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Titolo della tesi:

ANALYZING CHANNEL RELATIONSHIP COMPLEXITY: THE ROLE OF PRIVATE LABELS AND STORE TRUST IN CHANNEL EQUILIBRIUM

Dottorato di ricerca in	BUSINESS ADMINISTRATION AND MANAGEMENT
Ciclo	XXII
Tutor del dottorando	SANDRO CASTALDO
Anno di discussione	2012

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Acknowledgements - Ringraziamenti

Al termine di un percorso lungo e ricco di stimoli e incontri come il Ph.D. è sicuramente difficile ricordare in poche pagine tutte le persone che, a vario titolo, hanno arricchito questi anni.

Un sentito ringraziamento va innanzitutto a chi questo percorso l'ha reso possibile, pensando e realizzando un Ph.D. che si è concretizzato in un'esperienza formativa e di crescita importante. Grazie quindi alla Ph.D. School dell'Università Bocconi, ed in particolare al Dean Alfonso Gambardella che ci ha sempre guidati, anche come direttore del nostro Ph.D. durante i primi anni di questa avventura. Grazie mille all'attuale direttore del Ph.D. in Business Administration and Management Gianmario Verona, sempre disponibile, sia durante i corsi che la preparazione della dissertation. Grazie a tutti i docenti del Ph.D. che mi hanno stimolato e trasmesso, oltre a contenuti teorici e metodologici importantissimi, anche una passione per la ricerca che si è dimostrata nel tempo una spinta determinante in tutto questo percorso. Grazie anche a tutto il personale tecnico ed amministrativo della Ph.D. School ed in particolare un grazie di cuore a Dora Zacchetti e Marialuisa Ambrosini che, in successione, si sono prese cura di me non solo dal punto di vista amministrativo. Grazie mille a Gualtiero Valsecchi, per la disponibilità e l'affetto che mi ha sempre dimostrato in tutti questi anni.

Un grazie di cuore va a chi mi ha seguita nella realizzazione di questa tesi, i membri della mia internal committee. Grazie mille a Sandro Castaldo, per l'affetto, la fiducia e il supporto che mi hai sempre dimostrato, già da prima dell'inizio e in preparazione di quest'avventura. Da sempre mio mentore, il mio professore dai tempi della specializzazione in retail all'università, con pazienza e costanza mi hai spinto a crederci anche quando sembrava impossibile e costantemente spronato a migliorarmi. Molti risultati che ho raggiunto in questi anni e la mia conquistata sicurezza sono la diretta conseguenza della tua importante guida che mi ha

costantemente indirizzato in un percorso di crescita personale ma non solo. Grazie mille a Gabriele Troilo, che hai stimolato il mio interesse per la ricerca ben prima dell'inizio di questo Ph.D., da quando mi hai guidata nel mio primo progetto in SDA, l'osservatorio vino. Sempre disponibile ad ascoltarmi e offrirmi utili consigli, sei uno dei miei punti di riferimento più importanti. Grazie soprattutto per i consigli di questi ultimi mesi, sempre corredati da ottimo cibo, entrambi parte di una bella tradizione che spero continueremo anche in futuro. Many thanks to Alan Sawyer, for the time he devoted on revising my essays and the useful suggestions he gave me to improve them. I hope we will have soon the opportunity to meet so that I can thank you personally and discuss on research.

Un sentito ringraziamento va all'Institute for Business Value di IBM con cui ho avuto il piacere di collaborare per un progetto di ricerca di ampio respiro, di cui alcuni risultati preliminari sono riportati nell'essay 3. Many thanks in particular to Melissa Schaefer and her team for the interesting exchange of experiences we had, and will for sure have in the future, during our collaboration.

Grazie poi a tutti i colleghi di Ph.D., splenditi compagni di viaggio che hanno arricchito questa avventura con un confronto sempre costruttivo sia dal punto professionale che da quello personale. Un grazie di cuore va a Giulia Miniero con cui di questo Ph.D., ma non solo, ho condiviso davvero tutto. Grazie per essere stata sempre al mio fianco, ogni esame, assignment, paper, deadline, è stato più semplice perché affrontato insieme. Grazie per ogni risata, pianto, ballo, canto, pausa sigaretta, pranzo che hanno reso tutto più piacevole. Sei stata la sorpresa più bella di questo Ph.D.

L'esperienza formativa del Ph.D. è stata in questi anni arricchita dall'esperienza professionale che ho avuto il privilegio di portare avanti, soprattutto nell'ultimo anno, sia nell'Università Bocconi che nella Business School. Grazie quindi al direttore del Dipartimento di Marketing dell'università Bocconi, Enrico Valdani, e al direttore dell'Area Marketing della SDA Bocconi School of Management, Fabio Ancarani, per il

supporto economico dato alla mia attività di ricerca finanziandomi partecipazione alle più rilevanti conferenze di marketing, e alla fiducia dimostratami nel permettermi di trasmettere alcuni di questi risultati in aula. Grazie in particolare a Fabio per l'investimento formativo lato teaching che ha fatto recentemente su di me, con la partecipazione al TEP e il supporto nel field project, che completa la mia formazione. Grazie a tutti i colleghi del Dipartimento e dell'Area, che in questi anni hanno arricchito la mia esperienza in Bocconi. Ad alcuni di essi va un grazie in particolare. Grazie a Katia Premazzi, che è stata la prima a credere in me e a prospettarmi questo percorso quando ancora il mio unico pensiero era raggiungere la laurea. Grazie a Fabrizio Zerbini perché negli anni passati a lavorare insieme ho imparato davvero tanto. Grazie a Chiara Mauri, per l'incoraggiamento che mi ha sempre dato e perché nel suo modo diretto di interpretare le cose trasmette sempre insegnamenti importanti. Grazie a Marco Aurelio Sisti, per il tempo che mi ha dedicato soprattutto in questi ultimi mesi e il prezioso supporto in tante piccole cose. Grazie a Karin Zaghi, per l'innata dolcezza e i momenti di confronto non solo professionale che abbiamo il piacere di avere. Grazie a Silvia Vianello, che ha iniziato a prendersi cura di me quando ero in dolce attesa e non ha più smesso, la tua forza e tenacia sono un grande esempio per me. Grazie Roberta De Sanctis perché una collega d'ufficio migliore non la potevo proprio avere, fonte inesauribile di allegria, mi capisci al volo ed è bello constatare ogni volta che siamo sulla stessa lunghezza d'onda.

Grazie a tutte le persone che il mio lavoro in Dipartimento e in Area lo hanno sempre supportato. Grazie quindi allo staff del Dipartimento, Sabina Boffini, Raffaella Senna, Stefania Gandolfi per la gentilezza, la precisione e la disponibilità che le contraddistingue. Grazie a Marialuisa Ghidoli perché senza di lei non sarei sopravvissuta al Miur. Grazie a tutte le persone splendide che in questi anni hanno supportato la mia attività in Area. Grazie a Luisella Lauro, la mia mamma adottiva, per la disponibilità e la capacità di trovare sempre una risposta a tutto. Grazie a Maria Grazia Angione, Nunzia Zanzi e Avelda Lenti, per il supporto che mi hanno

sempre dato quando erano in Area e per l'affetto che mi dimostrano anche ora che le occasioni di incontro sono purtroppo diminuite.
Grazie a tutti i colleghi internazionali che ho avuto modo di incontrare in questi anni e che hanno arricchito la mia esperienza. Grazie a Charles Hofacker (scrivo in italiano perché lo parli meglio di alcuni madrelingua) perché lavorando con te ho imparato davvero molto su esperimenti e analisi ma non solo. Many thanks to Guido Moëllering, beacuse any opportunity we had to cooperate was rich of interesting and useful stimula for me. To both of you also many thanks for your support in my job market. Many thanks to Lluis Martinez Ribes, for sharing with me any time you come in Milan your vision and happiness, they are for me something really valuable.
Grazie a due ragazzi con cui ho avuto il piacere di collaborare in SDA e in Università ed il cui supporto a questo lavoro è stato determinante. E che ora, anche se hanno preso strade professionali diverse, continuano ad arricchire le mie giornate. Grazie a Michela Calabrese per la precisione con cui mi ha supportata nella raccolta dei dati e per la meticolosa attività di controllo sui database. Ma grazie soprattutto per la tua innata allegria che è contagiosa e la costante attività di aggiornamento sulle tendenze di ogni tipo. Grazie a Marco Rindone, per il supporto, che è andato sempre oltre i requirements del buon research assistant e TA, soprattutto quello audio-video è stato particolarmente efficace. Grazie anche ad Antonio Certezza, della cui esistenza ho avuto prova empirica in questi mesi. Del cognome ho beneficiato parecchio io, il mio augurio è che del nome ne possa beneficiare tu presto.
Infine grazie a tutti coloro che pur non direttamente coinvolti in questo percorso hanno contribuito alla sua realizzazione per il semplice fatto di essere al mio fianco. Grazie a Jessy perché mi ha sempre viziata e coccolata e per la forza che inconsapevolmente trasmette. Grazie a Paolo per la simpatia e i complimenti inizialmente da me poco apprezzati ma che poi ho scoperto nascere da una "seria preoccupazione". Grazie a Manu, perché ogni volta che rientro trovi sempre un momento per me in nome dei vecchi tempi. Grazie a Marilena per la gentilezza e la

pace che mi trasmetti ogni volta che abbiamo il piacere di parlare. Grazie a Nicola, per la capacità di sdrammatizzare e di ricordarmi le cose importanti. Grazie a Cri, perché le nostra chiacchierate sono state un momento importante della mia crescita personale e lo sono ancora adesso anche se soprattutto virtuali nell'attesa che si realizzi una nostra speranza. Grazie ad Annina, per il tuo splendido sorriso e perché anche se purtroppo ci vediamo poco, ogni volta è come se il tempo non fosse mai passato e c'è solo il piacere di stare insieme. Grazie a Denise per gioia che sprigioni e perché ogni momento di condivisione che riusciamo ad avere tra mille impegni è per me una fonte preziosa di arricchimento e affetto. Grazie a Giusy, per la tua dolcezza e il tempo che riesci sempre a trovare per passare insieme dei bei momenti in spensieratezza con me e la mia famiglia.

Grazie alla grande famiglia di Davide che mi ha accolta e fatto sempre sentire parte di qualcosa di importante e prezioso. Grazie in particolare a Marta e a Cri, le mie cognate preferite e splendide zie.

Grazie alla mia famiglia che anche se lontana è per me un solido punto di riferimento. Grazie a Ele, Gio, Simo, Giada, Marco, nonna bis e gli zii perché le mangiate (e con Ele le bevute) insieme e l'affetto che dimostrate sempre a tutti noi ogni volta che torniamo. Grazie a mamma e papà, perché anche se questa mia scelta di continuare a studiare non l'avete probabilmente capita, l'avete sempre appoggiata. E se ce l'ho fatta è perché mi avete insegnato col vostro esempio l'importanza del sacrificio, della costanza e del credere nei propri ideali per raggiungere gli obiettivi. Grazie alla mia Cina, perché a volte anche le sorelle maggiori hanno bisogno di supporto e se c'è qualcuno che non me l'ha mai fatto mancare sei tu. La tua allegria, creatività e pazzia sono tua magia (e anche se a volte la bacchetta si spezza, ce la fai benissimo lo stesso) e il mio tesssoro…

E infine, ma non certo per importanza, grazie a Davide per essere stato al mio fianco in ogni momento ed esame importante della mia vita dandomi amore, dolcezza, sicurezza e gioia. Perché dopo 14 anni, sui miei 30, in questo momento di bilancio posso solo constatare che tu sei la mia vita. Ed in queste settimane dopo la tempesta tesi è stato davvero bello aprire gli occhi e trovare MrD e Fiore, sempre lì, che si compensano, perfetti complementi, come il primo giorno. Perché ora potremmo provare a realizzare tutti i progetti che abbiamo lasciato in sospeso per il mio Ph.D., anche se in fondo il nostro progetto più bello lo abbiamo già realizzato proprio in questi anni e la prova vivente ha quasi tre anni e mi chiama mamma amore mio. Grazie al nostro Diego, fonte inconsapevole di una forza che non pensavo di avere.

Monica

Introduction

The focus of this dissertation is represented by the distributive channel relationships. As the retail sector has become more and more relevant in the economic landscape, channel design and relationship management are become key manufacturers' choices for a successful value delivery to the customer. Wrong interpretations of the emerging trends in the distribution and incorrect channel management choices can indeed thwart the firm marketing strategy and the market success of its products or services. Given this relevance the management of channel relationships has been the topic of many studies in marketing literature.

