Extending the retail brand: the influenceof customer loyalty towards the private label and towards the retailer

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Abstract

The paper investigates the influence that customer loyalty towards the private label and towards the retailer exerts on the purchase of non-traditional products and services (NTPS) offered by grocery retailers through their private label.

Two-hundred and forty UK retail customers completed a questionnaire. Data were processed applying a binary logistic regression, using the buying of at least one NTPS as the dependent variable (1= buy; 0= No buy). Results show that cognitive loyalty to the private label and behavioural loyalty to the retailer positively predict the buying of NTPS, cognitive loyalty to the retailer brand plays a negative predictive role and behavioural loyalty to the private label is not significant.

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Keywords:private label, customer loyalty, non-traditional products and services, grocery retailing, UK.

Introduction and Objectives

Private labels(PLs),also known as store brands or retail brands,are commonly brands owned, controlled, and sold exclusively by one retailer under its own brand name (Sethuraman and Cole, 1999). Today, PLs play a central and increasing role in grocery retailers' strategies, especially in the UK where they hold a market share of 49.2% of all FMCG products sold (SymphonyIRI Group, 2011). Retailers achieve various goals using this strategy:theycan increase their buying powers towards suppliers (Ailawadiet al., 2008), as well asstore profitability (Ailawadi and Harlam, 2004); they can acquire store loyalty (Cortjens and Lal, 2000; Dekimpeet al., 1997), and differentiate themselves from competitors (Collins-Dodd and Lindley, 2003).

PLs are now present in almost every food categoryand have extended their presence in non-food products. The process of brand extension has continued beyond consumer goods and is now affecting a number ofnon-traditional product and service categories (NTPS) (Burt, 2000;Colgate and Alexander, 2002; Laforet, 2007) such as:over-the-counter products, fuel stations, financial services, mobile communication services, etc..This trend is particularly common and long-term in the UK, where the main multiples were first movers at the European level into many of these non-traditional businesses: Tesco started to offer their own fuel stations in the 1970s; Sainsbury's openedSainsbury's Bank in the 1990sand began to offer its own financial services; Asda launched its George apparel line in the 1990s.But very little is known about this offer extension, in particular regarding the factors affecting consumer buying behavior. To help in deepening the understanding on this topic, the present paper investigates the influence that customer loyalty towards the PL and towards the retailerexerts on the purchase of NTPSoffered by grocery retailersthrough their PL. Specifically, we consider a twofold dimension of customer loyalty - behavioural and cognitive –and verify their rolesas possible determinants of this kind of purchase.

This study contributes to the literature as follows. Primarily, as findings in the store brands literature have been discoveredto be fairly inconclusive on what explains the buying of PLs (Lybeck et al., 2006), this paper helps in clarifyingthis theme. Specifically, this work contributes to the literature on customer loyalty proving its importance as purchase predictor even in extra-core contexts. The paper also advances research on the role of PLs in grocery

retailing - concentrated thus far mainly on the core FMCG products - proving their importance as determinants of NTPS buying.

The paper is structured as follows. After describing the research hypotheses and method, the paper outlines the findings obtained and then discusses them. At that point, limitations and further research avenues are illustrated. The managerial implications deriving from the research results end the paper.

Research Model

The literature suggeststhat a solid and loyal customer base is key to obtaining a sustainable and lasting competitive advantage for companies (Reichheld, 1993). This is particularly evident in the grocery retail sector where market saturation and tough competition are forcing retailers to enhance and sustain long-term relationships with clientele (Jensen, 2011), especially in a mature market as the UK. However in this sector, customer loyalty is a complex issue to study, as branding is multi-tier, thougharticulated traditionally on two main levels: the private label and the store. More recently, the concept of loyalty to the retailer as a brandis obtaining increasing attention (Burt and Sparks, 2002; Ailawadiand Keller, 2004; Binninger, 2008; Burt and Davies, 2010).We consider a conceptualisation of customer loyalty both to the PL and to the retailer brand level and verify their roles as predictors of NTPS purchase. Indeed, brand-loyal customers are generally inclined to purchase more in terms of value and amount of products, and have a tendency to purchase new products (Reichheld and Sasser, 1990), so they should be more inclined to buy non-traditional categories.As Jacoby and Chestnut (1978) point out, long-run brand profitability resides mainly inthe number of consumers who purchase a brand repeatedly. However, not all "repurchasers"may be "loyal" consumers. This fact is highlighted in a model presented by Colomboand Morrison (1989), which shows that all loyal consumers repurchase the brand theylast bought, but not all consumers who repurchase can be considered loyal.

