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The value of relationship marketing in expanding private labels

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Abstract

The goal of relationship marketing is to create mutually beneficial partnerships that last for the long haul. The current research examines the use of private labels in conventional product categories as a means of fostering productive partnerships within the convenience foods industry. The study's key contribution is the application of the relationship method to the puzzle of why customers are loyal to private label products and why store brand expansion tactics are effective. This study, which used EQS software and a sample of 434 people, found that consumers' propensity to buy private labels in new categories like durables was influenced by their experience with and satisfaction with private labels in the convenience goods they already purchased. Retailers' long-term success depends on their capacity to cultivate the trust and commitment of their customers, which in turn generates loyalty.

Keywords: Relationship marketing, Private label, Trust, Commitment, Experience, Loyalty

1. Introduction

The retail industry is well-aware of the fact that a company's competitive edge may be found in the quality of its brands. As previously discussed (e.g., Dhar & Hoch, 1997; Narasimhan & Wilcox, 1998; Pepe, Abratt, & Dion, 2011), private labels (PLs) are becoming increasingly important for retailers as a means of standing out from the competition, expanding business, and forging stronger connections with customers.

According to the Private Label Manufacturers Association (PLMA, 2013), PL items include anything sold under a retailer's brand, which might be the retailer's own name or an in-house brand. Private labels are gaining popularity among European customers; 46% of them regularly buy PLs (PLMA, 2013). Within the same market segment, brands sold by manufacturers and those sold by retailers compete for customers' attention and loyalty (Bustos-Reyes & González-Benito, 2008; Grewal, Levy, & Lehmann, 2004). Retailers are expanding private label offerings beyond traditional supermarket, pharmacy, and perfumery categories into other product types including textiles, home appliances, and electronic gadgets, and even

service types like banking, insurance, and mobile phone plans. Grossman (1998) suggests that manufacturers battle the rise of PLs by using relationship marketing (RM) to provide customers more value. These days, businesses use relationship methods to keep their clientele coming back. Long-term, win-win partnerships with customers are the goal of customer relationship management (CRM; Ravald & Grönross, 1996; Payne, Christopher, Clark & Peck, 1995). By developing a USP (Gutwilling, 2000; Steiner, 2004), shops are using brand equity as a strategy (Pappu & Quester, 2006). Maintaining continuity between promotions shows consumers that you value their business. Customers are more likely to remain loyal to a business and its brand if the retailer's offerings are a better fit for their needs than those of rivals (Reinartz & Kumar, 2000). RM is a catch-all term for the ideas discussed above. With the proliferation of PLs into new product categories (PLMA, 2013), this research aims to determine whether and how the RM principles may be used to PL in fast-moving consumer products to increase the acceptance of PL extensions.

The research aims to determine whether customers' positive attitudes about an existing product line (PL) and their willingness to embrace the PL's expansion into other product lines are related. Complex durable goods (DG) are a new product category whose features add complexity to the choice to buy. It has been shown that when consumers buy DG items from PLs, they have a higher sense of risk and a greater fear of a negative consequence (Burnham, Frels, & Mahajan, 2003). Section 2 then presents the conceptual model and research hypotheses after reviewing the literature on RM and PL. Methodology is discussed in Section 3, and findings are presented in Section 4. The recommendations for future studies and critiques of the study are presented in Section 5.

2. Literature review: relationship marketing model for private label extension to durable goods

RM entails the development of strategies to build relationships with customers, to develop these relationships further and maintain them over the long term, and, through this process, add value. The aim of RM is to create customer loyalty on the basis of customer satisfaction (Berry & Parasuraman, 1991; Kotler, 1994). Mutual benefits for both company and customer are possible. RM increases levels of customer satisfaction and loyalty (Evans & Laskin, 1994), and simplifies purchasing procedures. RM reduces the need to collect information and subsequently process this data, and diminishes purchasing risk by bolstering psychological well-being and satisfaction (Sheth & Parvatlyar, 1995). Given the intrinsic characteristics of DG and the time that elapses between one purchase and the next, the initial choice of PL in durable goods categories is crucial and depends on previous experience of other PL product categories (Zielke & Dobbstein, 2007). Retailers are so confident in their ability to satisfy customers' needs and in the quality of the products they supply that they expect re-purchases of PL, thereby increasing customer familiarity (Alba & Hutchinson, 1987; Coupey, Irwin, & Payne, 1998), and resulting in a positive attitude towards PL (Richardson, Jain, & Dick, 1996). Anderson, Fornell, and Lehman (1994) define satisfaction as an overall assessment of customer experience over time, or of a set of similar-type experiences. More recent contributions take a much broader approach, suggesting that satisfaction is an overall assessment of the experience as owner or customer of a product or service (Fullerton, 2005; Yu & Dean, 2001). When customers view the experience in a positive light, scholars refer to

