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AUTHORS	Carmen Abril Diana Gavilan Maria Avello
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Carmen Abril (Spain), Diana Gavilan (Spain), Maria Avello (Spain)

## Influence of the perception of different types of store brands on consumer typologies and satisfaction levels

### Abstract

Over the last few years, private labels have steadily eroded the market share traditionally held by national brands. Some reasons for this growth are clear improvements in perceptions of store brand quality and increasing social acceptance of store brands. Store brands have clearly evolved through time to expand their offerings to consumers, but most studies consider store brands in an aggregate form. Here we study consumer perceptions and evaluations of different retailers and their store brands and analyze whether different types of store brands reflect different consumer typologies. We identify three types of clusters with different purchasing characteristics, which reflect preferences for different store brand offerings based on factors ranging from value for money to brand leadership quality. The results show that the cluster of consumers who tend to purchase “leadership store brands” has the highest levels of store brand penetration and retailer satisfaction. These results suggest the existence of different consumer typologies motivated by different factors, as well as the increasing importance of leadership store brands as a source of consumer satisfaction. These findings help to understand the success of store brands and will contribute to the development of more efficient manufacturer and retailer strategies in the market place.

**Keywords:** store brands, product assortment, retailer strategy, innovation, consumer satisfaction.

### Introduction

Academic and managerial interest in store brands has been increasing in recent years (Ailawadi, 2001; Choi, 2006; Juhl, 2006).

Over the last few years, private labels have steadily eroded the market share traditionally held by national brands (Nielsen, 2007). In fact, in 2008, private labels increased their market share to 25% and 50% in most European markets and to 20% in the US (PLMA, 2009). There are a few reasons driving private label growth, namely, a perception of improved quality among consumers, and a rising social acceptance of private label consumption (Ipsos Mori, 2006).

Store brands have been considered to be of special importance in recent years for retailer strategy (Baltas, 1999). Reasons for this are that store brands are more profitable for retailers, they enhance their negotiating power towards manufacturers, and they help to differentiate the retailers' offerings and build consumer loyalty towards the retailers (Ailawadi, Pauwels & Steenkamp, 2008; Alan Jain, & Richardson, 1995).

The presence of store brands improves channel efficiency (Chen et al., 2009) and the fact that retailers control store brands positioning is one of the key reasons that makes store brands so valuable to them (Morton and Zettelmeyer, 2004).

Since store brands influence a retailer's positioning and image, understanding how a retailer should position itself in terms of brand assortment is of critical importance (Ailawadi and Keller, 2004). Store brands have clearly evolved through time. In

fact, they now play a range of roles with different implications for manufacturers and retailers alike. Store brands are becoming more sophisticated and are delivering a more complex and broader portfolio (Kumar and Steenkamp, 2007). Wileman and Jary (1997) suggest five stages of store brands: generic, cheap, re-engineered low-cost, parity quality and leadership. However, leading retailers like Carrefour, Tesco, Kroger or Red Lyon, among others, are developing a portfolio of store brands to span these tiers by offering a three-tier strategy with different benefits: value, national brand equivalence, and premium quality (Tarnowsky, 2007).

As it is true for any brand, positioning a store brand can exert an important influence on its performance (Sayman, Hoch & Raju, 2002). However, most of the research on store brands studies them in an aggregated form without differentiating their positioning. For example, in some product categories, both high quality retail brands and price-fighting “generics” are combined under a single definition (Burt, 2000). This leaves the following question unanswered: if the store brand portfolio strategy allows the retailer to cover a range of price-quality tiers, how do consumers perceive and evaluate them?

We intend to examine whether consumers perceive differences in the positioning of different store brands and whether this perception stems from different consumer typologies. We want to know whether this perception influences satisfaction with the retailer, since we expect that the higher the perceived quality of the store brand, the more likely it is to succeed (Sayman et al., 2002). Therefore, we predict that improving our understanding of perceptions of different

types of store brands will be of great relevance for the academic community and for industry.

We are interested in answering the following research questions:

- ◆ Do consumers perceive differences in the positioning of store brands?
- ◆ What is the role that different types of store brands play on consumer typologies?
- ◆ Is overall consumer satisfaction with retailers influenced by store brand positioning?

## 2. Research method

Data were collected from a sample of active shoppers in Spain. Personal interviews were conducted at the exit of a supermarket/discounter/hypermarket store. Data collection was conducted in February 2008 and 422 interviews were used in the end (Table 1).

