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► **To cite this version:**

Patricia Coutelle, Pierre Desmet. Store brands and overall store price image. Australian and New Zealand Marketing Academy (ANZMAC) Conference, Dec 2006, Brisbane, Australia. hal-02275036

HAL Id: hal-02275036

<https://hal.science/hal-02275036v1>

Submitted on 30 Aug 2019

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Store Brands and Overall Store Price Image

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Abstract

Store price image is a particularly important competitive tool for retailers. This variable, measured from consumers' perceptions, proved to be a determining factor of store frequentation but presents difficulties to manage. In this article, we aim at testing the influence of particular store brands, named generic brands, on overall store price image. These generic brands have been developed in retailers' assortment to countervail the emergence of hard-discount stores. To operationalize this research question, an inter-subject experimental design is conducted from ads representing three scenarios (no generic brand, one generic brand and two generic brands). Data are collected through the Internet from MBA students and are analysed with MANOVA followed with univariate ANOVA. Results show that replacing national brands with generic products on a flyer has a significant and positive effect on the low price image of the store.

Introduction and Purpose

Several factors explain store choice, but some of them among the most important are difficult to change as they result from strategic decision (e.g. distance to the store). Price perception is still an important variable in the store choice decision (Buyukkurt and Buyukkurt, 1986; Cox and Cox, 1990; Desai and Talukbar, 2003; Srivastava and Lurie, 2004) but can be influenced by retailer's decision.

Store price perception, labelled "overall store price image" (OSPI) since the 1975 Journal of Retailing special issue, is sometimes measured from objective store attributes (Buyukkurt and Buyukkurt, 1986) but more often from consumer perceptions. It is a central concept in retailing, especially because store location is becoming less important with more mobile consumers that frequently visit two or more stores and are able to compare prices.

For decades hypermarket stores have been the dominant store format in Western Europe with a Hi-Lo pricing strategy, large stores and large assortment. Recently another concept grew rapidly, the "hard-discount stores" with small stores, limited assortment and very low prices (EDLP). As hard-discount stores market shares represented already 9% in 2000 and now account for 13.3% (Management Journal, February, 2006), they become major competitors for medium sized hypermarket stores as their "low price" image is clearly undercutting the hypermarket discount positioning. Hypermarket and supermarket chains have different reactions concerning the development of hard-discounters. Some of them increase the number of national brands and make promotions to improve store price image. Others react in improving store brands and generic brands in the assortment. This situation could be compared to the Australian retailing context because "price competition among supermarkets and discounters intensifies as discounters continue to put pressure on supermarkets to reduce product prices" (Euromonitor International, 2006).

Hypermarket stores are then searching to retain their customers by improving their OSPI. It can be done with decisions regarding prices, sales promotion, product assortment and store lay out and atmosphere. As direct pricing decision (lower margin) for the whole assortment seems unfeasible, communication on prices can be a solution in addition to the extension of assortment towards low prices.

Many retailers appears to view themselves as active marketers of their own store brand (Richardson and al., 1994) and store brands could help to project a good store image (Collins-Dodd and Lindley, 2003). Although market shares of store brands have steadily increased (Dunne and Narasimham, 1999) they represent mainly a response to national brands and an important margin source. As their prices are often much higher than for HD store brands, they cannot help resist against hard-discount stores. So retailers propose generic brands, lowest quality and very low price, in order to influence OSPI especially for price-sensitive consumers attracted by hard-discount stores.

The problem statement guiding this study is: can an hypermarket store retain its low price oriented customers by presenting more generic brands in its communication ? Can this strategy have adverse effects on the perceptions of regular hypermarket customers more sensitive to sales promotion on high quality products ? More precisely, the research question is: does the presence and the number of generic brands in a selected product assortment communicated by a store influence its OSPI ?

Overall Store Price Image

The definition of overall store price image (OSPI) has converged to « *a global representation of a relative level of prices on store* » (Martineau, 1958; Buyukkurt and Buyukkurt, 1986 ; Mazursky and Jacoby, 1986 ; Keaveney and Hunt, 1992 ; Cox and Cox, 1990 ; Simester, 1995). However, several approaches have been used to operationalize this definition. Measures can be grounded in objective characteristics of store (Buyukkurt and Buyukkurt, 1986) but more often the measure uses consumer's perceptions, with a unique item (Feichtinger and al., 1988) or with a multidimensional scale (Simon, 1989; Diller, 2003).