The relevance of retailing and the evolution of the literature on distributive channel management

Retailing represents a relevant sector in today's economy, both for its dimension and its linking role between manufacturers and end consumers. Indeed, on the one hand this sector is one of the most relevant in terms of annual turnover; as an example of this, consider the US market, where retail total sales has shown a positive trend over years, reaching a value of 400.6 billions of dollars in 2011 (source: Retail trade census[1]). On the other hand retailers are recognized as a fundamental stage to provide customers with the manufacturers' goods they necessitate to satisfy their needs; the costs of managing a direct channel for manufacturers could be, depending on various variables such as the product category, prohibitive to reach profits. Thus retailers hold a relevant role in modern society.

It is not surprising then that the relationships between sellers and their buyers have been a core topic for marketing research since the early 50s when scholars began to focus on distribution channels. Traditionally studies on this topic were aimed at

[1] http://www.census.gov/econ/www/retmenu.html, last access January 23rd, 2012.

helping manufacturers to interact with their intermediate clients, thus they adopted the sellers’ point of view.

In particular, if we analyse the literature on distributive channels we can notice that it progressed over time coherently with the evolution of retailers and the different relational problems that had to be faced by manufacturers at any stage of their counterpart change. To schematize this development, we can identify three different stages of retail evolution, which correspond to three different channel management priorities on the manufacturers’ side and to different research streams in the literature (Table 1)[2].

[2] This schematization represents a simplification that will help the illustration of the phenomenon, retailing evolution being more complex than as described here. Indeed in reality, some overlaps in the temporal dimension of the stages that will be described in the following pages could be found.
The evolution just described has interested particularly the Fast Moving Consumer Goods (FMCG) sector, while other retail segments, even following the same evolutionary path, are at different stages of this route. Coherently with previous literature that mainly focused on FMCG sector, the empirical analysis proposed in this dissertation focused on the same sector.

Table 1. A summary of retailing, and consequent channel management priority and literature, evolution.

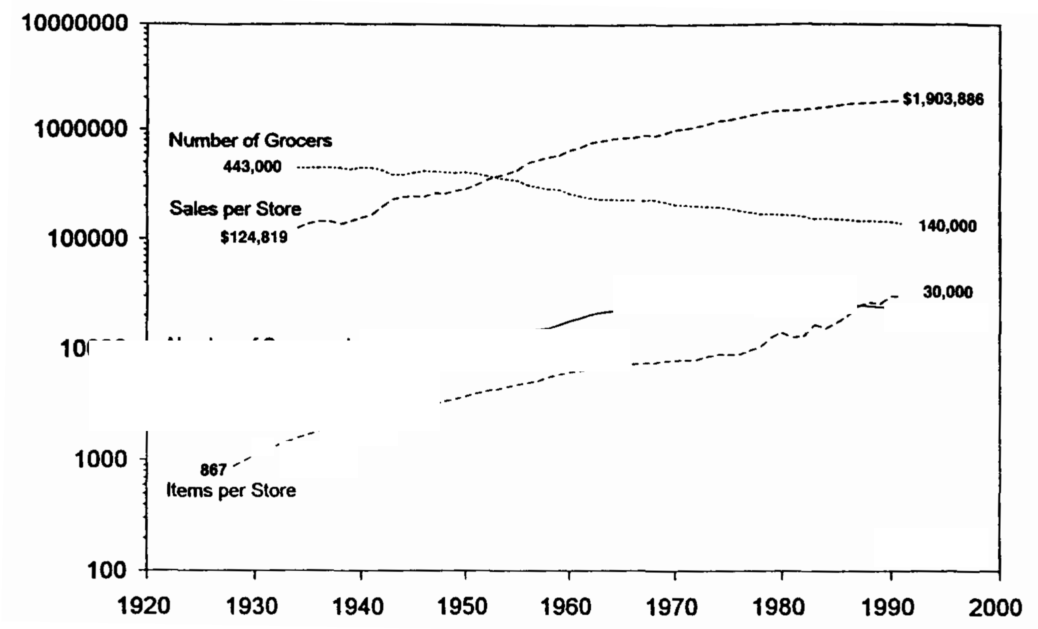
RETAILERS	**CHANNEL MANAGEMENT PRIORITY**	**CHANNEL LITERATURE**
1. FRAGMENTED AND PASSIVE Logistic operator	1. CHANNEL DESIGN Minimize logistic costs	1. INSTITUTIONALISM & FUNCTIONALISM Efficiency & channel optimal structure
2. LARGE AND BUYING ORIENTED Client	2. NEGOTIATION Sell-in → short term orientation	2. BEHAVIOURISM & TRADE MARKETING Power and conflict & sales promotions
3. LARGE AND MKTG ORIENTED Vertical competitor (PL, CRM)	3. COLLABORATION Pie-enhancing and pie sharing → long term orientation	3. RETAIL MKTG & STRATEGIC PARTNERSHIP INITIATIVES Influence on marketing strategy and long term partnership activities.

Source: my elaboration

In its initial stage, retailing was a fragmented sector, characterized by the presence of many actors of small dimensions. Retailers were seen by the manufacturers as passive logistic facilitators of their goods flow toward end consumers. Coherently, the priority of sellers was to reduce their logistic costs. First studies on distributive channels were therefore aimed at justifying the existence of retailers (the object of their analysis) and, consistently with manufacturers needs, defining the most efficient structure of the distributive channel. Two main research streams could be identified in this phase: institutionalism and functionalism. Scholars who embraced the institutionalism approach intended to offer an economic rationale for intermediaries in the manufacturer–consumer chain and indicated retailers' specialization as a key source of efficiency within the channel (e.g. Alderson 1954; 1957; Artle and Berglund 1959; Aspinwall 1962; Balderston 1958). Functionalism research has broadened the scope of the analysis from the single dyad to a structural network of relationships within the distribution channel, seeking the key source of value creation (e.g. Bucklin 1966; Mallen 1973) and the optimization of channel configurations (e.g. Bucklin 1970; Corstjens and Doyle 1979; McGuire and Staelin 1983; Richartz 1970; Zusman and Etgar 1981). Jointly these studies have provided the rationale to retailers' existence and the need for manufacturers to maintain relationships with them. This rationale mostly lies in determining structural conditions that ensure manufacturers with increased economic returns based on channel increased efficiency.

The second stage of retailers' evolution has been characterized by their concentration and dimensional growth (Figure 1). Manufacturers were now facing big actors holding an increased bargaining power that could no more be considered as passive receptors of their policies but should be regarded as powerful counterparts, with own objectives sometime conflicting with manufacturers' ones, to which they needed to sell their products in order to reach their end customers. Hence the priority of manufacturer now was to enter the store, bargaining with actors that were becoming more and more powerful within the distributive channel. In literature again studies related to this evolution emerged. More specifically these studies could be divided in two main groups distinguishing between studies in behaviourism and trade marketing policies. The former analysed mainly two social constructs that may impact on channel performances: power (e.g. Beier and Stern 1969; El-Ansary and Stern 1972; Etgar 1976; Piercy 1983) and conflict (e.g. Brown and Day 1981; Lusch 1976; Rosenberg and Stern 1971; Rosenbloom 1973; Perry 1991). These studies resulted in many models linking those social variables and their antecedents to performances (e.g. Gasky 1984; Robicheaux and El-Ansary 1976; Stern and El-Ansary 1988). Some years later, the focus of the literature shifted to the analysis of manufacturers' trade marketing initiatives, which are short term oriented actions aimed at increasing retailers' purchases. Also these studies were driven by an empirical phenomenon that was observed during those years (Table 2): the reduction of the traditional 'pull' advertising in favour of a more targeted consumer promotion and, what is most relevant to our analysis, the emergence of a 'push' marketing aiming at inducing retailers to carry manufacturers' products within their assortment (Messinger and Narasimhan 1995). In particular studies on this matter mainly focused on different kinds of trade promotions and fees/allowances paid by manufacturers (e.g Blatteberg and Nelsin 1990; Bloom, Gundlach and Cannon 2000; Desiraju, 2001; Lariviere and Padmanabhan 1997; Messinger and Narasimhan 1995; Sullivan 1989).

Figure 1. The dimensional growth of the retail sector in US.



Source: adapted from Messinger and Narasimhan (1995, p. 192)

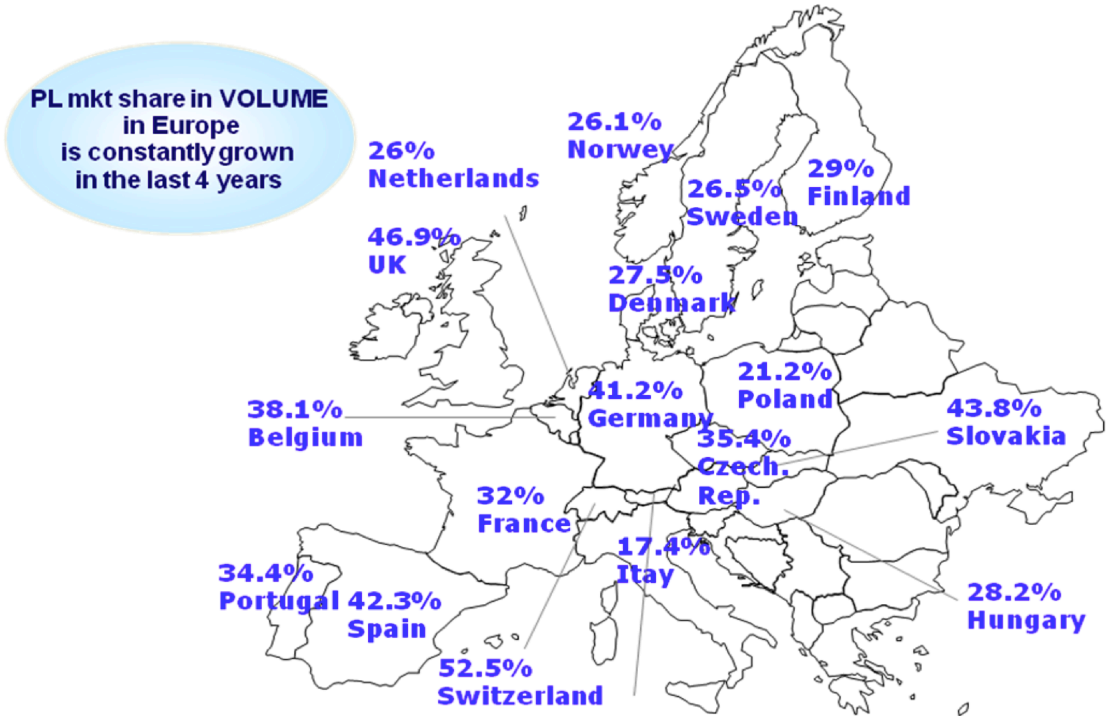
Table 2. The percentage of marketing budget allocated to consumer promotions, trade promotions and media advertising.

	'76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93
Consumer Promotion	19	20	22	22	23	23	24	26	28	27	26	26	25	26	25	27	28	28
Trade Promotion	39	38	36	36	34	34	36	37	37	38	40	41	42	43	47	48	46	47
Media Advertising	42	42	42	42	43	43	40	37	35	35	34	33	32	31	28	25	25	25

Source: Messinger and Narasimhan (1995, p. 202)

The final stage of retail evolution is characterized by the increased capacity of developing autonomous marketing policies (such as private labels and CRM activities), and hence influence consumers' preferences. The development of retailers' own brands has changed the competitive scenario bringing retailers to compete with their suppliers. Private labels are advantaged by retailers' closeness to the final market and privileged allocations on the shelves. In some countries, such as the UK, some store brands are very appreciated by consumers and they have gained a market share that is similar to the leader's one (Figure 2).

Figure2. Private labels market share in Europe (in volumes).



Source: PLMA (200).

The retailers marketing capacity is also related to their ability to manage in a personalized way the relationship with customers. To this end, the tool of loyalty programs is very apt for obtaining data on shoppers' buying habits and consequently developing CRM initiatives. In this stage manufacturers are facing an increased need to manage the vertical competition deriving from retailers. The complementarities in market knowledge and marketing competences held in comparison with retailers drove manufacturers to propose themselves as partners to jointly create more value for customers rather than compete. In fact, retailers not only receive products, services and information from suppliers but, given their proximity to end markets, can also develop their own customer knowledge, which – once accessible to industrial suppliers – will improve the supply and enhance the value of the demand. The retailer now appears in the seller view not only as the 'channel' which transfers downstream the innovative values developed by manufacturers, but also as a co-designer of the industrial supply, appealing to its specific customer knowledge. Furthermore, has we have seen, it has the power of conditioning the demand and, therefore, may influence customers' preference system as well as their purchasing behaviours. Within the framework of such an evolution, manufacturers seem now to 'depend' on the collaboration of the distributors. Coherently with such a framework, many partnership initiatives both isolated ones, such as the one between Wal-Mart and Procter and Gamble in the United States (Kumar 1996), and institutionalized ones, such as Efficiency Consumer Response (ECR) developed in last decades. In literature studies on the interaction between retailers' and manufacturers' marketing strategies initially emerged (e.g. Albion 1983; Dodge and Summer 1969; Jacoby and Mazursky 1984; Lazer and Wyckham 1969; Porter 1976; Steiner 1973). Consequently, with the growing evidence of partnership initiatives, the literature investigated the condition enabling the development of long lasting partnership-based relationship between manufacturer and retailers and their outcomes (e.g. Anderson and Narus 1984, 1990; Anderson and Weitz 1989, 1992; Ganesan 1994; Heide 1994; Jap 1999 2001).