PL buying has been found to be related to psychological and socio-economic variables (Putsis&Cotterill, 1999; Sethuraman& Cole, 1999; Baltas&Argouslidis, 2007), but reporting mixed results. Product category rather than consumer type explains more about attitudes and buyingbehaviour (Livesey and Lennon; 1978; Dhar and Hoch, 1997). Product-related factors (in particular quality and price) (Richardson et al., 1994; Medina et al., 2004), familiarity and product involvement (Dick et al., 1995; DelVecchio, 2001; Miquel et al., 2002) have been found to be influential factors.Thus, a variety of different factors have been found to affect how consumers perceive and buy store-brand products, but little attention has been given to customer loyalty as a determinant of store brands purchase in retailing.

Customer loyalty is traditionally conceived in the marketing literature as constituted by two main components: the behavioural dimension and the cognitive dimension (Jacoby and Kyner, 1973).The behavioural dimension of loyalty refers to the customer's repetitive purchase behaviour; in this sense, customer loyalty is usually measured through indicators of repeated purchase, such as: amount spent in one store (Corstjens and Lal, 2000), and the frequency of store visit (De Wulf et al. 2001; Mägi, 2003). Oliver (1999, 35) defines cognitive loyalty as based on "prior or vicarious knowledge or on recent experience-based information" and identifies cognitive loyalty as"the brand attribute information available to the consumer indicates that one brand is preferable to its alternatives". This is therefore our interpretation of cognitive loyalty.

We posit that customer loyalty towards the PL positively influences the buying of NTPS, both in a behavioural and in a cognitive perspective.Corstjens and Lal (2000) proved that shoppers who were more store loyal purchased a greater share of basket from among that store's own brands. Consequently, we posit that this relationship could be foundeven when the PL is extended to non-traditional categories.

H1: Behavioural loyalty to the private label (BLPL) predicts the purchase of NTPS.
Chen and Paliwoda (2004) argued that the store brandis an influencing variable on consumers' purchase decision.Consequently, we define our second hypothesis as follows:
H2: Cognitive loyalty to the private label (CLPL) predicts the purchase of NTPS
Since previous research states a positive causal relationship between behavioural loyalty and purchase (Reinartz et al., 2008), and given that NTPS are increasingly offered by grocery retailers, we hypothesize that behavioural loyalty acts as a predictor of the purchase of extra-core categories:
H3: Behavioural loyalty to the retailer (BLR) predicts the purchase of NTPS
Customers are more inclined to buy the whole range of products under the brand name they are loyal to (Reichheld and Sasser, 1990). Customers who are more loyal to the retailer thus could show greaterpropensity to chooseits store brand (Baltas 2003). Consequently, we propose our final hypothesis.
H4: Cognitive loyalty to the retailer (CLR) predicts the purchase of NTPS

Method
The study was performed through an in-store survey, using a structured questionnaire as research instrument. The constructs investigated were operationalized through a series of items taken from previous studies, as showed in table 1.

Table 1 – Constructs and items used in the questionnaire

Constructs	Items	References
Behavioural loyalty to the PL (BLPL)	How often do you buy PL products of this retailer? How much do you spend for PL products of this retailer?	Mägi 2003
Cognitive loyalty to the PL (CLPL)	I am satisfied with this retailer's PL products. I prefer this retailer's PL products rather than other branded products. I trust this retailer's PL products.	Adapted from Garbarino& Johnson, 1999
Behavioural Loyalty to the retailer (BLR)	How many times do you go shopping to supermarkets for your household shop? How many times do you go shopping to this retailer? Given your monthly total household expenditure budget equals to 100%, how much of it do you spend in this retail chain?	De Wulf et al. 2001; Uncles et al. 2003; Mägi 2003
Cognitive Loyalty to the retailer (CLR)	I prefer this retailer rather than other retailers. I consider this retailer as the best choice for my household expenditure. I think that this retailer is better than other retailers.	adapted by Oliver, 1999

240 retail customers were interviewedusing a structured questionnaire at the exit of selected stores belonging to the main three UK multiples (Tesco, Sainsbury, Asda). Data was gathered within a period of two weeks on different days and at different times in order to collect the greatest likely variety of buying models.

First, interviewees were asked whether they were buyers of the following NTPS or not: over-the-counter products, photo printing and financial services. Then, respondents were asked to evaluate their level of customer loyalty to the private label and to the retailer, stating their purchase frequency and expenditure budget for the behavioural dimension items and giving a score to each item of the questionnaire on a 7-point Likert scale (1= totally disagree; 7= totally agree)for the cognitive loyalty items.

