer quality and variety to customers. Manufacturers also invest heavily to promote their products in the stores

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(shelf rental, use of special displays, promotional leaflets, etc and other forms of financial support to the retail chains). However, small manufacturers may sell as much as 50 percent of their production to one retail chain and are therefore not in a position to criticize their important customer. Since, the concentration in the retail sector is much higher in Sweden than in other countries, small Swedish manufacturers are worse off than their colleagues abroad. It is estimated that the three leading grocery chains have a market share of 90 percent in Sweden. Based on market power, retailers are in a position to dominate the market and keep on launching more store brands. However, if customer satisfaction decrease as the variety of brands is reduced, they may leave the market open to foreign retailers who offer more variety and make shopping trips more exciting. Alternatively, the most profitable customers may start to shop around more, since some customer segments are much less interested in store brands than other customer segments.

The review of prior studies as well as market statistics for this paper has shown that store brands have a tremendous growth rate worldwide and that this development is likely to continue in the future. The studies reviewed, indicate that retailers must consider the impact on profitability if they increase the share of store brands. What are the consequences for retailers of this growth of store brands? Is it only advantageous for them? Does it increase store loyalty? There are a number of likely implications of an increased share of store brands (Sudhir and Talukdar, 2004). Store brands are more profitable than national brands (higher profit margins), but unit profits are not necessarily higher. The consequence may be lower total profits overall, if the increase in store brand share is not accompanied by greater spending at the store. Revenue declines, since prices of store brands are lower (Sudhir and Talukdar, 2004).

There is a need for much more research using the approach suggested by Grewal *et al.* (2004) that includes the "Store as a Brand," "Store Brands," and "Manufacturer Brands" in the "Corporate Image" of the store. They suggest that future studies should examine how store image evolves as well as the development of store brands and brand equity, which they argue is an area not amenable to simple cross-sectional databases. However, most researchers do not have full access to corporate information, which means that it is more reasonable to suggest that future studies use a number of different methodologies to shed additional light on the role of store brands for the image of the retailer. Experimental studies could for example use specific store brands and manufacturer brands, instead of looking at store brands in general. In-depth interviews could illuminate how the various brands are perceived by consumers. Cross-sectional, cross-cultural studies could compare the development of store brands against the market shares of retailers and manufacturers. If researchers had access to the customer data bases of leading retailers, more research could be done on behavioral data. An interesting approach would be to compare profitable versus less profitable customers against their use of store brands.

In an academic perspective, it is problematic that most studies of store brands use the concept "store brand" as if these brands were identical between countries and retailers. In the UK, Tesco's premium brand is "Finest" but the grocery chain also has "Value" lines and lines targeted to specific preferences such as "Healthy Living." Eleven European retailers have a joint brand, "Euroshopper," which is a budget brand, a fighting brand. Consumers who mainly purchase "Euroshopper" will consequently have a different experience of store brands than consumers who mainly buy premium

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store brands. Some store brands are imitations of leading brands, and others (premium store brands) are formulated to be as good as or better than the leading brands. These major differences between different categories of store brands have not been acknowledged in prior research but should be acknowledged in the future.

Finally, future studies looking at the relative role of store brands for the corporate image of the store may want to develop and test new methods to isolate the impact of store brands and manufacturer brands on the corporate image. It is most likely quite difficult for consumers to isolate the perception of the store as a brand versus the impact that manufacturer brands and store brands have on the overall impression.

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