this concept as satisfaction (Batra & Sinha, 2000; Roselius, 1971; Sethuraman & Cole, 1999). H1. Experience with PL CG has a direct, positive impact on customer satisfaction with PL CG. Chaudhuri and Holbrook (2001) define brand trust as the willingness of the average customer to rely on the brand's ability to perform its function. Satisfaction is an attitude deriving from experience with another individual or entity. Undeniably, a certain amount of positive experience with a person or organization will at least support the development of trust towards such a person or organization. In customer-supplier relationships, the literature supports a strong relationship between customer satisfaction and trust (Anderson & Narus, 1990; Garbarino & Johnson, 1999). Therefore, the higher the degree of consumer satisfaction with PL products and services with which customers have some kind of bond, the greater the trust in the brand (Ganesan, 1994; Selnes, 1998). H2. Satisfaction with PL CG has a direct, positive impact on trust in PL CG. The RM literature widely acknowledges commitment as an integral part of any long-term business relationship (Gundlach, Achrol, & Mentzer, 1995; Morgan & Hunt, 1994). In most cases, scholars describe RM as a kind of lasting intention to build and maintain a long-term relationship (e.g. Dwyer, Schurr, & Oh, 1987; Moorman, Zaltman, & Deshpandé, 1992). Trust diminishes perceived risk and vulnerability in a relationship, which leads to greater commitment to the relationship (Ganesan, 1994). Following Chumpitaz and Paparoidamis (2007), and Garbarino and Johnson (1999), the present study examines trust as a precursor of commitment. H3. Trust in PL CG has a direct, positive impact on customer commitment to PL CG.

Satisfaction, trust, and commitment are outcomes of implementing RM. These three factors are the precursors of loyalty (Chumpitaz & Paparoidamis, 2007; Mittal & Kamakura, 2001; Moorman, Deshpandé, & Zaltman, 1993; Morgan & Hunt, 1994; Oliver, 1997), and develop into the strategic goals of companies (Aurier & Gilles, 2012a).

Oliver (1999, p. 34) defines loyalty as, "... a deeply held commitment to rebuy or repatronise a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing." This definition highlights the two different aspects of brand loyalty appearing in earlier works on attitude and behavioral concepts (Aaker, 1991; Jacoby & Kyner, 1973; Oliver, 1999). True loyalty is an attitudinal commitment to the brand and repurchase intention (Chumpitaz &

Paparoidamis, 2007).

The relationship between customer brand satisfaction and brand loyalty appears extensively in the literature (Bitner & Hubbert, 1994; Oliver, 1999), with brand satisfaction being the most important antecedent of loyalty (Fornell, 1992). One of the more relevant premises for a PL to establish loyalty is the brand's ability to fulfill promises to its customer base. The continuing fulfillment of promises usually leads to a long-term profitable relationship between a retailer and its customers (Pepe et al., 2011). In such cases, the customer trusts the retailer's ability and motivation to behave in the expected way (Jarvenpaa, Tractinsky, & Vitale, 2000).

H4. PL satisfaction in CG has a direct, positive impact on PL customer loyalty in CG.

H5. PL trust in CG has a direct, positive impact on PL customer loyalty in CG.

H6. Commitment to PL CG has a direct, positive impact on PL customer loyalty in CG.

Brand extension, or brand stretching, is one of the growth strategies that distributors use when they are attempting to exploit PL equity by increasing the number of PL product categories, despite many of these new categories being non-traditional, as is the case of DG in this research

paper. The brand extension strategy can also optimize relationships with customers (Scott & Halligan, 2002).

Brand equity includes multiple dimensions such as brand awareness, brand image and associations, and brand loyalty (Aaker, 1991; Keller, 2008). Abundant research on brand extension establishes a link between the first two categories of brand equity (Broniarczyk & Alba, 1994; Dacin & Smith, 1994; Keller & Aaker, 1992). Nonetheless, few studies analyze the effect of brand loyalty on customer assessment of retail brand extension. Exceptions to the rule are the studies by He and Li (2010), and Hem and Iversen (2003), which report that brand loyalty has a positive effect on the assessment of brand extension.

When retailers extend their PL to a new product category, customer loyalty to the parent brand indicates a good chance that the same retailers will try the extended brand, as long as loyalty remains within some reasonable limits (Reast, 2005). Brand loyalty refers to general preference towards the parent brand, whereas brand extension assessment is a product-specific brand attitude, specifically referring to purchase intention.