The sample (Table 2) hadslightly more women (51.7%). Respondents were largely concentrated in the intermediate age range: 40.8% of the respondents were aged between 36 and 50, 32.9% between 26 and 35, 15.0% between 51 and 65, while only 10.8% were young (< 25 years old). Respondents showed a high level of education as almost half of the sample possessed a bachelor's degree.

Table 2. The sample

Characteristics	Items	%
Gender	Male (%)	48.3
	Female (%)	51.7
Age	< 25	10.8
	26-35	32.9
	36-50	40.8
	51-65	15.0
	> 65	0.4
Education	Primary	0.0
	Secondary	2.5
	High-school	48.3
	Graduate	48.8

Findings

The customer loyalty constructs observed showed mean values higher than 4 (Table 3). The constructs measuring customer loyalty to the retailerreported the highest values, in particular for the behavioural component (M=5.24), while the behavioural dimension forthe PLfrequency and amount of purchase (BLPL) showeda mean value at the average (M=4.03).

Table 3. Customer loyalty's components: means and standard deviations.

	N	Mean	Std. Dev.	α
BLPL	240	4.03	1.66341	0.98
CLPL	240	4.42	0.72525	0.71
BLR	240	5.24	0.98943	0.76
CLR	240	4.71	1.00133	0.82

The reliabilities of the measures are above the recommended value of 0.70 (Nunnally and Bernstein, 1994).No items were deleted from the analysis.

Data were then processed applying a binary logistic regression,using the buying of at least one NTPS as dependent variable (1= buy; 0= No buy) and BLPL, CLPL, BLR and CLR as independent variables. Akinci et al. (2007) demonstrated the advantages in the use of this analysis technique when investigating the purchase/not purchase decision in the customer based decision process.

Overall, the model correctly classifies 61.3% of retail customers.

The model fits the data well [R^2 =0.08(Hosmer and Lemeshow), 0.11(Cox and Snell), 0.14 (Nagelkerke). Model $\chi^2(4)$ = 26.81, p< 0,001] as displayed in Table 4.

Table4. The model

	B(ES)		95% CI per Exp(β)	
		Inferior	Odds ratio	Superior
Costant	0.459 (1.216)			
BLPL	-0,085(0,082)	.782	.919	1.08
CLPL	0.357***(0,201)	.993	1.429	2.120
BLR	0.270**(0.141)	1.008	1.310	1.728
CLR	-.662*(0.157)	.379	.516	.702

* p<0,001
** p<0,05
*** p< 0,1

The diagnostic testsshowed that the statistics of the residuals are good. In particular:
- Standardized residuals are almost all in the interval ± 2: only one caseexceed this limit, and no caseis ± 2,5;
- All the cases have DFbeta smaller than 1;
- No value above 1 related to the Cook's distance are present.

In conclusion, we can assert that no peculiar cases can influence the model.

In terms of the possible presence ofmulticollinearity, tolerance values are all above 0.1 (Menard, 1995) and the VIF values are well below 10 (Myers, 1990), showing that the predictors employed are not affected by this problem.

Results show that CLPL and BLRpositively predict the buying of NTPS, whileCLRplays astrong negative predictive role and BLPL is not significant.While the loyalty relationship with the retailer determines 66% of the decision of not buying NTPS, it is in particular the cognitive relationship with the store brand that determine the purchase of NTPS (even its significance is borderline), as around 36% of this behavior depends on this predictor, while 27% is explained by the behavioural relationship with the retailer. Moreover, as the odds ratio is higher than 1, if each of these predictors increase, the odds of purchasing NTPS increases. The opposite is true in the case of CLR, as findings show a negative relationship: as the cognitive relationship with the retailer increases, the odds to purchase NTPS decreases.

Discussion

Findings evidenced a linear relationship between each of the following customer loyalty components – namely CLPL, BLR, CLR- and the buying of NTPS, that is: H2, H3 and H4 are confirmed.However, H1 was not found to be verified in our study. We also get an unexpected result: CLR plays a negative, strong, predictive role on NTPS purchase.

In sum, retail customers who evidence comparative preferences for and trust the PL and buy frequently from the retailer– even if not for PLs, asPL purchase frequency does not result in a more proneness to purchase NTPS –, are the most NTPS prone, while retail customers who show a belief in the superiority of the retailer compared to its rivals show the opposite.