These studies therefore partially set aside the epistemological principles and the normative approach that initially characterized the 'economic' tradition of studies on channels, previously described, and started to focus on the socio-political dimension, and on the opportunities of establishing distribution partnerships aimed at the value co-generation (e.g. Anderson and Narus 1984; 1990; Anderson and Weitz 1989, 1992; Ganesan 1994; Heide 1994; Jap 1999; 2001). The basis for this shift in the literature was the recognition that the rationale underlying the concept of exchange appeared to be somewhat reductionist when interpreting relations between industrial and commercial firms. Indeed, in order to grasp value creation opportunities, the parties were asked to seek the development of new forms of activities coordination not easily achievable by means of hierarchical or free market solutions. Empirical evidence highlighted that complex long-term relations linked manufacturers and retailers, inducing some authors to conceptualize the distributive channel as an inter-organizational system (e.g. Alderson 1957; Gattorna 1978; Stern and Brown 1969). Shifting from the conflicting aspects of exchange (related mainly to margin sharing and functions allocation) to the collaborative ones (referring to the opportunity of a joint value creation), both the need to consider channel relationships in a relational perspective and the centrality of non-formal coordination mechanisms, especially those based on trust, have emerged.

This research is meant to contribute to the debate developed by this latter literature stream. In particular, the dissertation focuses on the competition-side of retailers-manufacturer relationship so their fight to gain the consumers' preferences. As mentioned, this competition is mainly bases on the retailers' introduction of retailers' private labels competing with brands. In the following section we will briefly review the main studies on the topic, identifying the uncovered gap we addressed in this dissertation.

The private labels phenomenon

The expression private label brands is often used interchangeably with store brands, own brands or retail brands, to identify those brands that are own, controlled, and exclusively sold by retailers (Erdem, Zhao and Valenzuela 2004). For these brands therefore the retailer plays a determinant role in affecting the success or failure, by having the whole responsibility on them (Dahr and Hoch 1997; Morton and Zettelmeyer 2004).

As mentioned before, private labels have been gaining increased success in recent years, as shown by their growing sales volumes and market shares in most consumer product categories, together with an increasing appeal to consumers.

The role of private labels has changed dramatically from their introduction to nowadays (Semeijn, Van Riel and Ambrosini 2004). If traditionally, these brands, though offering an equivalent quality, were considered cheaper than the (advertised) national brands (Hinloopen and Martin 1977; Connor and Peterson 1997). They now have evolved into full-fledged alternatives, capable of competing successfully with manufacturer's brands on quality as well as on price (Quelch and Harding 1996), and contributing substantially to profitability, store differentiation and store loyalty (Corstjens and Lal 2000). Indeed, retailers are moving toward a more complex private label strategy, shifting from the replication of the existing cues in each category to the incorporation of the retailer values in the store brand (Marterson 2007). This lead to the development of a complex brand strategy (Collins-Dodd and Lindley 2003) covering different demand segments trough differently positioned brands and, more and more frequently, leading to the offering of exclusive product lines and premium products (Corstjens and Lal 2000; Dunne and Narasimhan 1999). Indeed, the raise of retailer branding is now considered one of the most relevant trends in retailing (Grewal, Levy and Lehmann 2004), with many retailers increasingly viewing themselves as active marketers of their own store brands, rather than as passive distributors of manufacturers' brands (Richardson, Dick and Jain 1994).

Studies on private labels can be classified into five main groups, and the literature reflects the evolution of store brands just described. Firstly there are the contributions that have focused on consumers' attitudes towards store branded products. Some of them investigated consumer's individual-level personality traits (Burton et al. 1998) as well as demographic and psychographic variables (e.g. Ailawadi, Neslin and Gedenk 2001; Richardson, Jain and Dick 1996), affecting such an attitude, in order to identify potential market segments for private labels (Collins-Dodd and Lindley 2003). More recently, the antecedents and outcomes of a generalized private label attitude have been investigated.

Secondly researchers have provided insights regarding when store brands should be introduced (e.g. Raju, Sethuraman and Dhar 1995) and the determinants of different store brand shares across categories and retailers (e.g. Dhar and Hoch 1997; Hoch and Banerji 1993). In particular, researchers have noted that PL proneness is more category-specific than consumer-specific (e.g. Sethuraman 1992; Sethuraman and Cole 1997). Thirdly a stream of academic research focused on the benefits to the retailers. Some studies on this matter investigated PL contribution to profitability and analysed power distribution between manufacturers and retailers (Ailawadi 2001; Ailawadi and Harlam 2004). Pioneering studies focused on the short-term impact of PL rather than on long-term relational outcomes (Pauwels and Srinisvan 2004). Studies investigating store brand contribution to retail differentiation (e.g. Sudhir and Talukdar 2004) and store loyalty (e.g. Corstjens and Lal 2000; Ailawadi, Neslin and Gedenk 2001) are more recent.

Other studies tried to identify the optimal quality level of PL (e.g. Dunne and Narasimhan 1999; Winningham 1999; Apelbaum et al. 2003) and which factors could convince consumer to buy them (De Wulf et al. 2005; Sprott and Shimp 2004) so that retailers could fully catch their potential benefits. The most important driver of private label share has proven to be perceived quality (e.g. Hoch ad Banerji 1993; Sethuraman 2000; Ailawadi and Keller 2004).

Finally, some studies have focused on the relationship between private labels and national brands both from the consumers' (ie. Erdem, Zhao and Valenzuela 2004; De Wulf et al. 2005; Juhl et al. 2006) and the manufacturers' perspectives (e.g. Hoch 1996; Quelch and Harding 1996).

Surprisingly no previous study has focused on private labels focusing on the mas brands, even if the empirical evidence suggest they are retailers are becoming more and more articulated in their branding strategies. The branding literature indeed, in spite of the emergence and growing importance of store brands, mostly focused on national brands (Steenkamp and Dekimpe 1997).

The aim of this dissertation is to contribute to solve an unresolved debate in literature on whether private labels should be investigated or not as something different from the “traditional” brands. Richardson (1997) and subsequently De Wulf et al. (2005) support this identified gap, indicating that the question whether store brands are perceived to be just another brand in the market or something different has received little attention in the marketing literature.

As a consequence of this, the key question literature has not yet succeeded to answer is: are private labels brands as manufacturers’ brands are in terms of how various marketing principles can be successfully applied to them? Or, although many important branding principles apply to them, are retailer brands sufficiently different from product brands that the actual application of those branding principles should vary for them as Ailawadi and Keller (2004) suggest?

Uncles and Ellis state that consumers buy own labels in the same way as a brand with a comparable market share (Uncles and Ellis 1989), thus supporting the first point of view. However, at least three characteristics of private labels seem to support the latter view:

1. Retail brand exclusivity. Indeed, while the national brands are sold in various retailers, private labels are sponsored or owned by a retailer and are only sold in its stores (Bushman 1993; Burt 2000; De Wulf et al. 2005; Hansen, Singh and Chintagunta 2006).
2. While advertising is the dominant factor in creating national brands that reveal strong brand equity, store image is the most important source of brand equity for store brands (De Wulf et al. 2005). Consumers therefore transfer brand connotations to the retail brand products from their experiences of the retail store (Burt 2000). This is also due by the fact that the retailer itself (e.g. Tesco) is seen as the brand (Swoboda et al. 2009) and sometimes the retailer’ own brand and its products’ brand coincide.
3. Private labels are advantaged by retailers’ closeness to the final market and privileged allocations on the shelves (Nenycz-Thiel et al. 2010; Nogales and Suarez 2005). Indeed, an effective marketing of store brands creates a

captive clientele and makes the chain less vulnerable to price pressures or aggressive attacks by the competition (Dick et al. 1995; De Wulf et al. 2005).

Given this description of the phenomenon under investigation, in the next session we briefly describe the contents of the thesis.

Thesis overview

As mentioned, the overall goal of the dissertation is to analyse the retailers' relationships with shoppers in competition with manufacturers' brands. The dissertation is composed of 3 essays, whose contents are briefly described in the following. Common to all papers is the search for a better understanding of the relationship between national brands and private labels; the best methodology given the research questions of each essay is applied (being experimental or survey based).

Essay 1: "A comparison of brand extension for private label and national brands".

The first one aims at investigating private labels (or store brands or retailers' brands) as brands. In particular, the specific aim to answer the yet unsolved question on whether private labels are brands the same way manufacturers' brands are or, even if many important branding principles apply to them, they are sufficiently different that the actual application of those branding principles can vary for them. This question is addressed within the brand extension domain, the main strategy used by retailers to develop private labels in the market.

The essay is based on an experimental research that compares customers' evaluations of brand extensions for either national brands vs. private labels. We report the results of experiments analysing similarities and differences in the impact on brand extension evaluation of the two key variables identified within the brand extension literature: category fit and brand knowledge.

The results of our studies seem to support the view according to which private labels differ from national brands as both category fit and brand knowledge have no significant effect on their brand extension evaluations for private labels but do make a difference for national brands.

Essay 2: "Are private labels the same as brands? A further investigation within the brand equity process"

This paper as adds to essay 1 on private labels as brand, with the specific aim to answer if they are sufficiently different from national brands. This question is then addressed within the brand equity domain, a relevant driver in brand extension success. We investigate the brand equity process analysing whether the type of brand (private label or brand) moderates the relationships thus highlighting differences between the two types of brands. The paper reports the results of a web-survey-based study analysing similarities and differences in brand equity process. Data were collected in Italy, in 5 product categories within the Fast moving Consumer Sector (as a first attempt to test the generalizability of the results). 5000 usable questionnaires were collected.

We therefore tested a model on the brand extension components' effect on buying attitudinal and behavioral loyalty investigating whether the relationships among the variables change for private labels compared to national brands.

Interestingly, the results of this paper seem to contradict the results of the previous one as they support the view according to which private labels are similar to national brands. This implies that the reason why private labels seem to gain over national brands in brand extension is not due to differences on the brand equity process.

A key variable the could explain the success of private labels compared to brands in the extension domain can be the retail store. Private labels indeed benefit from a privileged relationship with their retailers' store and could therefore benefit form the store loyalty the shoppers have. This variable is the object of the third essay.

Essay 3: "Building store loyalty: the role of culture

The third essay focuses on store loyalty. Trust and satisfaction have been identified as relevant antecedents of loyalty by previous literature but the results of previous studies, being partially contradicting, do not allow the understanding on which is the relevant driver of loyalty. Also the causal relationship between the two variables (trust and satisfaction) is not clear. The proposal is that culture could help researchers in clarifying these issues as it may intervene as a moderating variable. The essay is therefore based on a multi-country quantitative study on shopping habits in different product categories.

The essay reports the preliminary results of a research developed together the Institute for Business Value of IBM. The final data collection included almost 30,000 questionnaires collected in 15 countries (Argentina, Australia, Brazil, Canada, Chile, China, Columbia, France, Italy, Japan, Mexico, Spain, South Africa, Uk and US).

The preliminary results reported in the essay are based on two countries and support the key role of culture in the loyalty building model.

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Essay 1

A Comparison of Brand Extensions for Private Labels and National Brands

Abstract

This paper focuses on private labels and manufacturer's brands with the specific goal to answer the question on whether private labels are brands in the same way manufacturers' brands are in terms of their effectiveness of brand extension. The paper reports the results of four experimental studies analyzing similarities and differences in the impact on brand extension evaluation of the two key variables identified within the brand extension literature: category fit and brand knowledge.

The results seem to support the view that private labels differ form national brands as both category fit and brand knowledge have no significant effect on their extension evaluations.