Table 1. Sociodemographic profile of the sample

Demographic variables	Sample (%) N = 422
Gender:	
◆ Men	29,6
◆ Women	70,4
Age (years):	
◆ < 20	1,4
◆ 21-30	29,9
◆ 31-40	19,7
◆ 41-50	23,0
◆ > 51	26,1
Occupation:	
◆ Student	11,4
◆ House wife	23,5
◆ Employee	50,2
◆ Self-employed	8,5
◆ Others	6,4
Monthly income:	
◆ < 1000 €	11,4
◆ 1.000-1.500 €	22,0
◆ 1.500-2.000 €	30,1
◆ 2.000-2.500 €	19,7
◆ > 2.500 €	16,8

We gathered consumer information related to the retailer where the consumer made purchases most frequently. We measured overall satisfaction levels as well as variables related to price, store brands, service and quality perceptions.

Price levels are of capital importance to retailer perceived positioning as retailers' image can be influenced by attributes like average level of prices and how much variation there is in prices over time (Lattin & Bucklin, 1989). Service, quality perception and purchase experience are becoming critical attributes which are also an important marketing trend. We understand marketing experience as company sponsored activities and programs designed to create a special brand related interactions (Brakus, Schmitt, & Zarantonello, 2009). Schmitt developed the concept of Customer Experience Management, which he defines as the process of strategically managing a customers entire experience with a product or a company. Customer experience is critical for retailers who are in an ideal position to create experiences for their customers as they are responsible for the total purchase experience: from location, store image, assortment, offerings, advertising, delivery, customer service and post purchase experience.

These items were rated on a scale from 1 to 7. Scales were taken or adapted from the existing ones (Jain and Srivastava, 2000; Sirohi et al., 1998), except for the scale for store brand, which was developed by the authors (Table 2).

Concerning the scale for store brands, we included items reflecting the different utilities related to the different tiers of store brand positioning, namely, utility related to value for money (*value of store brands*), utility related to quality parity, and utility related to innovation (*store brand leadership*).

The reliability of the adapted scales was tested using Cronbach's alpha and confirmed (0.903 and 0.839). In addition, the reliability of the new store brand scale was very satisfactory (0,977).

Table 2. Survey items about the retailer where the respondent most frequently made purchases

Variable	Item	Scale
Shopping experience	P1 Pleasant place to shop	1-7
	P2 Pleasant shopping experience	1-7
	P3 Good store image	1-7
Service and quality	P4 Overall good service	1-7
	P5 High quality products	1-7
	P6 Pleasant salespeople	1-7
	P7 Expert salespeople	1-7
	P8 Good delivery service	1-7
Price	P9 It can always find the best prices	1-7
	P10 It has the best prices, as compared to other stores	1-7
	P11 Best price-quality relationship	1-7

Table 2 (cont.). Survey items about the retailer where the respondent most frequently made purchases

Variable	Item	Scale
Value of store brands	MB1 Cheapest store brands	1-7
	MB2 Best store brands, price-quality relationship	1-7
Store brand leadership	MB3 Store brands quality parity to leader	1-7
	MB4 Store brands with exclusive products	1-7
	MB5 Innovative store brands	1-7
	MB6 Store brands that imitate	1-7
	MB7 Store brands that surprise me with their novelty	1-7
	MB8 Store brands that launch unique products	1-7

A principal component factorial analysis was conducted to derive our latent variables from the adapted scales. Next, we performed a cluster analysis to understand the role that different tiers of store brands play on consumer typologies, as well as to examine demographics, retailers penetration and satisfaction levels among clusters.

### 3. Results

We performed a principal component factorial analysis and, based on the scree plot and the percentage of variance explained by each component, we decided to work with three factors, which together explain 65.5% of the total variance (Table 3).

Table 3. Total variance explained by components

Component	Initial eigenvalues			Extraction sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	5,884	36,777	36,777	5,884	36,777	36,777
2	3,030	18,940	55,717	3,030	18,940	55,717
3	1,571	9,817	65,534	1,571	9,817	65,534
4	1,007	6,295	71,829	1,007	6,295	71,829

We used only those items with eigenvalues larger than 1. For each multi-item scale, the conditions for ascribing items to a factor are as follows: (1) a minimum factor loading of 0.5 and a maximum loading of 0.3 on another factor, and (2) deleting the item does not increase the factor's Cronbach's

alpha (Hair et al., 2005). Thus, we dropped items MB4, MB6 and P8.

Next we inspected the matrix of rotated components using Varimax rotation in order to interpret the selected solution.