Research has shown that store price image is complex and can be evaluated from different points of view depending of the nature of the customers' price perceptions. Dimensions of OSPI are not yet stabilized and include several sub-dimensions such as price level (price difference for the same product between stores), savings and sales promotion (price difference for the same product at different time) or low prices (minimum total basket price) (Simon, 1989 ; Cox and Cox, 1990; Coutelle 1999; Srivastava and Lurie, 2004). In this research, we use two dimensions coming from the three dimensional scale developed by Coutelle (1999), namely "*Value*" (consumers perceive a low store price image because of the good price/quality ratio) and "*Low Price*" (consumers perceive a low store price image because they can buy at very low prices). We don't consider the third dimension named *basket* (consumers perceived a low price image because products basket's price was low) because it's an aggregated dimension and our experimental design only takes into account one class of products.

Product Assortment and OSPI

Brands and especially store brands have a great importance in the formation of store image (Jacoby and Mazurski, 1984) and can help project a lower-price image for retailer (Narasimhan and Wilcox, 1998). Moreover, advertised reference prices can help to create a

low overall store price image (Cox and Cox, 1990). A discount retailer can thus credibly signal its low costs for other products by advertising prices of selected items (Simester, 1995).

In this paper, we test the influence of the presence and the number of generic brands on a flyer on store price image. As store image and consumer experience can interfere with this measurement process (Gupta and Cooper, 1992), we choose to hide the store name.

The theoretical framework comes from reference price theory extended from product perceived price to store price image. Reference price is a composition of internal reference price formed by experience and external reference price brings by communication and environment (Briesch and al., 1997). Facing several prices, a consumer has to aggregate price information into a single reference price and can use two processes to do so. Either he can compute an average price from the whole set of prices and then compares it with an internal reference price. This assumption can be traced to Helson's Adaptation Level Theory (1964). Or he can focus on extrema, select lower and upper bound of the price range and evaluates market prices attractiveness as a function of their ranks within this price range as suggested by range theory (Volkman, 1951; Janiszewski and Lichtenstein, 1999).

We rely on reference price theory to propose that increasing the number of generic brands on the flyer will influence the price image through external reference price formation. In the experiment, composition of the advertised product assortment varies in the number of national brands (4 products; 3; 2) versus generic brands (0; 1; 2). This manipulation lowers average price and increases the price range.

It may have contrasted effects regarding OSPI dimensions: increasing the number of low prices should improve low price dimension; but as generic brands will replace national brands, the lower the number of national brands, the fewer the opportunities to have good prices on quality brands. So value (price/quality ratio) dimension of OSPI could be reduced. So, we expect:

H1: increasing the number of generics brands has a positive impact on "low price" dimension of overall store price image.

H2: decreasing the number of national brands has a negative impact on value (price/quality ratio) dimension of store price image.

Consumers' heterogeneity can moderate the manipulation results. It is expected that regular Hard Discount customers, with a positive attitude toward discount store, are more price sensitive. Time constrained shoppers visit more likely EDLP stores (Popkowski, Sinha and Sahgal, 2004). Perceived price unfairness of national brand is a significant determinant of price consciousness and is also a significant reason why consumers buy store brands (Sinha and Batra, 1999). Moreover, a measure of consumer's attitude towards private label brand suggests that consumers may choose between price-related deals and private label purchase (Burton, Lichtenstein, Netemeyer and Garretson, 1998). Thus we expect that consumers having a positive attitude toward hard-discount stores will be more prices sensitive, will focus on lowest prices and buy particular store brands named generic brands. So we suppose that:

H3: increasing the number of generic brands will have a stronger positive effect on low price dimension if consumers' attitude towards hard discount (HD) store is positive.

Research Design

Methodology

Hypotheses are tested with an inter-subject experimental design with three treatments, respondents being randomly affected to one treatment. The protocol is the following: respondents are exposed to a flyer presenting pictures of six products with their prices. To bypass the moderating effect of perceived image for a known store (Gupta and Cooper, 1992), the store name is not mentioned. Product assortment on the flyer is divided into three groups from highest to lowest prices: National brands, Store brands and Generic products. Manipulation consists in replacing national brands with generic products, total product number and number of store brands as well remaining constant. Treatment one has four national brands two stores brands and no generic brands (4,2,0); Treatment two has three national brands and one generic brand (3,2,1); Treatment three has an equal number of products in each group (2,2,2). Treatments one and two differ on price range boundaries (from 1.27 euros to 1.99 euros for treatment one, from 0.40 euros to 1.99 euros for treatment two) and treatments two and three differ on price averages (1.226 euros for treatment two, 1.113 euros for treatment three). Product class is orange juice because of the moderate to low level of involvement in the purchase decision process (mean = 1.24 on a five points scale) and because of the presence of strong national brands simultaneously with very cheap generic products.