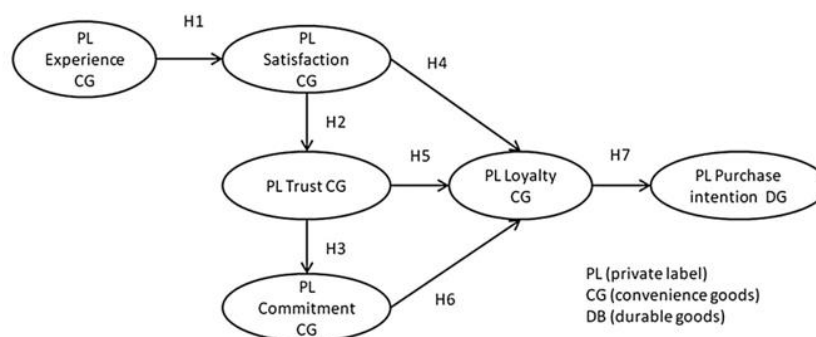


Fig. 1. Model.

H7. Loyalty to PL CG has a direct, positive impact on PL DG purchase intention.

Fig. 1 shows the model and hypotheses.

3. Methodology

The sampling frame for data collection is all individuals between 18 and 70 years old. The survey covers 434 respondents that random interception selects in two high traffic commercial areas in three major Spanish cities, using age-stratified sampling. Fieldwork took place in May 2011, yielding 434 valid questionnaires. All variables in the questionnaire work with 7-point Likert scales (1 = Low to 7 = High), from earlier studies (see Table 1). Scales refer to PL in general (with no PL brand specification). To

facilitate generalization of the results, the survey examines purchase intention for two different DGs (a television and a washing machine), considering the mean for each scale item.

Assessment of the reliability and validity of the measurement

instruments begins with confirmatory factor analysis using maximum-likelihood estimation of the six factors above. Items with factorial loadings of below 0.6 or those that the Lagrange multiplier test highlights do not feature in the model. Factorial

loadings are statistically significant and above 0.6, thus confirming convergent validity (Table 2). Assessment of reliability involves calculating, for each factor, Cronbach's alpha, the composite reliability index, and the average extracted variance. The results show acceptable levels of reliability and convergent validity. Discriminant validity also receives confirmation because the confidence interval for the estimation of the correlation between each pair of factors does not include the value 1, and the mean extracted variance for each factor is greater than the square of the correlation between each pair of factors. During this process, commitment to PL results in one single-item scale.

Conclusions

Nowadays, most of the development in the PL sector is taking place in the grocery and drugstore sectors, and various studies show that PL product purchase intention depends on the type of product (Batra & Sinha, 2000; Semeijn, Van Riel, & Ambrosini, 2004). As the results of the present study show, however, adequate management of PL in the most familiar product categories to the customer can be an RM tool. If the experience with these categories generates satisfaction, which is the consequence of adequate RM management, consumers will develop trust and commitment, as well as loyalty, toward the PL in these categories, with greater acceptance of PL in completely different product lines such as DG. As perceived risk is a pivotal aspect of customer behavior (Taylor, 1974), any actions serving to mitigate risk in the choice would increase customer PL purchase intention (Bao, Bao, & Sheng, 2011).

Efforts to ensure quality and consistent functional characteristics of

PL convenience goods, together with the development of premium PLs that target a more discerning public, are leading to a generally favorable attitude towards PLs, with improvements in brand image and higher levels of customer trust in such brands and their promoters. As the literature shows, PL market share expands and contracts asymmetrically, with greater growth during periods of recession and only partial decline during intervening periods of economic growth (Gooner & Nadler, 2012; Hampson & McGoldrick, 2013). This finding suggests that periods of recession boost customers' willingness to try PLs, and that, during subsequent periods of economic growth, if the retailer manages to satisfy customer needs, customers will remain loyal. Adequate PL management in traditional categories is the cornerstone of RM. This good management increases the number of dealings between company and customer (loyalty), due to a higher degree of customer trust and satisfaction.

The retailer must encourage the purchase of own brands in CG, by,

for example, including them in promotional catalogues, as some retailers are already doing. Results show that experience with PL in CG positively influences the degree of satisfaction with PL in these goods, with satisfaction being a decisive variable in PL loyalty and intention to buy new PL categories. Given that, in most cases, a retailer uses a different name for the PL of CG from that of DG, the retailer has to stress that both PL names belong to the same entity. The brand extension literature suggests that the parent brand's image has a stronger impact on attitudes towards the extension when promotion of the brand receives support from advertisements about either the parent brand or the brand extension (Martínez, Montaner, & Pina, 2009).

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