Keywords Private label, national brand, brand extension, fit, brand knowledge

Private labels (or store brands or retailers' brands) – products manufactured by or on behalf of distributors and sold under their own name or trademark through their own outlet (Morris, 1979) -, continue to grow in both market share and penetration. Their evolution in the US has been constant over years and in August 2009 their average unit share reached 22.8% (ACNielsen data, 2010). Those products now account for more than $86 billion in the US, (ACNielsen data, 2010) while in some UE countries, they have gained a market share similar or higher to that of the leading brands one. For example, in Switzerland private labels' share is higher than 52%, while it is above 40% in UK, Spain, and Germany (PLMA, 2010). The growth of private labels over the years has led them to a dominant position in many store departments. For example, retailer brands now account for 82% of the paper products sold in Spain, 75% of the frozen items in Switzerland, and 63% of the pet products in Germany (PLMA, 2011).
This evolution underlines a recent relevant change in the retailers' strategies that radically changes their role in the market from their original buying-selling activity. Indeed, nowaday retailers do not only sell an assortment composed of "selected" manufacturers' brands as at their origins, but have integrated some manufacturing activities and offer own products (Ailawadi and Keller 2004).
The growth in private labels has spawned much research on them that addressed a wide variety of issues: who buys and how private label products, whether and how private labels provide leverage to retailers, the determinants of private label share (Ailawadi and Keller 2004; Dhar and Hoch 1997; Hoch and Banerji 1993); the interaction between national brands and private labels (Cotterill et al. 2000; Sayman et al. 2002; Blattberg and Wisniewski 1989; Allenby and Rossi 1991) and conditions for entry of store brand and its impact on retailer's pricing and bargaining power with manufacturers (Raju et al. 1995;Chintagunta et al. 2002; Pauwels and Srinivasan 2004).
Although the growth of private labels has been interpreted by some as a sign of the "decline of brands," it could easily be argued that the opposite conclusion is more

valid, as their evolution could be seen in some ways as a consequence of cleverly designed branding strategies (Ailawadi and Keller 2004, p. 336).

Retailer brands have indeed changed throughout time (De Wulf et al. 2005). If private labels were introduced in the market as products of lower quality offered at better prices (De Wulf et al. 2005), today retailers offer real brand systems, similar to the manufacturers ones, that show how their branding strategies became more and more articulate (Ailawadi and Keller 2004). Until recently, the general wisdom was that private labels were essentially meant to serve price-sensitive market segments (Amrouche, Martín-Herrán and Zaccourù 2008). Nowadays, retailers' brands are seen by consumers as valuable substitutes to established manufacturers' brands (e.g., Amrouche, Martín-Herrán and Zaccourù 2008; Dunne and Narasimhan 1999; Hoch and Banerji 1993; Fitzell 1992; Keng and Ehrenberg 1984; Wilensky 1994; Quelch and Harding 1996; Uncles and Ellis 1989). According to a 2010 Nielsen's survey, consumers rate private label goods as being high quality, particularly in US, and more than one out of three respondents (37%) perceives private label brands to be a good alternative to national brands.

Retailers' private branding strategies are clearly based on brand extension (Alexander and Colgate 2005), that is the use of an established brand name to enter a new product category (Aaker and Keller 1990). Brand extension is an heavily-researched and influential area in marketing (Czellar 2003). Surprisingly research on brand extension has only marginally considered the retail context by focusing on manufacturers' extensions sold within a retailer's store, rather than analyzing retailers' own brand extensions (Alexander and Colgate 2005). This is coherehnt with a trend in the branding literature that, in spite of the emergence and growing importance of store brands, mostly focused on national brands (Steenkamp and Dekimpe 1997).

In this paper we rely on the brand extension framework, the one that better reflects retail brands evolution, to contribute to solve an unresolved debate in literature on whether private labels should be investigated or not as something different from the "traditional" brands. Richardson (1997) and subsequently De Wulf et al. (2005) support this identified gap, indicating that the question whether store brands are perceived to be just another brand in the market or something different has received little attention in the marketing literature.

As a consequence of this, the key question literature has not yet succeeded to answer is: are private labels brands as manufacturers' brands are in terms of how various marketing principles can be successfully applied to them? Or, although many important branding principles apply to them, are retailer brands sufficiently different from product brands that the actual application of those branding principles should vary for them as Ailawadi and Keller (2004) suggest?

Uncles and Ellis state that consumers buy own labels in the same way as a brand with a comparable market share (Uncles and Ellis 1989), thus supporting the first point of view. However, at least three characteristics of private labels seem to support the latter view:

1. Retail brand exclusivity. Indeed, while the national brands are sold in various retailers, private labels are sponsored or owned by a retailer and are only sold in its stores (Bushman 1993; Burt 2000; De Wulf et al. 2005; Hansen, Singh and Chintagunta 2006).
2. While advertising is the dominant factor in creating national brands that reveal strong brand equity, store image is the most important source of brand equity for store brands (De Wulf et al. 2005). Consumers therefore transfer brand connotations to the retail brand products from their experiences of the retail store (Burt 2000). This is also due by the fact that the retailer itself (e.g. Tesco) is seen as the brand (Swoboda et al. 2009) and sometimes the retailer' own brand and its products' brand coincide.
3. Private labels are advantaged by retailers' closeness to the final market and privileged allocations on the shelves (Nenycz-Thiel et al. 2010; Nogales and

Suarez 2005). Indeed, an effective marketing of store brands creates a captive clientele and makes the chain less vulnerable to price pressures or aggressive attacks by the competition (Dick et al. 1995; De Wulf et al. 2005).

In this paper we will test if these characteristics of private label are perceived differently by consumers. If so, this would thus justify the past ad hoc focus on PLs in the branding literature. We will focus on the effects of brand extensions since despite product and service extension is a fundamental feature of retail operational development and brand extension has become a fundamental feature of retail commercial competition (e.g., Alexander and Colgate 2005; Burt 2000), few studies are available on consumers' evaluation of retailers' brand extansion compared to national brands' ones.

The remainder of the paper is structured as follows. First we review the main findings of previous literature on brand extension and develop our hypotheses on the relationships between the key variables in brand extension introducing as an additional intervening variable the type of brand (national vs. retail) that is performing the extension. Then we present the results of four experimental studies that tested these relationships. Finally we come up with some concluding considerations on the similatiries and differences between private labels and national brands.

Studies on Brand Extension and Hypotheses Development

Brand extensions are the cornerstone of many firms' growth strategies, as they have become the most common form of new product introduction (Loken and Roedder John 1993; Zhang and Sood 2002). This strategy is based on the basic premise that consumers hold positive attitudes toward the parent brand that can be transferred to an extension in a new product category (Erdem 1998; Kapoor and Heslop 2009).

Since Aaker and Keller's (1990) paper on consumer evaluations of brand extensions there has been a flurry of activity within the brand extension area. The literature on this topic has noted many benefits of a brand extension strategy, such as a reduction of advertising costs (Aaker and Keller 1990; Kapferer 1992), leveraging of brand equity (Barwise 1993; Keller and Aaker 1992; Rangaswamy et al. 1993) and enhancement of the core brand (Aaker 1990). Research has also shown that extensions can create positive feedback effects to the parent brand (Balachander and Ghose 2003), for instance by strengthening its associations (Morrin 1999).

As metioned, brand extension is a fundamental feature of retail commercial competition (e.g., Alexander and Colgate 2005; Burt 2000). Hovever, from a retailer brand extension viewpoint existing research is limited (Alexander and Colgate 2005) as the focus has always been on national brands and a study focused on retailers' brand extension is missing. In particular there is no evidence that what has been proved to be true within brand extension literature for national brands extension holds also for private labels.

Extant scholarly research in brand extension has extensively focused on factors that are important in explaining attitudes toward brand extensions, with the aim of supporting marketers in determine whether or not a brand extension will be successful. In the following pages we will review the main elements driving to a successful brand extension that have been identified and develop our hypotheses on their effect on retail brands' extensions. In particulare we will focus on the two key variables identified in previous research: fit and brand knowledge.

Fit

Fit refers to the perceived congruence of the brand with the category to which the brand is being attempted to be extended (e.g., Aaker and Keller 1990; Völckner and Sattler 2006; Buil, Chernatony and Hem 2008). Research on brand extension is mainly derived from Aaker and Keller's (1990) work on consumers' "fit" and consumers' quality evaluations of the proposed extensions (Grime, Diamantopulos and Smith 2002, p. 1417).

Given the pre-eminence of Aaker and Keller's (1990) work in sparking future research and debate, the research on brand extension has typically relied on the categorization theory as the main theoretical rationale behind its investigation (Park, McCarthy and Milberg 1993; Park, Milberg and Lawson 1991). This theory relies on a series of studies, grounded in a long literature within psychology, demonstrating that categorization plays a central role in consumers' new product learning and judgement (Sujan 1985; Gregan-Paxton and Zao 2005). According to this research, individuals create category structures, i.e. taxonomic representations of objects that they encounter (Lajos et al. 2009), in order to facilitate the differentiation of such objects in their mind. The goal of this cognitive process is to create a categorical structure that maximizes the similarity of objects within each category, while simultaneously minimizing the similarity of objects belonging to different categories (Rosch 1978). These categorical structures enable individuals to efficiently store and recall information learned from experience, make inferences about newly encountered objects (e.g., products), and form evaluations of them (Cohen and Basu 1987; Sujan and Dekleva 1987). Categorization therefore helps choosers by refining their set of options (Chakravarti and Janiszewski 2003; Diehl, Kornish, and Lynch 2003; Ratneshwar and Shocker 1991).

Grounding on categorization theory, studies on brand extension postulated that consumers evaluate the brand extension developing judgments in their mind on whether the new product (the extension) is a suitable member for the new product category (Boush and Loken 1991; Park et al. 1989, 1991). Such "suitability" derives by consumers' perceptions of fit (e.g., Aaker and Keller 1990; Völckner and Sattler 2006; Buil, Chernatony and Hem 2008; Grime, Diamantopulos and Smith 2002; Gierl and Huettl 2011; Zhang and Sood 2002). The idea of fit is achieved "when the consumer accepts the new product as logical and would expect it from the brand"

(Tauber 1988, p. 28). More recently fit has been defined as the degree of similarity between an extension product category and existing products affiliated with the parent brand (DelVecchio and Smith 2005).

Therefore brand extension evaluations can be considered as an inferential process involving several cognitive operations that critically hinge on an assessment of the similarity between the parent brand and the extension category (Zhang and Sood 2002). Such similarity can be construed holistically (e.g., Morrin 1999; Park, Milberg and Lawson 1991; Tauber 1988), in terms of needs satisfied by the products (e.g. Smith and Park 1992), benefits they provide (Aaker and Keller 1990), situations in which they are used (e.g., Dacin and Smith 1994), skills needed to manufacture them (e.g., Aaker and Keller 1990), compatibility of the parent brand image with them (Park, Milberg and Lawson 1991; Broniarczyk and Alba 1994), or their physical features and attributes (e.g., Aaker and Keller 1990; Broniarczyk and Alba 1994; Herr, Farquar and Fazio 1996; John and Loken 1993; Park, Milburg and Lawson 1991; Smith and Park 1992; Sood and Drèze 2006). Perceived fit can also be heightened by communications providing a plausible link between the extension and the parent brand (Bridges, Keller and Sood 2000), giving consumers more opportunity to discover possible links (Lane 2000), or countering negative inferences about the extension (Aaker and Keller 1990).

The role of fit on brand extension evaluation is based on an attitude-transfer model, which suggests that when an extension fits with the brand, a consumer’s attitude toward the brand will transfer to her attitude toward the extension (Aaker and Keller 1990; Sood and Drèze 2006). According to this view, consumers can more confidently transfer their (hopefully favorable) associations of an established parent brand to its extension in a new category, thus forming positive evaluations of the extension product (e.g., Aaker and Keller 1990; Broniarczyk and Alba 1994; Gronhaug et al. 2002; Volckner and Sattler 2006; 2007) and reducing the likelihood of negative outcomes (DelVecchio 2000).

Hence, positive brand attitudes and high fit have been assumed as two necessary conditions for successful extensions (Bottomley and Holden 2001). It is not surprising than that the necessity for this fit has been the primary subject of most academic research on brand extension (Aaker and Keller 1990; for a review, see Keller 2003, pp. 608–623). According to previous literature, perceived fit is recognized as the most important determinant of brand extension success (e.g. Kim and John 2008; Klink and Smith 2001; van Osselaer and Alba 2003; Völckner and Sattler 2006), even more important than marketing support, retailer acceptance, and quality of the parent brand (e.g. Völckner and Sattler 2006).

The most frequently considered dimension of fit is category "similarity" (Grime, Diamantopulos and Smith 2002; Gierl and Huettl 2011; Smith and Andrews 1995), the one more linked to categorization theory. As suggested by Boush and Loken (1991), consumers make an initial evaluation of the extension by assessing the extent to which it belongs to the parent brand category. The rationale behind this is that consumers speculate that suppliers' specialization in certain product categories prevents them from being good in other areas (Aaker and Keller 1990). Therefore perceived fit is usually higher for extensions in product categories close to the parent brand (Boush and Loken 1991).