Measurement and Data

Data are collected through the Internet from MBA students in 2006. After deletion of uncompleted documents, a total number of 212 questionnaires have been collected: 72, 69 and 71 respectively for each of the three treatments. Answers on each item are measured with five point Likert or bipolar scales. Each dimension of OSPI is measured by the mean of two items. Items are significantly correlated for value dimension (Pearson=0.342, $p<.000$) and for low price (Pearson=0.456, $p<.000$). Factor analysis with Promax rotation indicate significant correlation between the two dimensions (0.355), loadings of items over their dimension being higher than 0.5. But one item of the value dimension has also a high loading on the low price dimension. Attitude towards discount stores is measured by principal component value of a three items scale, the reliability of which is acceptable (Cronbach alpha=0.815) and no factor loading is lower than 0.5.

Results and Discussion

Data are analysed by MANOVA followed by univariate ANOVA. Each of the two OSPI dimensions (Value, Low price) are explained by treatment level, covariate (attitude toward hard discount AHD) and interaction between treatment and AHD.

Attitude towards hard-discount is positively and strongly correlated with HD visit (Pearson =0.746). Respondents are split (median) regarding the frequency of visits in HD stores. HD regular customers have a positive attitude towards HD (means 0.65 versus -0.70, $F=178.86$, $p<.000$), are more sensitive to price (means 0.57, -0.53, $F= 90.64$; $p<.000$) and less sensitive to brand (means -0.34, 0.32; $F=26.28$; $p<.000$).

Multivariate ANOVA indicate an overall effect (Wilks lambda =0.368; $F[4,410]=66.40$; $p<.000$) for treatment. Separate ANOVA indicate that the two dimensions of OSPI are modified by the manipulation: first low price ($F=57.83$, $p<.000$) but also value ($F=24.64$,

$p < .000$). Attitude toward hard-discount and interaction are also statistically significant. Marginal means from the MANOVA are in increasing order with number of generic brands in the treatment for low price dimension (2.527; 3.492; 4.102 respectively). The three levels of treatment are significant for low price ($F=126.72$, $p < .000$). Means are increasing with treatments and differences are statistically significant. So Hypothesis H1 is supported. As far as value is concerned, the overall effect of treatment is significant ($F=44.33$, $p < .000$) and in the expected direction with an increase. Marginal means are (2.464; 3.269; 3.165 respectively). Only the difference between no generic and one generic or more is significant. So hypothesis H2 is not supported: at least a few generic products are necessary to create a good OSPI even on the value (price/quality dimension).

Attitude towards HD has a significant negative effect on means for OSPI low price ($\beta = -0.259$; $t=-4.06$) and for value ($\beta = -0.204$; $t=-3.47$). Interactions are significant for the two dimensions with a positive effect.

Signs of the coefficients indicate that relationships are in the expected direction: mere presence of at least one generic product in the assortment significantly improves two dimensions of OSPI. Furthermore increasing the number of generic products from one to two, and simultaneously decreasing the number of national brands, still reinforces the low price dimension. But this factor has a threshold effect on value dimension which means that retailers need at least a few generic brands to improve OSPI.

Discussion

This research shows that replacing national brands with generic products on a flyer has a significant and positive effect on the low price image of the store. This result confirms the importance of ads in forming the store price image, as Cox and Cox (1990) and Simester (1995) have already shown in their study. Retail managers should pay more attention to flyers or other form of advertising, because these tools seem to embody the first store reference price and could be the principal tactical variable able to change the store price image.

Our findings are also significant concerning dimensions of store price image. The presence and the number of generic brands have different impacts on the two dimensions of price image. This result confirms the multidimensionality of store price image (Simon, 1990; Coutelle, 1999). It also confirms how complex this concept is to manage. Managers should conduct important studies to know which dimensions are privileged by consumers in their store to activate the right stimuli.

As expected, Hard Discount regular customers have a positive attitude towards Hard Discount and are more sensitive to prices. We show that these variables moderate of the relationship between generic brands and OSPI. A segmentation of customers with multi-frequentation behaviours could help retail managers to form their OSPI.

Finally, we note some limitations of this paper which in turn offer opportunities for further research. First, we only used one advertising tool to show the effect of generic brands on OSPI. Future research should take into account others advertising tools such as corporate advertising, placarding, sales-promotions. Furthermore, we only examined two dimensions of store price image because we take only one product into account. A global study in different type of stores has to be conducted to generalize these first results. Finally, our sample was limited to MBA students and we aim at validating these hypotheses with a representative sample.

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