

# Chapter 6

## Evolving the Private Label Role in the Retailer– Customer Relationship: Antecedents and Impact of Premium Private Labels on Customer Loyalty to the Retailer

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### ABSTRACT

*The chapter focuses on the role played by Private Labels (PLs) in the retailer-consumer relationship. Specifically, the results of a survey aimed at investigating the ability of a specific kind of PL, namely Premium Private Label (PPL), to improve customer loyalty to the retailer are presented. After reviewing the literature on the PLs' role in the retailer-customer relationship, a theoretical model is proposed and tested by administering a questionnaire to a sample of retail customers and then applying structural equation modeling. Four key components of PPLs' image, namely quality, assortment, access, and value, are studied as antecedents of customer satisfaction to the PPL, while customer loyalty to the PPL is considered as a mediator between customer satisfaction to the PPL and customer loyalty to the retailer. Results show that PPLs positively impact on customer loyalty to the retailer through a causal relationship driven by PPL quality and PPL value.*

### INTRODUCTION

Private labels (PLs), also named as store brands or retail brands, are generally brands owned, controlled, and sold exclusively by one retailer

under its own brand name (Sethuraman & Cole, 1999). The PL importance in the grocery sector has enormously increased over the past two decades, especially within Europe's shoppers. The Private Label Manufacturers Association (PLMA, 2012)

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states that PLs now account for 40% or more of the products sold in six countries: Switzerland (53%), Spain (49%), United Kingdom (47%), Portugal (43%), Germany (41%) and Belgium (40%). In Italy, where the study reported in this chapter was conducted, PLs possess a lower market share, equals to 20%, but show increasingly higher rates of growth (SymphonyIRI Group, 2012).

PLs have grown in availability and market share, thanks to the following driving factors: firstly, the increasing level of concentration in retailing, which enables grocery chains to offer own brands, as this policy requires economies of scale to be purposed; secondly, a much more positive consumer's attitude towards PLs in general, thanks to an increase in their quality perceptions (Steenkamp, Van Heerde, & Geyskens, 2010); thirdly, their price convenience in comparison with national brands (NB), factor particularly critical during the current economic crisis that has contributed to consolidate the PL as a purchasing reference (Nielsen, 2011) and to increase its value. In 2011, the European PL food market reached €436 billion (PlanetRetail, 2011).

Traditionally, these products have been generally positioned as low price/good value for money offerings as for the perceived quality differential with NBs. But the PL role has greatly evolved over time: the width of PL offerings has enlarged and these products are now present not only in almost any Fast Moving Consumer Goods (FMCG) category, but also in the non-food ones (e.g. clothes, appliances, etc.) and in services (travel booking, broadband communications, etc.). At the same time, the depth of PLs offerings has increased and different lines of store brands have been introduced by retailers in order to satisfy consumers' demands in different market segments (Sayman & Raju, 2004). New types of PLs are now present on the shelves and some of them are explicitly directed at significantly improving perceived quality as they tend to use the same creation codes as NBs (Burt, 2000). On the basis of positioning differ-

entiation, store brands can now be divided into 2-tier (Yang & Wang, 2010) or 3-tier (Lamey, Deleersnyder, Dekimpe, & Steenkamp, 2007) PLs. Under this strategy, Premium Private Labels (PPL) are gaining an increasing interest. In Italy their market share accounts for 5.1% of PLs and they show a strong market potential. PPLs are defined as "consumer products, produced by or on behalf of retailers with high quality and priced close to national brands, that contribute to differentiating the retailer from its competitors" (Huang & Huddleston, 2009, p. 978). Examples are Tesco's "Finest" in UK, Loblaw's "President's Choice" in Canada, Esselunga's "Top" in Italy. In order to achieve a "premium" positioning for their products, retailers are investing in appealing packaging and in advertisement on the media, as well as in store brand retail outlets (Lincoln & Thomassen, 2008).

Within this context, the present chapter focuses on the role played by PLs in the retailer-consumer relationship and presents the results of a survey aimed at investigating the ability of PPLs to improve retailer brand loyalty. As a matter of fact, PPLs are an important tool that grocery retailers are recently using to upgrade the chain's image and strengthen customer loyalty to the retailer as a brand. Consequently, it would be useful to give support to this strategy verifying the role of PPLs in the formation of customer loyalty to the retailer as extant literature does not provide sufficient empirical proof of this relationship. Moreover, the present literature lack in verifying the determinants of customer satisfaction with PPLs. Hence, our research questions are as follows: does customer loyalty to the PPL transform into customer loyalty to the retailer? Which are the PPL characteristics that impact on customer satisfaction with PPLs? Does customer satisfaction with PPL translate in customer loyalty to the PPL? And ultimately: does this loyalty to the PPL transfer to customer loyalty to the retailer? To address these issues, this paper proposes a theoretical model, testing

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