Corporate Image in Retailing

Rita Martenson¹
Marketing Department, University of Gothenburg, Sweden

¹ Professor Rita Martenson, Marketing Dept, HGU, Box 610, SE40530 Goteborg, Sweden. E-mail: Rita.Martenson@handels.gu.se
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Abstract. Leading grocery retailers in Europe as well as in the U.S. have consistently and often successfully launched store brands. Gradually, leading grocery manufacturers have lost their dominating position on the market and more than 50% of them (in the U.S.) also make store brands. Why, then, would consumers prefer more expensive traditional brands if there are store brands on the market manufactured by the same company? Do consumers have a reasonable opportunity to actually make a deliberate choice of manufacturer versus retailer brands, i.e. can they correctly assess the quality and value of different brands. A review of earlier theoretical contributions show that it is almost impossible for consumers to make accurate distinctions between the two groups of brands. The empirical data in this paper (a consumer survey) shows that store image didn’t have the impact that was assumed from the theoretical discussion, maybe because grocery retailers are multibrand retailers and lack brand distinctiveness as opposed to single-brand retailers.
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Introduction and purpose.
This paper deals with store brands as opposed to private labels or generics. Store brands are true brands in the same sense as manufacturer brands, i.e. they are brands in direct competition with manufacturer brands. A major difference between brands and labels is that brands are supported by advertising investments to position and differentiate them by communicating their benefits in ways that match the target group’s motivation/s. Labels are more consistent with the passive role played by retailers some decades ago (cf. private labels). Another characteristic of labels is their reliance on a low price rather than good value to be competitive. Store brands, being in a market build-up phase, use mid-range or premium prices to compete. An interesting comparison between the three leading grocery chains in Great Britain (Sainsbury, Tesco and Argyll) and the three leading chains in France (Carrefour, Promodes, and Casino), showed that developing private labels to store brands has positive effects on profits (INSEAD study reported in Progressive Grocer 1995). Whereas British retailers can advertise their own brands extensively, French retailers are barred from using television advertising. Another difference was in quality. British retailers have a century-long history of offering own quality brands, whereas store brands or private labels in France were introduced as cheap "no frills" alternatives to national brands. The study showed that the higher the share of own brands, the higher the gross margin. Furthermore, leading retailers take an active role as customer advocates as opposed to being mere passive distributors of manufacturers’ brands. This new role makes it important for retailers to develop and manage their store identities in the same way as other leading corporations do. To be a competitive and trusted alternative, retailers must be perceived as an equal alternative (substitute) to manufacturer brands, not only to consumers but sometimes also to other retailers (e.g. Harrison 1999). The former CEO of Johnson & Johnson, James Burke, describes a brand as “the capitalized value of trust between a company and its customers” (Quelch and Harding 1996). More than 50% of U.S. manufacturers of branded consumer package goods make store brands and private labels as well (ibid). British Sainsbury’s Novon and Asda’s Integra (Gordon 1994) and Swedish KF’s Änglamark have been formulated to perform better than leading manufacturer brands in the detergent category. Considering the present circumstances, the most interesting question is why consumers should care whether retailers or traditional manufacturers own and manage the brand. Another important question is how consumers can evaluate brands and consequently accurately judge the differences between manufacturer and retailer brands. If there are real differences in benefits offered, consumers can base their decisions on such differences. However, in most cases, consumer packaged goods brands lack distinguishing features and benefits, and the corporate image of the manufacturer respectively the retailer will therefore play a significant role when consumers choose between brands.

The purpose of this paper is to discuss what opportunities consumers have to actually make a deliberate choice of manufacturer versus retailer brands, i.e. can they correctly assess the quality and value of different brands. The conclusions from this discussion and review of earlier studies provide an answer to the question about the potential for store brands to compete on equal terms with manufacturer brands. Another purpose is to discuss branding in a retail perspective, which includes umbrella advertising and the stretch of a store name to
individual products. Competition between manufacturer and retailer brands can also be said to be a competition between brands with brand-based identity (e.g., Procter & Gamble’s apparently unrelated brands) versus monolithic (single business identity) or endorsed (multi-business identity) brands that most store brands use. Fierce competition and difficulties to differentiate brands in relevant ways have resulted in a concentration of resources to the most important brands in most companies. Thus, advertising and promotion budgets for most major brands are already quite large. Compared with retailer budgets, however, even the largest manufacturers have smaller budgets than the retailer's budgets for umbrella advertising. This is clearly a competitive disadvantage, particularly in cases when retailers have an excellent store image (corporate image), excellent customer relations, as well as the power of shelf-space allocations.