Table 4. Rotated component matrix

	Component		
	1	2	3
P1 Pleasant place to shop	,865	-,046	-,054
P2 Pleasant shopping experience	,830	,085	-,102
P3 Good store image	,889	,047	-,099
P4 Overall good service	,863	-,006	-,026
P5 High quality products	,666	,203	,029
P6 Pleasant salespeople	,682	-,149	,169
P7 Expert salespeople	,553	-,190	,347
MB1 Cheapest store brands	-,166	,726	,093
MB2 Best store brands, price-quality relationship	,135	,782	-,002
MB3 Store brands quality parity to leader	,198	,573	,036
MB5 Innovative store brands	,035	,036	,840
MB7 Store brands that surprise me with their novelty	-,037	,041	,914
MB8 Store brands that launch unique products	-,012	,051	,898
P9 It can always find the best prices	,025	,768	-,010
P10 It has the best prices, as compared to other stores	-,206	,815	,021
P11 Best price-quality relationship	,089	,808	-,012

Looking at factor loadings, we observed that the first factor is led by items P1 to P7 which correspond to shopping experience and service. We can interpret or refer to the first factor as "shopping experience".

The second factor is led by items MB1 and MB2, which represent store brands value for money, as well as by items P9 to P11, which also focus on pricing. We name this second factor "price oriented".

Finally, the third factor is related to items MB5 to MB8, which represent store brands with distinctive

and unique offerings. We call this factor “store brand leadership” (Figure 1).

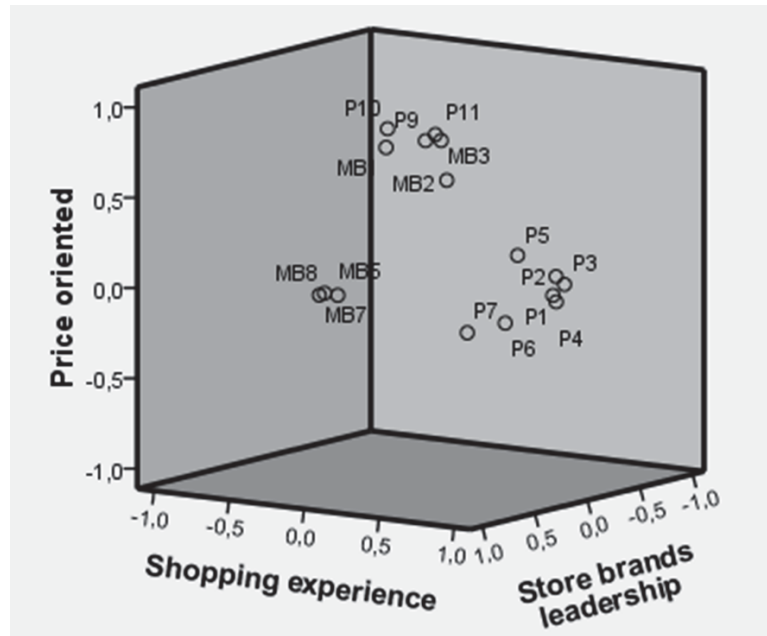


Fig. 1. Plotting of items in principal component factor analysis

In order to find different consumer typologies we carried out a cluster analysis with *k-means* method with SPSS 17 program. The technique for *k-means* cluster analysis is described by Cortina and Wasti (2005), and involves partitioning cases into  $n = k$  clusters, since a case is assigned to the cluster for which the distance to the cluster mean is the smallest.

The action in the algorithm centers around finding the *k means*. In SPSS, *k-means* cluster analysis requires the researcher to request the number of desired clusters; this is initially done with two, three, and four cluster solutions. Indications are that the most effective classification of respondents is in three clusters where all variables are significant.

Table 5. Centers of the final conglomerates

	Clusters		
	1	2	3
P1 Pleasant place to shop	3,82	5,97	5,42
P2 Pleasant shopping experience	3,67	5,67	5,05
P3 Good store image	3,49	6,00	5,37
P4 Overall good service	3,56	5,84	5,15
P5 High quality products	4,07	6,02	5,25
P6 Pleasant salespeople	3,30	5,41	4,55
P7 Expert salespeople	2,73	4,87	4,01
P9 It can always find the best prices	5,18	5,98	3,98
P10 It has the best prices, as compared to other stores	5,56	5,77	3,74
P11 Best price-quality relationship	5,13	6,05	4,50

Group 1 of the cluster analysis ( $n=82$ ; 19.5%) consists of buyers with low scores on shopping experience but high scores on price; we therefore label them as “price-oriented”. Group 2 ( $n=201$ ; 47.9%) consists of buyers with high scores on the three factors; we label them “totally satisfied”. The third group ( $n=137$ ; 32.6%) shows high scores on “shopping experience” despite showing the lowest scores on pricing. We label this group “experientials”.