This is a key result of studies on brand extension, a nowadays taken for granted assumption for a successful extension.

However, many brands also launch successful extensions that do not follow these "fit" rules (Monga and John 2010). These brands are described as being more "elastic" because they are able to launch extensions into distant product categories (Monga and John 2010). If we look at the development of private labels in practice, it sounds credible to sustain that they can be considered as elastic brands and the role of fit can be somehow different for them. Indeed, the development of private label has been characterized by the introduction of branded products in many categories, with different degrees of fit among them.

Even if not contextualizing to private label, the most recent evolution of literature on brand extension tried to provide a theoretical justification for this phenomenon. Studies emerged on the effect of each additional extension on the image of the parent brand (e.g., John, Loken, and Joiner 1998; Milberg, Park, and McCarthy 1997) and on the future extendibility of the brand (e.g., Dacin and Smith 1994; Keller and Aaker 1992). Researchers have, for instance, studied the effect of extending a brand into a wide variety of product categories.

It has been argued that broad brands (i.e., brands offering a portfolio of diverse products) will tend to have more benefit associations than narrow brands (i.e., brands offering a portfolio of similar products) and can therefore engage in more successful brand extensions than narrow brand (Meyvis and Janiszewski 2004).

A prominent example of broad brand in today landscape is represented by retailers' private labels that perfectly match Mevis and Janiszewski's (2004) definition of these brands as brands that offer a portfolio of diverse products. In other words, retailers are most likely to be successful as they expand their meaning and assortment in gradual stages. The literature seems to suggest that private label, by leveraging on the number of product categories they are already extended, will have an higher acceptance when entering a new one than national brands.

Therefore according to our first hypothesis, while category fit has a relevant role on the evalutation of a brand extension, its effect will be not relevant when the extension is made by a private label:

H_{1a}: for national brands, the category fit has a positive impact on brand extension evaluation

H_{1b}: for private labels, brand extension evaluation do not depend on category fit

Brand Knowledge

Another relevant factor that positively influences brand extensions success identified in the literature is consumer knowledge of the parent brand. Brand knowledge consists of brand awareness and brand image (Keller 1993). Brand awareness is the likelihood that a brand will come to mind and the extent to which it does so. Brand awareness is composed of brand recognition and brand recall. Brand recognition refers to a consumer's ability to discriminate the brand when given the brand as a cue, while brand recall requires that consumers correctly generate the brand from memory (Keller 1993). Brand image pertains to the perceptions about a brand as reflected by the brand associations in the memory of consumers (Keller 1993).

Although the existing literature on the role of brand knowledge within the brand extension domain is based on studies about national brands, brand knowledge varies both for private labels and national brands. Therefore, there seem to be no reason to assume that its impact should be different from private label extension. This would be coherent with De Wulf (2005) argument on the effect on loyalty on brand equity. Hovewer, we have to take into account the commonwisdom in the literature according to which store brands are in general less well known than national brands (Dick et al. 1996) since they are available exclusively at their store (Bushman 1993; Burt 2000; De Wulf et al. 2005; Hansen, Singh and Chintagunta 2006) and therefore lack a distinct identification with a particular manufacturer (Dick et al. 1996). Therefore we expect private labels to benefit lower of their brand knowledge than national ones, our second hypothesis being the following:

H_2: brand knowledge has a lower effect on brand extension for private labels evaluation than for national brands

Taking into account the interaction between brand knowledge and category fit, studies on brand extension have shown how well-known and well-regarded brands can extend more successfully (Aaker and Keller 1990; Bottomley and Doyle 1996) and into more diverse categories (Keller and Aaker 1992; Rangaswamy et al. 1993) than less known ones.

The level of consumer brand knowledge is therefore expected to compensate the effect of low fit on brand extension evaluation (Muthurishnan and Weitz 1991; Broniarczyk and Alba 1994). Knowledge of the brand acts as an element that supports consumers to appreciate the appropriateness of the brand in the extension category, thus lowering the relevance of fit in the extension evaluation (Broniarczyk and Alba 1994).

Therefore, coherently with our H_{1ab} and H_2 on the main effect of fit and brand knowledge for the two types of brands (national vs. private), our third hypotheis is the following:

H_{3a}: for national brands, brand knowledge increases the extension evaluation, lowering the relevance of category fit

H_{3b}: for private labels, brand knowledge doesn't increases the extension evaluation, that is not dependent on category fit

We tested our hypotheses in four experimental studies described in the following sessions.

Study 1

In study 1 we focused our attention on fit, as this emerged to be one of the most relevant variables impacting on consumers' brand extension evaluation. More precisely in this study we investigate the role of category fit on brand extension including in the analysis not only the national brand (the only typology of brand considered in previous studies) but also the private labels.

In this research we also wanted to overcome one of the main limitations of previous studies that is to rely on students as sample for the experimental studies therefore in all the studies we have conducted (the pre-tests and the experiments) we used a sample selected to have variance in terms of the main demographic characteristics (age, work, educational level, etc.), so to have a sample as representative as possible of the population constituting the customers of Fast Moving Consumer (FMCG) products, the sector we focused on to run the studies. This would represents a first attempt to overcome the lack of empirical generalizations about the characteristics of the private label user (Ailawadi and Keller 2004) identified in the literature despite the large body of research on this issue (e.g., Ailawadi, Nelsin and Gedenk 2001; Richardson et al. 1996).

A research of this type requires an extensive pretesting activity to identify real brands that conform to the experimental manipulations but also to control for extraneous variables (Broniarczyk and Alba 1994). Therefore we conducted a series of analysis and studies with the aim to identify the product categories and the brands to be used in the experiment. First of all we needed to identify one category suitable to represent the starting point of the extension and, within this category, the brands (a national brand and a private label) credible to conduct a brand extension. Then we needed to identify two extension categories (varying in terms of category fit with the starting point one) in which these brands should not be already present.

To this aim, before the main study was undertaken, we conducted a series of pretests described in the following paragraph.

Pre-tests

Desk analysis 1. We initially conducted a desk analysis on the product categories composing the assortment of grocery retailers in Italy. The aim of this analysis was to identify (1) those categories with a high penetration of private label (the first in the ranking of private labels' penetration within the category) that could constitute possible starting point categories and (2) those categories with a low (< 1%) penetration of private labels that could constitute possible categories of extension. This last selection of categories with low penetration of private labels was necessary to avoid biased responses based on participants' knowledge of existing private labelled product in the category used to propose the extension. Concerning point (1), the data on private label penetrations were merged with the data on the product categories total turnover (both in volume and in value), to be sure to concentrate our attention on categories that would have been known by our participants. To perform this analysis we used a database provided by a market data provider (IRI Infoscan) that contained the 2010 data on sales (at the total level and disaggregated for private labels) in each product category. The database was composed of 419 categories. The analysis on private labels penetration and categories turnover resulted on 41 categories suitable for represent a starting point category (high sales of the category and high penetration of private labels) and 109 categories suitable for being a possible category of extension (relevant in terms of category sales but with a low penetration of private labels). On those categories we conducted the first pretest.

Pre-test 1. The goal of this study was to understand consumers' categorization processes in order to link the 41 possible starting point categories with the 419 categories suitable to represent the area of extension. This step was needed since the categories belonging to the two groups should have been related in the consumers' mind for the extension to be credible in the experiment. In this study 23 subjects were given the task to assign each of the 109 possible extension categories to one of the 41 starting categories. None of the extension categories could be assigned twice. Participants were also asked to specify those categories that they found problematic to allocate in the proposed starting ones, that is for which they "forced" the assignation to perform the required task. During the analysis we first excluded the starting categories that did not receive any association and the extension categories that have been signaled as problematic to be assigned. We then set the threshold to maintain each category at a 75% of agreement in the participants (Broniarczyk e Alba 1994). This study resulted in 6 categories suitable for representing the starting point categories and 72 categories suitable for the extension. On those categories we conducted a second pretest with the aim of identifying couples of product categories (starting and extension) varying on the level of category fit.

Pre-test 2. In this study 30 participants were shown the six starting categories coupled with each of the 72 extensions that have been associated with each of them in pretest 1. The task in this test was to evaluate the category fit between each couple of categories (starting and extension) using the single item measure of Aaker and Keller (1992). During the analysis, for each starting category we identified two extensions and selected the categories with the higher and the lower level of category fit. We then conducted for each category an analysis of variance (ANOVA) to verify the difference in the fit perceptions. The analysis lead to the exclusion of 2 of the 6 starting categories as the difference in category fit among the possible extensions for them was not significant. The four remaining product categories were snacks, milk, body care products and house cleaning detergents, for each of these categories we had a category of extension with an high category fit and one with low fit. All these categories were suitable for hypothesis testing in the experiment. In this study we decided to use snack as it has already been used by Aaker and Keller (1992). For this category the high fit extension category was cakes, while the low fit category was milk modifier powders.

The final step to be run before conducting the study was the selection of the brands (a national brand and a private label) whose extension had to be evaluated. To this end a second desk analysis on the database provided by the market research company was conducted to identify the brands (both national and private label) present on the starting point category.

Desk-analysis 2. During this analysis we rebuilt the snack category structure in terms of brands present in it. This analysis resulted of 27 national brands and 19 private labels. We therefore conducted a third pretest with the aim of identifying two brands (one national and one private label) with the same level of brand knowledge so to be used in the study controlling for this variable.

Pre-test 3. Since in the first experiment we would not consider the role of brand knowledge, we needed to be sure of controlling for this variable in the experiment. Therefore we run a third pre-test in which 30 participants were asked to provide, according to the 7-point scale developed by Yoo and Naveen (2001) and then used by Arnett, Lavail and Meiers (2003), their knowledge for each of the 27 national brands and 19 private labels emerged in the second desk analysis as suitable to be used in the study as parent brands.

We then conducted for each possible combination of the two types of brands (national and private label) an ANOVA to verify the difference in the brand knowledge. We therefore selected the two brands with the lower and not significant, difference in brand knowledge.

We then run the experimental study.

Method

Design and procedure. The study was designed as a 2 (category fit: high vs. low) x 2 (brand type: national brand vs. private label) between-subjects experiment. The experiment was run in a controlled laboratory setting.

Data were collected from 92 participants (23 per cell). As mentioned, to overcome one of previous studies limitation (the use of students as sample) the sample was selected to create variance in demographics. The sample was composed by people with an age greater than 18, representative of the population of the country in which the study was run (Italy) with different educational levels and doing different jobs. 43.5% were male and 56.5% were female.

Participants were recruited by a society specialized in recruiting of participants for product tests, under the pretext of being involved in a consumer opinion research for a company that was launching a new product in the market. They were randomly assigned to an experimental cell, a post hoc analysis controlled that there were not significant differences among the cell for the key demographics variables (gender, age, education, place of residence) so to avoid the presence of any differences in the cell participants could have an impact on the results of the study.

The experimental materials consisted of a set of pages that guided the respondents during the experiment. In the first part of the study participants were required to concentrate on the starting point category (snacks) and answer some questions on their buying and consumption habits to increase the credibility of the consumer opinion research. They were then asked to concentrate on one brand (private or national, depending on the cell they were assigned to) and they were asked to specify their brand knowledge (to control for it). At this stage they were told the brand was launching a new product in a new category (one of the two with either high or low fit, as identified in the pre-test), of which they were provided with a preview especially prepared for the experiment. The preview for the national brand and the private label were exactly the same; the product had exactly the same characteristics, the only difference was the brand on the packaging (national vs private label). They were finally asked to evaluate the brand extension fictitious prototype (our dependent variable).

Measures. The measure of category fit for the manipulation check was the single item suggested by Aaker and Keller (1992). The control (brand knowledge) was measured using the 7-point scale developed by Yoo and Naveen (2001) and then by Arnett, Lavail and Meiers (2003). The dependent variable "brand extension evaluation" was measured using Aaker and Keller (1990) measure, that is the average of the perceived overall quality of the extension and the likehood of trying the extension.

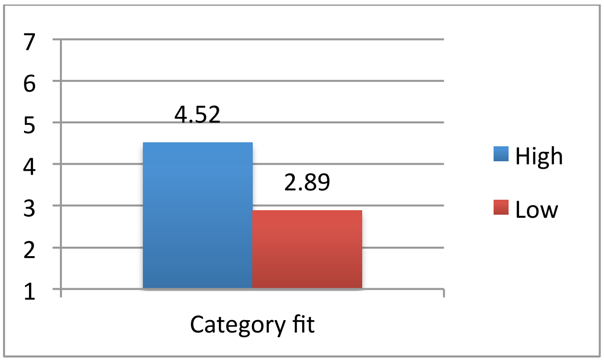
Results

Assumptions check. Tests were conducted to ensure that statistical assumptions associated with the independent t-Test and the factorial analysis of variance had been met. Levene's test of equality of error variance was not rejected.