Our paperprovides a contribution by demonstrating the existence of a causal link between customer loyalty and extra-core offers and by identifying that cognitive loyalty and behavioural loyalty play different roles if they are measured in terms of PL rather than considering the retailer as brand.Customers who recurrently patronize the retailer's stores and spend the major part of their share-of-wallet with them (BLR) are more prone to buy NTPS. Surprisingly, the inverse is occurring regarding cognitive loyalty (CLR). This could be related

to the way in which NTPS are bought: the service convenience in buying a wide range of products and services at the same time and in the same place leads the purchasing patterns.

Limitations
This study is mainly explorative and limited to considering the effect of customer loyalty at the two branding levels (PL and retailer) observedas independent one from each other. But PLs have also been proved to affect customer loyalty to the store (Binninger, 2008), even if reciprocal effects between store brands and store image have been found too (Collins-Dodd and Lindley, 2003),so this relationship could intervene also when the focus of the study is the customer loyalty to the retailer as a brand. Accordingly, an interaction effect could occur that we did not consider in this first analysis.
Additionally, other factors that we do not include in the analysis could intervene in predicting NTPS purchase, such as the level of customer satisfaction with this kind of offer and/or the intrinsic and extrinsic factors related to these product categories and/or socio-economic factors.
Moreover, the analysis did not distinguish amongstthe specific NTPS observed. As PL purchase behavior has been proved to differ within FMCG categories (Dhar and Hoch, 1997), the same could be true with extra-core products and services.
Finally, the empirical contribution is limited to the UK context, one of the most developed distribution systems in Europe, where the use of NTPS is in a mature stage.

Further Research
Extant literature identifies customer loyalty as a multifaceted concept, which also includes an affective and a conative dimension (Oliver, 1999; Smith and Reynolds, 2009). Consequently, the next research step would be to consider these components in the analysis in order to get a more comprehensive perspective of the loyalty-buying link. Moreover, as the literature proved a relationship between PL use and store loyalty (Ailawadi et al. 2001; Corstjens&Lal, 2000; Kumar &Steenkamp, 2007), a possible link could be present between customer loyalty to the PL and customer loyalty to the retailer. This implies that a more sophisticated model and technique would be required for future analyses (SEM for instance) in order to take into account possible mediating effects.
Additionally, other influencing factors can intervene in explaining the decision to purchase or not NTPS.As we are aware that as the NTPS investigated could support quite different levels of familiarity, involvement and buying motives that could result in a different weight of customer loyalty predictors, the distinction between them should be taken into account in further studies on this topic.
Extending the analysis comparing different national contexts would be another area of possible future research, as different level of maturity in the distribution systems and in the offer of NTPS categories could result in a different role exerted by customer loyalty to the PL and to the retailer on the buying of NTPS.
Moreover, an interesting issue to research in the future could investigate the possible occurrence of unsatisfactory consumption experiences with a non-core product or service experienced by loyal customers, in order to understand the possible implications for the core offer.

Managerial Implications
Our results could help retail managers and business practitioners to increase the effectiveness of their brand extension strategies, given that a relationship with customer loyalty exists, even if contradictory in its possible interpretation. So,retailers can focus on the customers that show a specific relationship with the store brand and with the retailer.

Findingsreveal the crucial role of PLs in developing the retail business. But from this perspective, buying in extra-core categories is not a behavioural component,driven by the repeated purchase of PLs products, but a cognitive one: customers who exhibit strong preferences, trust and satisfaction with the PL should be the focus for the extension strategy. It is not relevant how frequently and how much PLs customers buy, but rather the level of trustworthiness, superiorityand positive experience that they encounter in the PL use.This is in line with the repositioning strategy pursued by retailers in the UK markets, sothat consumersperceived them as alternatives offering the same quality, assurance and productinnovation as leading brand manufacturers (Burt, 2000); the same path is then occurring for the extended offer. This result could also be coherent with Martos-Partaland González-Benito (2009)who found that the concentration of budget spent within the store on the store brand does not appear related to store loyalty.

However, when the focus is on the relationship with the retailer, the opposite emerges. NTPS purchase dependsin a negative way on the capacity of the retailer to create beliefs of competitive superiority compared to the alternatives present on the market, but positively on the convenience that the latter gets in visiting the retailer's stores for multi-purpose uses. Customers who buy frequently and spent considerable amounts of money in the retailer's stores are the ones to focus on. So, retailers should also be aware that their corporate brand is not the asset to invest on to promote and communicate the extended offer; PLs can be used to this end.

In sum, retailers who manage to develop a favourable private label attitude together with a repetitive buying pattern into their stores with their customers are more likely to obtain greater success in extending their offer to novel and distant product/service sectors.

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