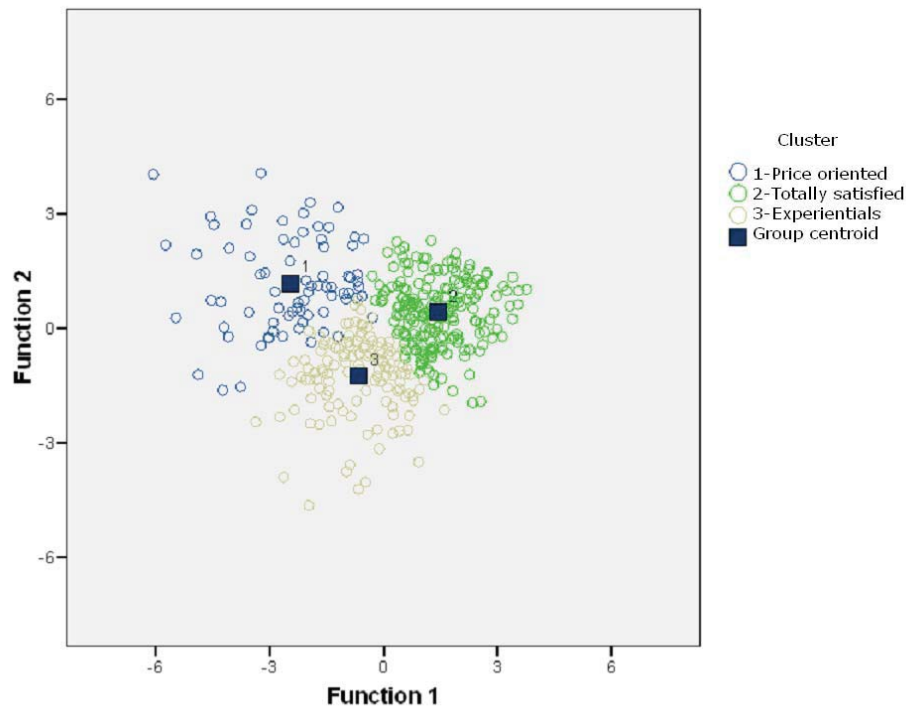
The cross tabulation of clusters with demographic variables doesn’t show significant differences by age, gender or income. In fact, purchasing power

and social class are not clear drivers of store choice, due to the social trend of “smart shopping” where buying cheaply means being perceived as smart (Ailawadi, Neslin & Gedenk, 2001).

After the *k means*-cluster analysis we perform a discriminant analysis.

All Wilks lambda values as well as canonical discriminant functions are significant.

We also find the percentage of cases classified correctly with the discriminant functions which is 97,2% of the cases (Table 7).



**Fig. 2. Plotting of discriminant canonical functions**

**Table 6. Wilks' lambda test**

Test of function(s)	Wilks' lambda	Chi-square	df	Sig.
1 through 2	,163	703,551	30	,000
2	,536	241,777	14	,000

**Table 7. Classification results**

		Cluster	Predicted group membership			Total
			1	2	3	
Original	Count	1	72	0	4	76
		2	0	188	3	191
		3	3	1	127	131
	%	1	94,7	,0	5,3	100,0
		2	,0	98,4	1,6	100,0
		3	2,3	,8	96,9	100,0

The cross tabulation of the clusters with the retailers where individuals buy shows a spread of consumers among the three clusters, however, Mercadona dominates group 2 and Dia dominates group 1. This

consumer spread is consistent with the mentioned different store brands tiers that retailers offer to their customers, trying to attract all different consumer typologies through portfolio segmentation.

**Table 8. Cross tabulation of "clients" per cluster**

	Cluster		
	1	2	3
Alcampo	6,2%	10,0%	20,4%
Carrefour	17,3%	15,4%	30,7%
Carrefour Ex	3,7%	3,5%	2,9%
Dia	44,4%	9,0%	5,8%
Eroski		7,0%	11,7%
Lidl	11,1%	8,0%	5,1%
Mercadona	17,3%	47,3%	23,4%
Total	100,0%	100,0%	100,0%



Concerning store brands, we find interesting results: store brands than the other two groups ( $p < .006$ ) Group 2 is the one with a higher penetration level of (Table 9).

Table 9. Cross tabulation of “Usually buy store brands” per cluster

		% cluster			Total
		1	2	3	
Do you usually buy store brands?	No	35,4%	21,9%	36,5%	29,3%
	Yes	64,6%	78,1%	63,5%	70,7%
Total		100,0%	100,0%	100,0%	100,0%

Group 2 is also the one scoring significantly higher than the other two groups on the perceived quality and innovativeness of the store brands they buy (Table 10).