Consumers’ ability to distinguish between manufacturer and store brands. Differentiation is necessary to build customer loyalty and to get profitability (good stable margins). It is no longer enough to have a high quality service or product. Most leading companies have high quality services and products. What matters is that you offer something that is perceived as unique and different from what competitors offer. Thus, **differentiation** is the critical pillar and brands (product brands as well as corporate brands) must be perceived as possessing a distinctive personality with a meaning of its own. While differentiation usually is very strong among the successful brands, it is usually also the first pillar to dissipate for those going bankrupt (Agres 1997). Awareness is another necessary but not sufficient criterion to succeed. Manufacturer brands have more awareness than retailer brands, but the question is what consequences this has for the success of store brands.

To understand how to differentiate brands it is necessary to assess consumer perceptions of brand quality. The cue utilization theory framework is useful in such discussions (see Richardson et al 1996). Brands consist of an array of cues that serve as surrogate indicators of quality to customers. Different cues are evaluated in terms of their predictive value (PV) and confidence value (CV). The predictive value of a cue is the degree to which consumers associate a given cue with product quality and is similar to the diagnosticity of the cue or the reliability of the cue and the likelihood that using it will lead to a successful task resolution. The confidence value of a cue is the degree to which consumers have confidence in their ability to use and judge that cue accurately. Cues characterized by high CV and high PV carry the greatest weight in the quality assessment process. Some cues are intrinsic to the product and others are extrinsic to the product. Intrinsic cues represent product related attributes such as ingredients, which cannot be manipulated without altering physical properties of the product. Extrinsic cues are product-related attributes such as price, brand name, packaging, which are not part of the physical product. The relative salience of extrinsic versus intrinsic cues in quality assessment depends on their PVs and CVs according to the cue utilization theory. Extrinsically, private labels and generics often suffer from deficiencies relative to manufacturer brands, but in the case of store brands, this difference is not as clear or apparent and some store brands are even superior to manufacturer brands. Store brands are usually lower priced than manufacturer brands, and are generally advertised less than them. There is evidence that extrinsic cues such as price and brand name, are more easily recognized, integrated, and interpreted than are harder-to-process intrinsic cues. Extrinsic cues are most likely characterized by high CVs and low PCs, and intrinsic cues are most likely typified by low CVs and high PVs. When consumers have to judge the product quality when cues are characterized by either high CV/low PV or high PV/low CV they take the risk of selecting a poor-quality brand when there are large differences between brands. Consequently, based on the cue utilization theory, it is reasonable to expect that the image of the retailer has a major
impact on customers’ interest in as well as their perception of the retailers’ ability to produce high quality products is predicted by their perception of the retailer in question, i.e. the retailer’s image.

The importance of corporate image in retailing.
Corporate image plays a central role in branding as well as in management studies. The corporate image is created from associations about the company or all the information (perceptions, inferences, and beliefs) about it that people hold. A favorable corporate or brand image provides several advantages, such as the opportunity to command premium prices, buyers as well as middlemen who are more loyal, and there is more positive word-of-mouth. The corporate brand and the product brand play different roles in the organization. The end benefit for the corporate brand is to provide a value proposition or customer relationship based on the organizational associations, credibility to other brands (expertise, trustworthiness, liking), and a vehicle to clarify and crystallize the organizational culture and values inside the organization (Aaker 1996.). Despite such a central position of the image concept and concepts related to it, there is a surprising lack of evidence on how, when, and what types of corporate associations affect product responses.

Dacin and Brown (1997) studied the influence of the corporate associations ‘corporate ability’ (CA) and ‘corporate social responsibility’ (CSR) on consumers’ product evaluations. When consumers have difficulties evaluating a store brand or a manufacturer brand per se, their perception of the company’s ability to produce or be responsible for the production of that product might influence their interest in the brand in question. Consumers’ reliance on extrinsic cues in quality assessment was earlier a clear disadvantage for retailers, because store brands used to suffer from extrinsic cue inadequacies (e.g. packaging). A study by Richardson et al (1994) showed that regardless of the product category or real ingredient differences manipulated, ingredients disclosed to be of national manufacture received significantly more favorable quality assessment than ingredients disclosed to be of store brand origin. They also found that real differences in ingredients between national and store brands had less impact and were more likely to affect consumers’ judgements when the ingredients were disclosed to be sponsored by a national manufacturer. This pattern of interaction was explained within the context of prospect theory (Tversky and Kahneman 1981), that losses loom larger than gains.