Manipulation check. An independent t-Test was used to check the category fit manipulation (Figure 1).

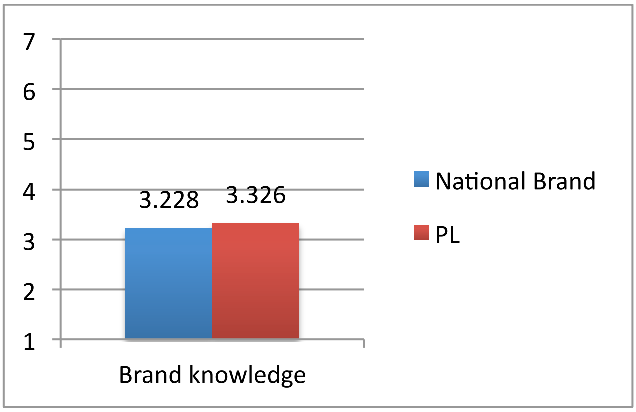
Participants in the high fit condition group reported a higher level of similarity between the starting point and the extension categories than those in the low fit condition ($M_{HIGH\ FIT}$= 4.52, $M_{LOW\ FIT}$= 2.89; t(90)= 4.809, p=0.000, r=0.45).

Figure 1. Study 1 – Category fit manipulation check



Control for brand knowledge. A second independent t-Test was used to check that the two selected brands were not varying in terms of brand knowledge to be sure the results of our analysis could not be influenced by differences in this variable (Figure 2). The difference was very small and not significant (M_{BRAND} = 3.228, M_{PL} = 3.326; t(90)= -0.305, p=0.761, r=0.001). Therefore the two brands used in the study had the same level of brand knowledge.

Figure 2. Study 1 – Brand Knowlegde check



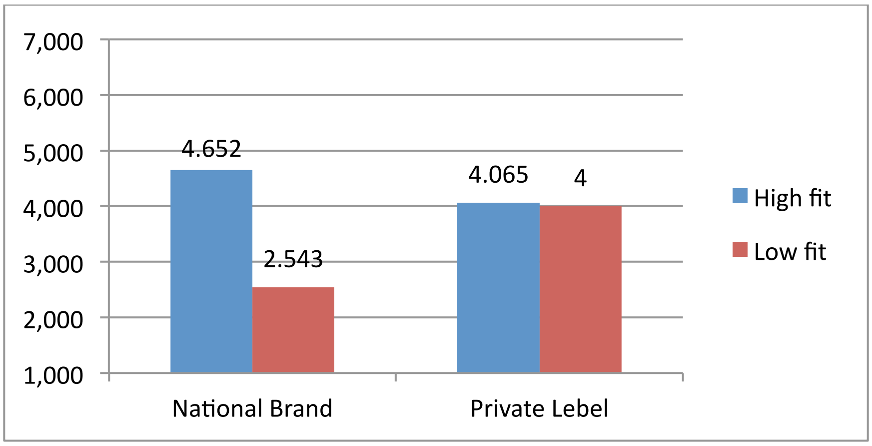
Brand extension evaluation. To test H_{1a} and H_{1b} we conducted a factorial analysis of variance, using category fit and type of brand (national vs. private label) as independent variables, and evaluation of the brand extension as the dependent variable. The results of the analysis are shown on Table 1.

Table 1. Study 1 – Factorial ANOVA results

Source	*df*	*Mean Square*	*F-value*	*P-value*	*r*
Category fit (F)	1	27.174	29.404	0.000	0.705
Type of brand (B)	1	4.348	4.705	0.033	0.254
F*B	1	24.011	24.981	0.000	0.66
Error	88	0.924			

The results confirm both our hypotheses (Figure 3). Indeed the analysis resulted in a statistically significant interaction effect between the brand typology (national vs. private label) and the category fit on the brand extension evaluation. The effect of category fit was different for national brands than for private label. Indeed the post-hot test on the mean differences significance H_{1a} is confirmed as the difference in the extension evaluation between high and low category fit is significant at level 0.000 only for the national brand (M_{HIGH}= 4.652, M_{LOW}=2.543). The difference between the conditions for the private label is not significant (M_{HIGH}= 4.065, M_{LOW}=4), this implies that category fit does not impact on brand extension evaluation for private label, thus confirms H_{1b}.

Figure 3. Study 1 – Brand extension evaluation



Discussion

The results of this first study go on the direction according to which private lables are somehow different from national brand, within the brand extension domain. Indeed the main determinant of brand extension evaluation (category fit) that emerged from a literature focused on national brands does not have an impact on their brand extension evaluation.

In the following study we will go on the investigation by considering also the role of brand knowledge.

Study 2

Study 2 focuses on the role of the second key variable identified in the literature of brand extension: brand knowledge. In this study we used the same starting point category of study 1 (snacks) and, as extension category, the one with lower category fit (milk modifier powders). This because the low fit condition was the more problematic one for brand extension evaluation and brand knowledge proved useful in increasing the evaluation of the product .

In order to run this study we needed to conduct additional pretests to the ones already done for study 1. In particular here, contrary to study 1, we had to select the brands significantly varying in brand knowledge.

Pre-test

Pre-Test 4. An additional pre-test was therefore conducted to identify the possible familiar and not familiar brands (both national and private label). 30 participants were asked (1) to list the 3 top of mind brands in the snack category and (2) provide, according to the 7-point scale developed by Yoo and Naveen (2001) and then by Arnett, Lavail and Meiers (2003), their knowledge for each of the 27 national brands and 19 private labels emerged in the second desk analysis of pre-test 3 of study 1 as suitable to be used in the study as parent brands. The data analysis concentrated on the 5 top of mind national brands and 5 top of mind private lables for the selection of the couple of known brands. From the data we identified: a familiar and a non familiar national brand and a familiar and not familiar private label.

Method

Design and procedure. The study was designed as a 2 (brand type: national brand vs. private label) x 2 (brand knowledge: high vs. low) between-subjects experiment. Data were collected from 96 participants (24 per cell). As for study 1, participants were selected to create variance in demographics. The sample was composed by people with an age greater than 18, representative of the population of the country in which the study was run (Italy) with different educational levels and doing different jobs. 54.2% were male and 45.8% were female.

Again participants were recruited by a society specialized in recruiting of participants for product tests, under the pretext of being involved in a consumer opinion research. They were randomly assigned to an experimental cell and a post hoc analysis controlled that there were not significant differences among the cell for the key demographics variables.

The experimental procedure was very similar to that of study 1. Initially participants were required to concentrate on the starting point category (snacks) and answer some questions on their buying and consumption habits to increase the credibility of the consumer opinion research. They were then asked to concentrate on one brand (private or national, highly known or not, depending on the cell they were assigned to). At this stage they were told the brand was launching a new product in a new category, of which they were provided with the preview prepared for the experiment. They were finally asked to evaluate the brand extension fictitious prototype (our dependent variable).

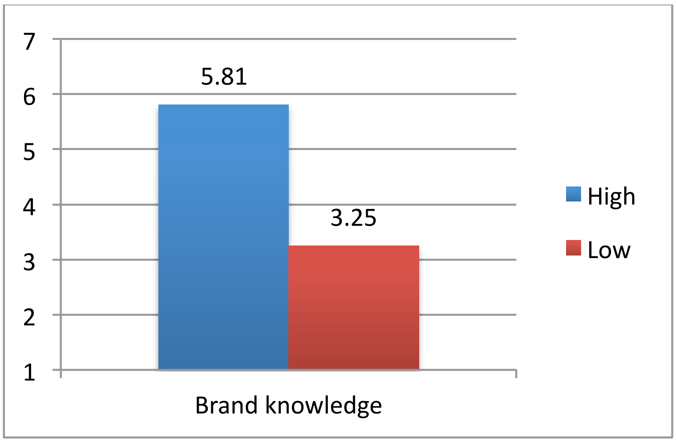
Measures. The measure of category fit for the manipulation check was the single item suggested by Aaker and Keller (1992). The control (brand knowledge) was measured using the 7-point scale developed by Yoo and Naveen (2001) and then adopted by Arnett, Lavail and Meiers (2003). The dependent variable "brand extension evaluation" was measured using Aaker and Keller (1990) measure.

Results

Assumptions check. Again tests were conducted to ensure that statistical assumptions associated with the independent t-Test and the factorial analysis of variance had been met. Levene's test of equality of error variance was not rejected.

Manipulation check. An independent t-Test was used to check the brand knowledge manipulation (Figure 4). Participants in the high knowledge condition group reported a higher level of brand knowledge than those in the low fit condition ($M_{HIGH\ KNOW}$= 5.81, $M_{LOW\ KNOW}$= 3.25; t(94)= 11.204, p=0.000, r=0.75).

Figure 4. Study 2 – Brand Knowlegde manipulation check



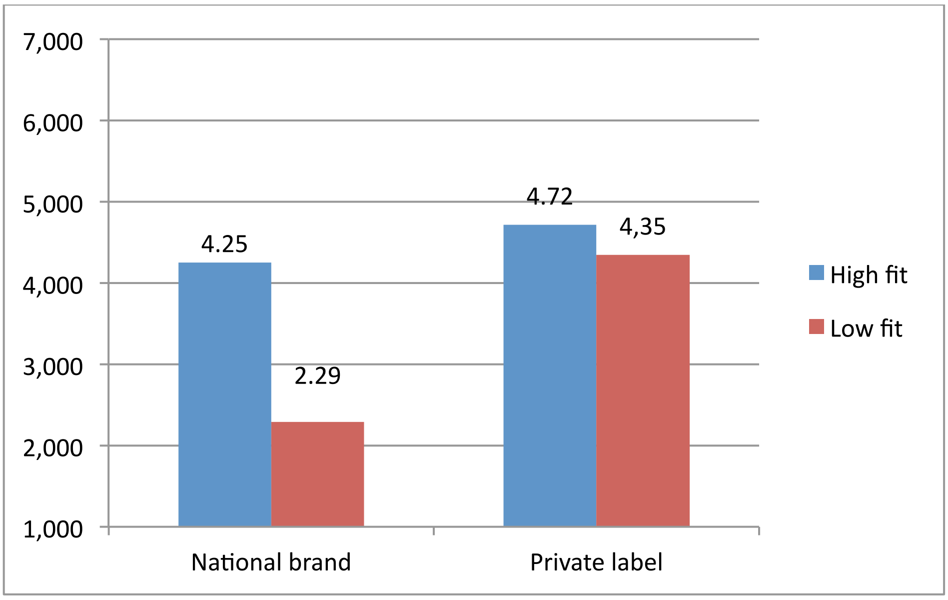
Brand extension evaluation. To test H_2 we conducted a factorial analysis of variance, using brand knowledge and type of brand (national vs. private label) as independent variables, and evaluation of the brand extension as the dependent variable. The results of the analysis are shown on Table 2.

Table 2. - Study 2 – Factorial ANOVA results

Source	*df*	*Mean Square*	*F-value*	*P-value*	*r*
Brand Knowledge (K)	1	32.667	37.952	0.000	0.49
Type of brand (B)	1	38.760	45.032	0.000	0.554
K*B	1	15.042	17.475	0.000	0.339
Error	92	0.86			

The results are consistent with our second hypothesis (Figure 5). Indeed the analysis proved a significant interaction effect between the brand typology (national vs. private label) and the brand knowledge on the brand extension evaluation. This proves that the effect of brand knowledge is different for national brands than for private label. H_2 is confirmed as the difference in the extension evaluation between high and low brand knowledge is significant at level 0.000 only for the national brand (M_{HIGH}= 4.25, M_{LOW}=2.29). The difference between the conditions for the private label is not significant (M_{HIGH}= 4.72, M_{LOW}=4.35), this implies that brand knowledge does not impact on brand extension evaluation for private label.

Figure 5. Study 2 – Brand extension evaluation



Discussion

The results of this second study go further on the direction according to which private lables are somehow different from national brand, within the brand extension domain. Indeed the second main determinant of brand extension evaluation (brand knowledge) that emerged from a literature focused on national brands does not have an impact on their brand extension evaluation.

In the following study we will go on the investigation by considering the the intereaction between brand knowledge and category fit.

Study 3

Study 3 merges study 1 and study 2 as includes as independent variable both category fit and brand knowledge. In this study we used the same categories (starting point and extension ones, with high/low fit) selected for study 1 and the same brands (national/private label with high vs low knowledge) selected for study 2.