On the other hand, we observe that members of group 1, despite rating store brands very high in

price utility, rate them very low in innovativeness and quality.

For their part, members of cluster 3, the “experiential” consumers, perceive store brands as cheap and give them low scores on innovation and uniqueness.

Table 10. ANOVA by cluster

	Cluster	Average score	Sig.
MB1 Cheapest store brands	1	5,42	0,00
	2	5,62	
	3	4,40	
	Total	5,23	
MB2 Best store brands, price-quality relationship	1	5,30	0,00
	2	6,06	
	3	4,91	
	Total	5,59	
MB3 Store brands quality parity to leader	1	5,11	0,00
	2	5,82	
	3	5,05	
	Total	5,47	
MB5 Innovative store brands	1	3,64	0,00
	2	4,85	
	3	4,02	
	Total	4,39	
MB7 Store brands that surprise me with their novelty	1	3,62	0,00
	2	4,75	
	3	3,68	
	Total	4,24	
MB8 Store brands that launch unique products	1	3,36	0,00
	2	4,62	
	3	3,49	
	Total	4,06	

As we expected, overall satisfaction levels are higher in buyers belonging to group 2, as they

perceive store brands as having good quality and innovation activity (Table 11).

Table 11. ANOVA by cluster

	Cluster	Average rating	Sig.
Overall satisfaction level with most frequent retailer	1	5,06	0,000
	2	6,11	
	3	5,35	

## Discussion and conclusions

The results show the importance of store brands in retailers’ positioning and product offerings to consumers. They indicate that store brands seem to be perceived as important flagships of the retail

offerings not only as price drivers but more importantly as drivers of innovative and unique offerings. This finding becomes more important in markets dominated by an everyday-low-price policy, as it signals the strong ability of store brands to differentiate retailers’ offerings.

We have identified three consumer typologies characterized by a first cluster of price-oriented consumers and buyers of value store brands, a second cluster characterized by a high level of satisfaction and purchasing of leading store brands, and a third cluster characterized by low store brand perception despite satisfaction with the store shopping experience.

It is worth mentioning that the second typology corresponds to consumers who buy frequently from retailers with a strong price offering but also with a strong and innovative store brand image; this leads to the highest scores on consumer satisfaction among the clusters identified in the study. This is an intelligent positioning that tries to counterbalance the negative connotations of strong price focus, which is the image that discounters usually have, with high quality and innovative store brands that are still perceived as competitively priced. This strategy of balancing “value pricing” and “added value” seems to be the right approach to maximize the scores for consumer satisfaction.

These empirical findings lead us to comment on various managerial implications.

Store brands seem to be an integral part of retailers’ strategy, even if their strategy is not price-focused. This is due to the great ability of store brands to deliver retailer image and product offerings.

The question is whether retailers not competing on pricing can afford *not* to offer store brands to their consumers. Consumers are so used to store brands now due to high penetration and familiarity levels, that they will consider the lack of store brands as a lack of service more than a decision consistent with retailer premium positioning.

Even for stores competing on pricing, such as discounters, it seems that offering value store brands is not sufficient anymore, since consumer satisfaction in the consumer typologies interested in pricing is lower than in those typologies buying leadership store brands. This could threaten

discounters’ strategy. In fact, recent shifts in discounters’ strategy, such as the decision by Lidl to launch a premium tier brand, suggest the validity of our conclusions.

The growing importance of store brands as part of retailers’ strategies is putting strong pressure on retailers to adjust their structures to deal with complex mega-brands, which they can no longer manage by outsourcing. It also puts pressure on manufacturers, who see that their segmentation alternatives are preempted on a daily basis.

The increased portfolio of store brands also raises interesting issues about product assortment and pricing controls that are rapidly changing marketplace dynamics and that could affect European regulations in the near future.

**Limitations and future research.** This study is not exempt from limitations that leave avenues for future research. First, the study has been developed in only one country. Thus, in order to generalize the results, a broader study that considers more countries and contexts will be of interest. Although, recent research on consumer acceptance of new products has not found any differences regarding factors influencing four European countries (Gielens, 2007), we could deduce that these findings could be extrapolated to countries with similar levels of store brand penetration.

On the other hand, we expect different results in countries where consumer perception and share of store brands are different. In addition, our framework could further be enriched by adding different countries with different store brand penetration and share to better understand whether the consumer perceptions of the different types of brands are the same.

Future research could also further include other variables that can enhance variance explanation of the factors.

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