

A Customer Equity Management Model for Private Brands: Store Equity Diffusion and the Moderating Effects of Image Fit

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Abstract. This study focuses on wholesale stores in Taiwan to investigate how store equity affects private brand image to further influence consumers' purchase intention and customer equity. The moderating effect of image fit on the relationship between store image and private brand image is also examined. Based on the previous literature, a customer equity management model for private brands is presented. The model can serve as a reference framework for wholesale stores with private brands to manage their customer equity.

Keywords: Private Brand, Store Equity, Customer Equity, Image Fit.

1. Introduction

For businesses, how to use adequate and effective strategies to satisfy customer needs has become an important issue. Brand is a factor affecting consumers' buying decisions (Keller, 1993). So far, a considerable amount of research has also been dedicated to brand management (Aaker, 1996; Keller, 1993; de Chernatony and McDonald, 2003; Kapferer, 2004). After the first private brand became a success in England (Richardson, Jain, and Dick, 1996a), many private brands emerged in other parts of Europe. Liljander, Polsa and Riel (2009) mentioned that retailers, particularly those in European nations, have achieved a quick growth of market shares for their private brands, and many higher-priced private brands have gradually become a menace to manufacturer brands. A report released by Nielsen (2010) shows that one-third of internet survey candidates around the globe now view store brands as an alternative to manufacturer brands. This tendency explains why many retailers promote their private brands and have less reliance on manufacturer brands (Richardson et al., 1996a).

According to Nielsen (2010), private brands are viewed as a primary choice by consumers in European, Pacific, and North American regions. In Taiwan, the top three wholesale stores have their private brands and have generated a high ratio of revenue from them. In 2009, Carrefour had more than 20% of its revenue contributed by private brands, while RT-MART and Geant had more than 10% respectively. In the face of increasing competition, they have to constantly release new products carrying their own brands to consolidate their competitive advantages. Private branding is an opportunity for them to create their own brand image and differentiate themselves from competitors (Nielsen, 2010).

Previous research of store equity indicates that consumers' evaluations of a private brand are affected by store image (Semeijn, Allard, and Ambrosini, 2004). Store image involves a number of attributes, including product functions, the store's promotional ability, advertisement, and etc. (James, Durand and Dreves, 1976; Lindquist, 1974). Previous research (e.g., Grewal, Krishnan, and Norm, 1998; Hildebrandt, 1988) has found that store image can be used to predict consumers' choice of retailer. Dodds, Monroe, and Grewal (1991) mentioned that explicit attributes, such as store name, also have stronger effects on consumers' purchase intention. In other words, store image is a determinant of consumers' purchase intention. Hartman and Spiro (2005) stated that businesses can use marketing activities to strengthen consumers' perceptions of a store's image and reputation to further influence their purchase decisions. In addition, customer equity can be viewed as consumers' long-term or lifetime contributions to a business, which is also a long-term behavior. It has been documented that purchase intention is an important indicator of consumer behavior (Reynolds and Darden, 1974). Therefore, it is necessary for businesses to find out how to promote customer equity by increasing their purchase intention. According to Rust, Zeithaml, and Lemon (2001), understanding which

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factors (e.g., store equity, private brand image) can motivate customers to purchase and bring long-term benefits (e.g., purchase intention, customer equity) is a key to success for businesses. Developing a private brand through enhancing store equity has become an important strategy for retailers (Wu, Yeh, and Hsiao, 2011). Thus, this paper will investigate how store equity affects private brand image and purchase intention to further increase customer equity.

The recent years have seen a large quantity of private brands across all product categories. In fact, many businesses have failed in the launch of their own brands. Previous research has shown that brand extension failures are likely to occur when the fit between brand image and extension products is low (Leong, Ang, and Liao, 1997; John et al., 1998). Keller and Aaker (1992) found that businesses with a better image can better extend a brand to other product lines. It can be inferred that a wholesale store with a better store image is more likely to succeed in the launch of its own brand. That is, the effects of store image on private brand image are stronger if the two are more coherent. Therefore, this paper will consider image fit as a moderator to investigate its effects on the relationship between store image and private brand image. A considerable amount of research has shifted their attention to store equity issues (e.g., Jara and Cliquet, 2012; Diallo, 2012). However, no research has attempted to investigate customer equity management from the perspective of store equity diffusion. Thus, this research is expected to fill this gap in the research of private brands.

