

Chapter 3

Satisfying Customers Through Premium Private Labels: Identifying Drivers of Customer Loyalty to the Retailer

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ABSTRACT

Private labels (PLs) are continuously increasing their presence and evolving their role in the grocery retailing business. It is especially the premium tier, the so-called Premium Private Label (PPL), that shows the most interesting market share increase and prospect of growth. In this context, the chapter explores the role of PPLs in generating customer loyalty to the retailer. Specifically, a theoretical model in which the drivers of customer satisfaction to the PPL - namely: perceived PPL quality, assortment, access, and value - are engendering customer loyalty to the PPL and, through its mediating role, generating customer loyalty to the retailer is proposed and tested. The empirical research builds on a survey with a sample of 299 retail consumers. A structural equation model was performed to analyze the data. Results show that PPLs positively impact customer loyalty to the retailer through a causal relationship driven by PPL perceived quality and PPL value.

INTRODUCTION

Private labels (PLs), termed as store brands or retail brands too, are defined as brands owned, controlled, and sold exclusively by one retailer under its own brand name (Sethuraman & Cole, 1999). Today PLs are a consistent phenomenon in retailing and are very popular among consumers, especially among Europe's shoppers. The Private Label Manufacturers Association (PLMA, 2019) registers that in 17 European countries PLs market share holds 30% or more, meaning that at least every third product sold is a PL

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product. Spain (51%), Switzerland (49%) and United Kingdom (47%) lead the way with the highest market shares; in these countries every second product sold is a retailer brand. In Italy, national study context of the research presented in this chapter, PLs possess a lower market share, equals to 19.3%, but show a tendency to a slow but steady increase over time (IRI, 2019).

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 attitude towards PLs in general, thanks to an increase in their quality perceptions (Steenkamp et al., 2010); thirdly, their price convenience in comparison with national brands (NB).

Traditionally, PLs have been positioned as low price/good value for money offerings as for the perceived quality differential with NBs. However, 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 (Martos-Partal et al., 2015), but also in the non-food ones (e.g. clothes, appliances, etc.) and in services (travel booking, broadband communications, etc.) (Martinelli et al., 2015). 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 direct at significantly improving perceived quality as they tend to use the same creation codes as NBs (Burt, 2000). On the basis of positioning differentiation, store brands can now be divided into 2-tier (Yang & Wang, 2010) or 3-tier (Lamey et al., 2007) PLs. Under this strategy, Premium Private Labels (PPL) are gaining an increasing interest. PPLs were outlined 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). Examples are Tesco's "Finest" in UK, Loblaws' "President's Choice" in Canada, Coop's "Fior Fiore" 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).

Given these premises, the current chapter aims at investigating the role performed by PPLs in generating customer loyalty to the retailer. Specifically, the drivers of customer satisfaction to the PPL - namely: perceived PPL quality, PPL assortment, PPL access and PPL value - are considered as engendering customer loyalty to the PPL and, through its mediating role, generating customer loyalty to the retailer. 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. In fact, the literature on PLs is rich in studies on the drivers influencing the introduction of standard PLs (among others: Raju et al., 1995; Sayman & Raju, 2004), but poor when it comes to PPLs (Ter Braak et al., 2014). But as Walsh and Mitchell (2010) stated "Now that the market for PLB is maturing and any retailers are offering premium PLB that compete directly with national brands on the basis of quality and branding to attract a different segment of the market, research needs to look at other explanatory variables that might explain consumers' intention to buy private label brands". Accordingly, the present study aims at contributing to the scientific knowledge on consumer behaviour regarding PPLs, verifying the effect of some key drivers generating loyalty to the PPL. This is conceptualized in a conative perspective as intention to purchase PPL SKUs. Moreover, current literature lacks in verifying the determinants of customer satisfaction with PPLs. Therefore, our research questions are as follows: Which are the driv-

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