Method

Design and procedure. The study was designed as a 2 (category fit: high vs. low) x 2 (brand type: national brand vs. private label) x 2 (brand knowledge: high vs. low) between-subjects experiment. The procedure was the same as for study 1 and 2. In this study we also inserted within the questionaire questions aimed at measuring some variables that could impact on the evaluation of the brand extension to be used as covariates in the analysis: perceived quality of the brand, perceived brand quality differences among brands within the extension category, frequency of buying the parent brand, and frequency of usage of products in the extension category. This was done in order to get more proper data on the impact of our independent variables on the brand extension evaluation.

Data were collected from 184 participants (23 per cell). Again the sample presented variety on key demographics, above age of 18, with different educational levels and doing different jobs. 49,5% were male and 50,5% were female. As for the previous studies, a post hoc analysis controlled that there were no significant differences among the cell for the key demographics variables.

Measures. The independent and the dependent variables were measured in the same way as in study 1 and 2. As mentioned in this study, we also measured three variables that could act as covariates. The first two covariates (perceived quality of the brand and perceived brand quality differences among brands within the extension category) were measured using the single item question by Aaker and Keller (1992). Frequency of buying the parent brand and frequency of usage of products in the extension category were measured using a single question asking the relative percentage.

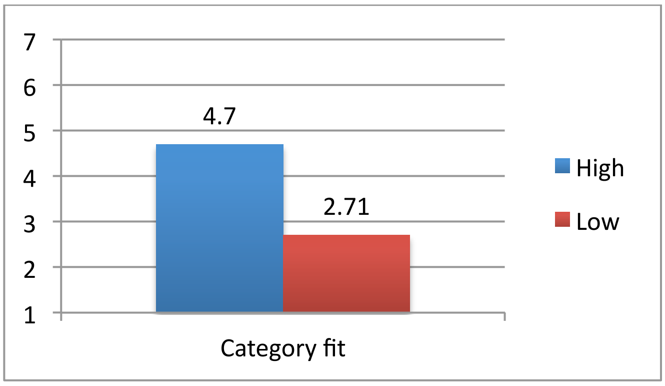
Results

Assumptions. Again tests were conducted to ensure that statistical assumptions associated with the independent t-Test, and the analysis of covariance (ANCOVA) had been met. Levene's test of equality of error variance was not rejected. In addition, tests were conducted to ensure there was no interaction effect between the covariate and any of the three other factors, which indicated that the assumption of the covariance regression coefficients' homogeneity had not been violated.

Manipulation check. An independent t-Test was used to check the category fit manipulation (Figure 6).

Participants in the high fit condition group reported a higher level of similarity between the starting point and the extension categories than those in the low fit condition ($M_{HIGH\ FIT}$= 4.70, $M_{LOW\ FIT}$= 2.71; $t(182)=8.499$, $p=0.000$, $r=0.53$).

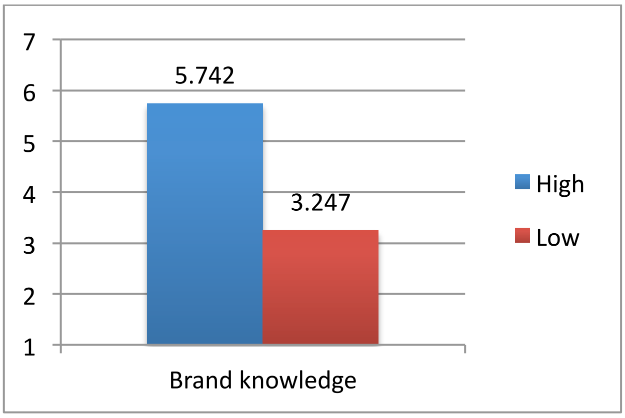
Figure 6. Study 3 – Category fit manipulation check



Another independent t-Test was used to check the brand knowledge manipulation (Figure 7).

Participants in the high knowledge condition reported a higher level of brand knowledge than those in the low knowledge condition ($M_{HIGH\ KNOW}$= 5.742, $M_{LOW\ KNOW}$= 3.247; t(182)= 13.156, p=0.000, r=0.698).

Figure 7. Study 3 – Brand Knowlegde manipulation check



Brand extension evaluation. To test our hypothesys we conducted a factorial analysis of covariance (ANCOVA), using category fit, type of brand (national vs. private label), and brand knowledge as independent variables, and evaluation of the brand extension as the dependent variable. Perceived quality of the brand, frequency of buying the brand, frequency of usage of products in the extension category and perceived brand quality differences among brands within the extension category were used as covariates.

The frequency of usage of products in the extension category emerged as a not significant convariate. We therefore re-run the analysis without it, the results of the analysis are shown on Table 3.

Table 3 - Study 3 – Factorial ANCOVA results

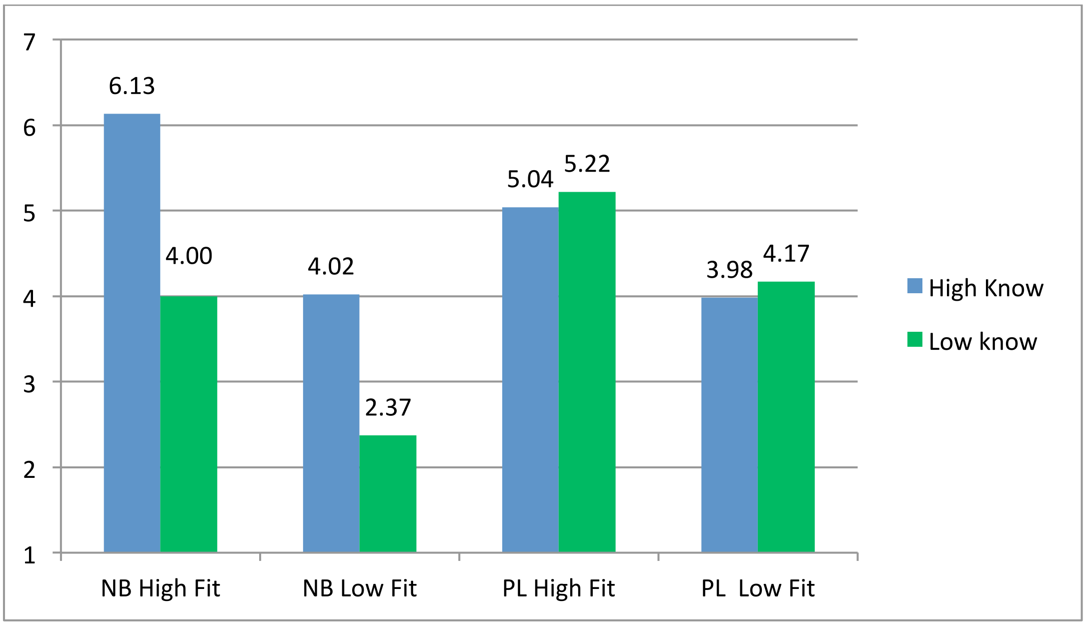
Source	*df*	*Mean Square*	*F-value*	*P-value*
Category fit (F)	1	1.58	2.444	0.120
Type of brand (B)	1	0.48	0.737	0.392
Brand Knowledge (K)	1	0.001	0.001	0.973
F*B	1	27.24	42.275	0.000
F*K	1	1.83	2.832	0.094
K*B	1	3.67	5.698	0.018
F*B*K	1	0.39	0.611	0.436
Perceived Brand Quality	1	14.9887	23.259	0.000
% of brand buying	1	5.930	9.203	0.003
Perceived brand differences	1	7.625	11.834	0.001
Error	164	0.644		

The beta parameter of the frequency of the parent brand buying is 0.415, implying a positive relationship between this covariate and the brand extension evaluation. The perceived brand differences among brands within the extension category and the perceived parent brand quality also show a positive, but lower, effect on the extension evaluation with a beta paremeter of 0.201 and 0.139 respectively.

The analysis shows a significant interaction effect between the brand typology (national vs. private label) and the category fit on the brand extension evaluation. This suggests that the effect of category fit is different for national brands than for private label. Indeed the post-hot test on the mean differences significance. There is

a statistically significant difference in the extension evaluation between high and low category fit. This is significant at level 0.000 only for the national brand ($M_{HIGH\ FIT}$= 5.078, $M_{LOW\ FIT}$ =3.184). These results support H_{1a}. The difference between the conditions for the private label is not significant ($M_{HIGH\ FIT}$ = 4.511, $M_{LOW\ FIT}$=4.7). This implies that category fit does not impact on brand extension evaluation for private label, thus supporting H_{1b}.
The interaction effect between brand knowledge and type of brand is significant at 10%. The effect of brand knowledge is greater for the national brand ($M_{HIGH\ KNOW}$= 5.07, $M_{LOW\ KNOW}$= 3.196) than for the private label ($M_{HIGH\ KNOW}$= 5.13, $M_{LOW\ KNOW}$= 4.08), seeming to support in part our H_2. A post-hoc analysis revealed that brand knowledge has a significant role on brand evaluation for the national brand both for the high fit condition ($M_{HIGH\ KNOW}$= 6.13, $M_{LOW\ KNOW}$= 4.02) and for the low fit condition ($M_{HIGH\ KNOW}$= 4.00, $M_{LOW\ KNOW}$= 2.37). The role of brand knowledge is not relevant for the private label and independent on fit: the impact of brand knowledge on brand evaluation for the national brand is not significant both for the high fit condition ($M_{HIGH\ KNOW}$= 5.04, $M_{LOW\ KNOW}$= 5.22) and for the low fit condition ($M_{HIGH\ KNOW}$= 3.98, $M_{LOW\ KNOW}$= 4.17). These results are consistent with both H_{3a} and $H3_b$.

Figure 8 - Study 3 – Brand extension evaluation per cell



Discussion

Also this study goes mainly in the direction of private labels being different from national brands in the brand extension domain. First of all again there is not a statistically significant role of category fit for them, contrary to its key relevance for national brand extensions success.

Also, brand knowledge may not be relevant for private labels, while it does have an impact on the brand extension evaluation of national brands. Looking at the data of this study, we can notice that the maximum evaluation is reached by the known brand expanding in a category with high fit. When fit is high, after the known brand come the private labels (whose evaluation is not dependent on their level of knowledge) and finally the less known brand. In the low fit condition, the scenario changes as here private labels are evaluated better, with not significant difference with their evaluation in the high fit condition, of both known and less known national brand and the less known brand. This is the first evidence that category fit and brand knowledge, so relevant for national brand extension, do not have an impact on the evaluation of private labels extension.

Study 4

To increase the generalizability of our findings, we replicated study 3 in another product category identified in the pre-test 2 of the study 1 (milk, body care products and house cleaning detergents). In order to identify the category, out of the 3 identified, in which to conduct the study and then the brands to be used in the experiment we conducted some additional preliminary analyses.

Pre-test

Desk-analysis 3. In order to chose among the three suitable categories identified in pre-test 2 of study 1 (milk, body care products and house cleaning detergents) in which to conduct a desk-analysis on data on the categories. The goal of the analysis was to identify a category with different characteristics than the one used for the previous studies (snack) to verify whether those results were category specific. The data where provided by the same data provider that send us the database on the category sales used in pre-test 1. We focused on data pertaining the number of firms competing on the category, and the promotional intenxity. The goal was to find a category with different levels on those variables form the snacks.

Pre-Test 5. We also conducted an additional pre-test to look if among those four categories there were differences in terms of perceived risk by the consumer. This is because perceived category risk emerged as a relevant variable in previous studies on brand extension evaluation.

From the analysis on the desk and the pre-test we selected as starting point category body care as it emerged as the more different from snack on the observed variables. Compared to snacks, the body care category showed: an higher fragmentation (more brands competing in the category), a lower promotional intensity and an higher perceived risk. We used as extension categories the two (with high - talcum powder - and low fit - toothbrush) that we identified in pre-Test 2.

Desk-analysis 5. The final step to be run before conducting the study was the selection of the brands (a national brand and a private label) whose extension had to be evaluated. To this end we conducted a desk analysis, like desk-analysis 2 in study 1. During this analysis we rebuilt the body category structure in terms of brands present in it. This analysis resulted of 56 national brands and 19 private labels.

Pre-Test 6. An additional pre-test was therefore conducted to identify the possible familiar and not familiar brands (both national and private label). 30 participants were asked (1) to list the 3 top of mind brands in the bodycare category and (2) provide, according to the 7-point scale developed by Yoo and Naveen (2001) and then by Arnett, Lavail and Meiers (2003), their knowledge for each of the 56 national brands and 19 private labels emerged in the desk analysis. The data analysis concentrated on the five top of mind national brands and five top of mind private labels for the selection of the couple of known brands and run an ANOVA on their brand knowledge. From the data we identified: a known and a not known national brand and a known and not known private label.

Method

Design and procedure. The study was designed as a 2 (category fit: high vs. low) x 2 (brand type: national brand vs. private label) x 2 (brand knowledge: high vs. low) between-subjects experiment. The procedure was the same as for study 4.