The role of leading retailers has changed from being manufacturers’ representatives to be consumers’ advocates in the market, and they enjoy the advantage of being closer to consumers than manufacturers are. When corporate associations provide cues about the likely standing of a new brand, they will influence consumer perceptions of the quality of the brand. A French study showed that the store image offers recognition, familiarity, confidence, and other associations that make it easier for consumers to make the decision to try the product (Dimitriadis and Langeard 1990). Although there is a reciprocal influence between store image and individual store brand image, the influence is stronger from the store to the brand than in the opposite direction. In other words, when consumers have tried the store brand, their opinion about it will have a potential influence on the store image, but it is more likely that the image of the store already influenced consumers’ willingness to try the brand. It was also found that a retailer's corporate brand is not credible for certain types of products, like home appliances or champagne, and that store brands will not be bought for certain high involvement consumption-usage contexts. Combined with the fact that store brands usually command somewhat lower prices than manufacturer brands, they are frequently manufactured by leading manufacturers, and they have superior shelf-allocations, the net result should be a
more than fair chance to attract consumer interest. Consumers may form inference about missing product attributes by drawing a connection between an available piece of information and the missing attribute. One important product attribute that may be influenced by CA associations is perceived value. Consumers’ cognitive associations for a company can be both a strategic asset and a source of sustainable competitive advantage. Several studies demonstrate that corporate image affects consumer product judgments and responses in a positive manner (Dacin and Brown 1997).

Competition between the house of brands strategy and the branded house strategy. Retailers have traditionally pursued a branded house strategy where the main focus has been on the corporate brand. They have thus been able to speak with one united voice. The corporate brand signifies something distinctive about the organization. The corporate reputation is the intangible asset of the organization that is difficult to imitate and that may help to achieve sustained superior financial performance (Roberts and Dowling, 2002). The most well-known company pursuing the opposite strategy, the branded house strategy, is Procter & Gamble. Despite the fact that P&G was the largest advertiser among manufacturers in 2003 its advertising budget was only half of the budgets of the leading grocery retailers. P&G has also been forced to radically revise its original strategy during the last decade and concentrate on fewer brands to remain competitive. Sometimes the corporate brand is less important than product brands, e.g. in the television industry, in publishing, etc. Consumers cherry-pick both TV-programs and books that appeal the most to them. However, in most cases the corporate brand is a valuable asset. A company's reputation can act as a signal that summarizes its past behavior and which can be used to forecast future actions. For an organization to be a persuasive source of communication, it must be perceived as either credible (expert, objective), attractive (likable, similar to the stakeholder) or powerful (authoritative, influential).

Advertising, gross values, 2003:
1. ICA 783 million SEK (largest grocery retailer)
2. Coop 783 million SEK (second largest grocery retailer)
3. Procter & Gamble 413 million SEK.

Methodology
A survey to a nationally representative sample of consumers aged 30-50 years. These age groups are in a life-cycle phase characterized by large purchases of groceries (big families, since their children still live at home) and by relatively seen stable brand relationships. Earlier studies by for example Ehrenberg have shown that younger consumers are much less brand loyal than more mature consumers, and that older consumers are the least interested in trying new products. Consequently, the sample of respondents consists of the age groups that are most interested in both stores and brand suppliers (manufacturer or retailer controlled). A total of 1000 usable answers were returned in time to be included (37% response rate).

Results
Structural equation modeling shows that store image does not have the expected impact on interest in buying store brands offered by the main store. The assumed impact from “perceived ability to manufacture high quality store brands” on “interest to purchase store brands” from the main store was not supported either. General interest to purchase store brands (Store Brands) had only a moderate effect on the “interest to purchase store brands” from the main store. The largest impact (standardized estimate) was found for consumers’ general interest in a store that carries store brands and their interest to buy store brands of non-food items (+.68) and store brands of food items (+.49). Analysis of which role customer
awareness (price awareness, environmental awareness, health awareness, and knowledge) showed that the impact was negligible on store and brand loyalty as well as on general interest to purchase store brands (Store Brands). No difference was found in terms of general interest to buy either food store brands or other products store brands. As expected, consumers who had high brand loyalty were less interested in store brands.

Goodness of fit test: Chi-square=2307, df=1044, p<.00, RMSEA=.035.
Standardized estimates (selection of): image-ability=0.13, image-interest=0.08, ability-interest=.052, own brands-food products=.49, own brands-other products=.68, own brands-traditional brands=-.50.
Goodness of Fit: Chi-square: 3006, df=1396, p < .00, RMSEA = .034, n=1.000
All t-values significant
NCP=1749, ECVI= 3.55, AIC=3542, CAIC=4712, RMR=.063, GFI=.90, AGFI=.89, PGIF=.81, NFI=.92

* Manufacture = be responsible for the manufacturing of whether produced in own factories or not
Conclusions and discussion
This paper has shown that store image did not have the impact that was assumed from the theoretical discussion. A likely reason is that it takes long time to change habits and high quality store brands must be on the market for a long period of time to build the brand loyalty that manufacturer brands have done for decades. More research is however needed to get a better understanding of how consumers make low-involvement decisions and which role retailer image plays in such decision-making. The result in this study supports however findings by McKinsey, namely that while single-brand retailers such as Gap and Victoria’s Secret have been highly successful, multibrand retailers such as grocery retailers, Kmart, and Target, suffer from a lack of brand distinctiveness due to the fact that they have lavished more thought and care on other brands than their own corporate brand.

References (incomplete list)