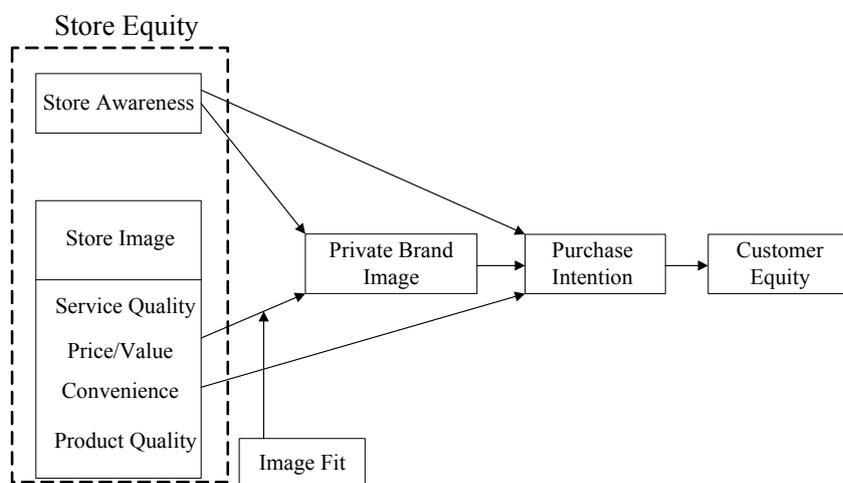


Fig. 1: Research model.

2. Model and Hypotheses

Based on the dimensions of store equity introduced by Hartman and Spiro (2005), this paper will explore the effects of store equity on private brand image, purchase intention, and customer equity. The research model considers store awareness and store image, in addition to private brand image, purchase intention, and customer equity. The concept of store image proposed by Jinfeng and Zhilong (2009) is employed. According to Vahie and Paswan (2006), this paper also views product quality as an element of store image. Furthermore, as physical facilities, such as play facilities and store appearance, are neither primary factors affecting consumer choice of wholesale store nor focuses of wholesale store operations (E-ICP, 2008), they are excluded from the store image dimension. Moreover, institutional factors, such as store reputation, are conceptually similar with store awareness. Thus, institutional factors are also excluded from the store image dimension. Finally, the store image dimension consists of only four elements, including service quality, price/value, convenience, and product quality. Based on this model, this paper attempts to examine whether diffusion of the effects of store equity can enhance private brand image to further increase purchase intention and customer equity. Moreover, this paper will also examine the moderating effects of perceived fit on this relationship. The research model is illustrated in Fig. 1. The research hypotheses are developed as follows:

In this paper, store awareness is defined as “the degree to which a store is known in its industry or in the society” (Hartman and Spiro, 2005). Store image is defined as “the way in which consumers perceive the store based on its functional qualities and environmental attributes” and covers service quality, price/value, convenience, and product quality (Martineau, 1958). Private brand image is defined as “the image of products sold under the name or a label of a store.”

Store awareness is important for customers and businesses because it means the image of a store in the mind of consumers. Consumers would then use the store image as one of the extrinsic cues to judge the private brand (Collins-Dodd and Lindley, 2003). When consumers have a high perception of a store image, it creates a positive effect on the brands carried by the store (Dhar and Hock, 1997). It has been documented that store image affects consumers' evaluations of a private brand owned by the store (Semeijn et al., 2004). The findings in Collins-Dodd and Lindley (2003) indicate that consumer perceptions of a store's image are significantly related to the store's private brand image. Martineau (1958) proposed that service quality has positive effects on consumers' evaluations of a private brand. Additionally, the less money (or time) that consumers pay for or the more value that they can get from a private brand, the better their evaluation of a private brand will be (Collins-Dodd and Lindley, 2003; Vahie and Paswan, 2006). Unlike convenience stores, wholesale stores cannot be seen on every street corner. The empirical evidence in Vahie and Paswan (2006) has confirmed that a store's overall product quality has positive effects on consumers' perceptions of the store's private brand image. It can be summarized that both store awareness and store image have a positive effect on consumers' evaluations of a store's private brand image. Thus, this paper proposes the following:

Hypotheses: (1) Store awareness; (2) Store service; (3) Store price/value; (4) Store convenience; and (5) Store product quality has a positive effect on private brand image.

It has been pointed out that store awareness is a major factor affecting consumers' product choice and purchase intention (Macdonald and Sharp, 2000). Store personnel's instant service can enhance consumers' purchase intention (Aaker, 1991). Price and convenience are also factors affecting consumers' purchase of private brand products (Lichtenstein, 1998). Overall, store image (i.e., store service quality, store price/value, convenience, and product quality) is influential to consumers' pre-purchase behavior. This is why businesses use various marketing activities to increase consumers' awareness of their store and recognition of their image (Hartman and Spiro, 2005). Thus, this paper proposes the following:

Hypotheses: (6) Store awareness; (7) Store service quality; (8) Store price/value; (9) Store convenience; and (10) Store product quality has a positive effect on purchase intention.

In this paper, purchase intention is defined as a "consumer's likelihood to buy a store's private brands" according to Dodds, Monroe, and Grewal (1991), and customer equity is defined as "the lifetime value of customers buying a store's private brands" according to Rust et al. (2001). The evidence in Kamins and Marks (1991) shows that consumers have a higher intention to buy products with a better brand image. A positive private brand image can lead to more image-related thoughts and greater purchase intention (Aaker, 2002). Moreover, Reynolds and Darden (1974) argued that purchase intention is more effective than purchase preference in predicting consumer behavior (Fishbein and Ajzen, 1975), and empirical evidence has shown that purchase intention has a significant effect on actual purchase behavior (Wilson et al., 1975). In other words, purchase intention is likely to have a direct effect on factors of customer equity, such as spending, period, and probability. Therefore, this paper proposes the following hypotheses:

H11: Private brand image has a positive effect on purchase intention.

H12: Purchase intention has a positive effect on customer equity.

According to Park et al. (1991), this paper defines perceived fit as "the similarity or consistency between store image and private brand image." Aaker (1990) mentioned that when the extension and the parent brand have highly related benefits and appeals, consumers will transfer their perception of the parent brand to the extension and also have deeper impression of the parent brand. The positive relationship between perceived fit and favor for the extension has been found among tangible products (e.g., Boush et al., 1987), services (e.g., van Riel, Lemmink, and Ouwersloot, 2001), and brands (e.g., Smith and Andrews, 1995). Park et al. (1991) suggested that consumers consider not only category similarity but also image consistency in their evaluation of fit between an extension and its parent brand. A higher fit has more positive effects on the extension. Martinez, Polo, and Chernatony (2008) found that perceived fit moderates the relationship between brand image before extension and brand image after extension. Salinas and Pérez (2009) showed that consumers' attitudes toward a store is positively affected by image fit. This paper applies the concept of image fit to the relationship between store image and private brand image to explore its moderating effects. Thus, this paper proposes the following hypotheses:

H13a: Image fit moderates the relationship between (a) service quality; (b) price/value; (c) convenience; and (d) product quality and private brand image.

3. Conclusions

A primary contribution of this study is to develop a customer equity management model for private brands. This research focuses on wholesale stores in Taiwan to investigate how customer equity affects private brand image to further influence consumers' purchase intention and customer equity. The moderating role that image fit plays in this causal relationship is also examined. Findings of this research can be a reference for retailers with a private brand in customer equity management.

4. References

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