Data were collected from 184 participants (23 per cell). Again the sample presented variety on key demographics, above age of 18, with different educational levels and doing different jobs. 49,5% were male and 50,5% were female. Again a post hoc analysis controlled that there were not significant differences among the cell for the key demographics variables.

Measures. The independent and the dependent variables were measured in the same way as in the previous study.

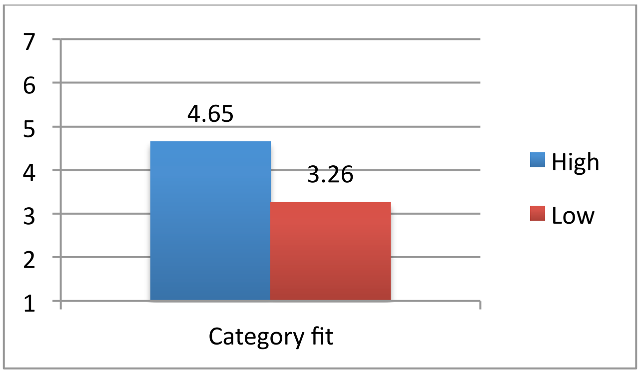
Results

Assumptions. Again tests were conducted to ensure that statistical assumptions associated with the independent t-Test, and the analysis of covariance (ANCOVA) had been met.

Manipulation check. An independent t-Test was used to check the category fit manipulation (Figure 9).

Participants in the high fit condition group reported a higher level of similarity between the starting point and the extension categories than those in the low fit condition ($M_{HIGH\ FIT}$= 4.65, $M_{LOW\ FIT}$= 3.26; $t(182)=6.818$, $p=0.000$, $r=0.45$).

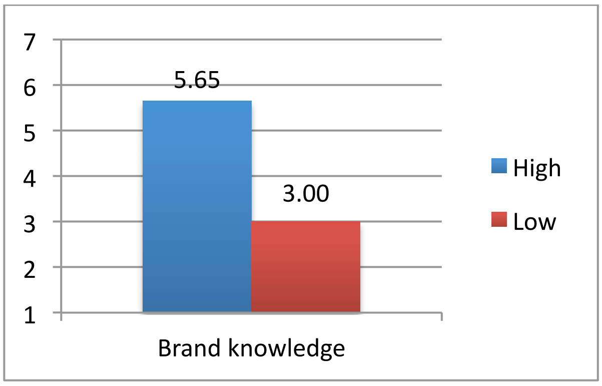
Figure 9. Study 4 – Category fit manipulation check



Another independent t-Test was used to check the brand knowledge manipulation (Figure 10).

Participants in the high knowledge condition reported a higher level of brand knowledge than those in the low knowledge condition ($M_{HIGH\ KNOW}$= 5.65, $M_{LOW\ KNOW}$= 3.00; $t(182)= 16.486$, $p=0.000$, $r=0.774$).

Figure 10. Study 4 – Brand Knowlegde manipulation check



<u>*Brand extension evaluation*</u>. To test our hypothesys we conducted a factorial analysis of covariance (ANCOVA), using category fit, type of brand (national vs. private label), and brand knowledge as independent variables, and evaluation of the brand extension as the dependent variable. Perceived quality of the brand, frequency of buying the brand, frequency of usage of products in the extension category and perceived brand quality differences among brands within the extension category were used as covariates.

Only the quality of the brand resulted a significant covariate. We therefore re-run the analysis just with this variable as covariate, the results of the analysis are shown on Table 4.

Table 4 - Study 4 – Factorial ANCOVA results

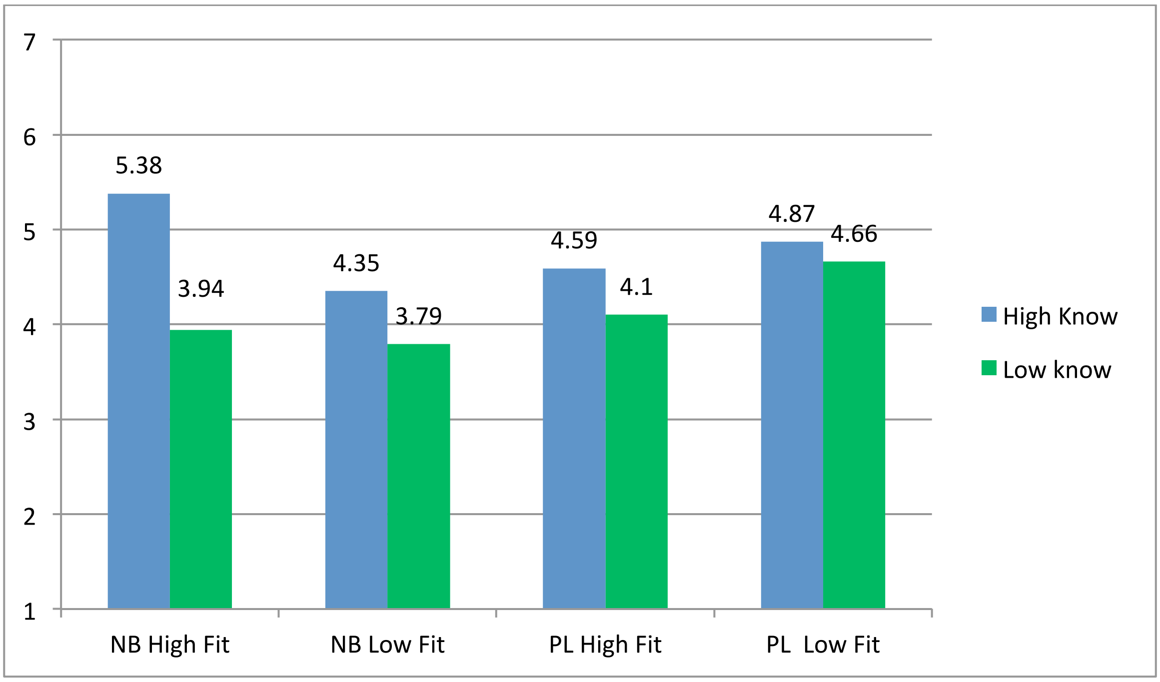
Source	*df*	*Mean Square*	*F-value*	*P-value*
Category fit (F)	1	0.000	0.000	0.985
Type of brand (B)	1	1.744	2,378	0.125
Brand Knowledge (K)	1	0.578	0.788	0.376
F*B	1	11.430	15.589	0.000
F*K	1	1.834	2.502	0.116
K*B	1	2.281	3.111	0.080
F*B*K	1	0.956	1.304	0.255
Perceived Brand Quality	1	27.355	37.355	0.000
Error	172	0.733		

The beta parameter of the brand quality of the parent brand buying is 0.440, implying a positive relationship between this covariate and the brand extension evaluation.

The analysis proved a significant (at 10%) interaction effect between the brand typology (national vs. private label) and the category fit on the brand extension evaluation. The post-hoc test on the mean differences significance supports H_{1a} as the difference in the extension evaluation between high and low category fit is significant at level 0.05 only for the national brand ($M_{HIGH\ FIT}$= 4.75, $M_{LOW\ FIT}$ =4.11). The difference between the conditions for the private label is not significant ($M_{HIGH\ FIT}$ = 4.23, $M_{LOW\ FIT}$=4.72), this implies that category fit does not impact on brand extension evaluation for private label, thus confirms H_{1b}.

The interaction effect between brand knowledge and type of brand is significant at 10%. The effect of brand knowledge is greater for the national brand ($M_{HIGH\ KNOW}$= 4.87, $M_{LOW\ KNOW}$= 3.87) than for the private label ($M_{HIGH\ KNOW}$= 4.73, $M_{LOW\ KNOW}$= 4.38), seeming to support in part our H_2. Apost-hoc analysis revealed that brand knowledge has a significant role on brand evaluation for the national brand both for the high fit condition ($M_{HIGH\ KNOW}$= 5.38, $M_{LOW\ KNOW}$= 3.94) and for the low fit condition ($M_{HIGH\ KNOW}$= 4.353, $M_{LOW\ KNOW}$= 3.79). The role of brand knowledge is not relevant for the private label and independent on fit: the impact of brand knowledge on brand evaluation for the national brand is not significant both for the high fit condition ($M_{HIGH\ KNOW}$= 4.59, $M_{LOW\ KNOW}$= 4.1) and for the low fit condition ($M_{HIGH\ KNOW}$= 4.87, $M_{LOW\ KNOW}$= 4.66). These result, albeit not statistically significant, are consistent are with both H_{3a} and $H3_b$.

Figure 11 - Study 4 – Brand extension evaluation per cell



Discussion

The results of study 4 replicate, starting from a different category, the results of study 3. The use of a sample composed not only by students and study 4 run in a different product category wanted to be a first attempt to generalize our findings to overcome the main limitation of the methodology we used, that is the experiment focus on internal validity with poor focus on external validity. Hovewer further progress could be done in this direction by future studies.

As for study 3, the maximum evaluation is reached by the known brand expanding in a category with high fit. When fit is high, after the known brand come the private labels (whose evaluation is not dependent on their level of knowledge) and finally the less known brand. In the low fit condition, the results differ as private labels are evaluated better, with no significant difference with their evaluation in the high fit condition, of both known and less known national brand and the less known brand. This is further evidence that category fit and brand knowledge, so relevant for brand extension, do not have an impact on the evaluation of private labels extension.
In the following session we will discuss the results of our four studies.

General discussion

The paper reported the results of four experimental studies on the role of fit and brand knowledge on the evaluations of brand extension for private labels compared to national brands. This is a first attempt to answer the yet unsolved question on whether private labels react to brand extension attempts similar to traditional national brands.
The results of the study seem to lead to the conclusion that private labels do differ from national brands in terms of the effects of brand extension attempts. Indeed consumers' evaluation of brand extensions for private labels appeared to not depend on either category fit or brand knowledge. These were the two key drivers of consumers' evaluation identified in the brand extension literature.
These findings represent a preliminary theoretical contribution on the positioning of private labels as a distinct type of brand.
Indeed private labels are often managed like national brands by retailers and perceived like national brands by consumer. However, at the same time some brand extension principles do not apply to them.
Focusing on category fit, it could be argued that the perception of fit concerning private labels could be different as they are present in a greater numer of categories

than national brands. Keller and Aaker (1992) indeed showed that by taking "little steps," i.e., by introducing a series of closely related but increasingly distant extensions, it is possible for a brand to ultimately enter product categories that would have been much more difficult, or perhaps even impossible, to have entered directly (Dawar and Anderson 1994; Jap 1993; Meyvis and Janiszewski 2004). This because consumers use a more holistic approach of thinking when evaluating those brands, according to which they seek out alternative ways to connect the extension with the parent brand, such as overall brand reputation, regardless of whether the extension conforms to the same attribute or product category profile as the parent brand (Monga and John 2010). For less extended brands consumers use an analytic style of thinking, in which they focus on the specific attributes or products usually associated with the parent brand and try to match these features with those of the extension (Monga and John 2010) and evaluate the fit.

Our database confirms that private labels are present in more categories than any national brands. Consequently, controlling for past extensions has been impossible in our studies. However it should firstly be noted that the number of extensions of private labels could not be perceived in the same way by consumer. Future studies could go more deeply in investigating this phenomenon by controlling for respondent' perception of the extension history of the brands (national and private labels) used in the experiments.

Second, the relationship between the number of extensions and the success of further brand extension is not an univocal conclusion in the literature. Whereas some have argued that a broad set of extensions will increase the range of categories suitable for future extensions (e.g., Boush and Loken 1991; Dacin and Smith 1994), there is a stream of research pointing out that this create more diffuse associations and weaken the image of the parent brand (e.g., Keller and Aaker 1992; Loken and John 1993).

Concerning brand knowledge, two areas of evidence from our studies should be pointed out. First of all, the results on its manipulation seem to partially contradict the taken for granted vision according to which store brands are in general less well known than national brands (Dick et al. 1996). The results of the manipulation indeed show that, as national brands, there is a difference in the perceptions of brand knowledge also for private labels. Hovewer this difference, contrary to national brands, does not have a significant effect on their brand extension evaluation.

The empirical success of private labels, as emerged in in the results of these studies but also in the data on their development pointed out at the introduction of this paper, should lead researchers to further investigate what are the determinants of this success. A possible answer to be further investigated is the role of store hat could act as a glue among the very different product categories in consumers' mind. This could be coherent with previous research according to which consumers form complex networks of associations (Hamilton and Chernev 2010) with the stores at which they shop (Martineau 1958; Myers 1960) and the brands that they buy (Gardner and Levy 1955; Keller 1998).

Further studies should go on investigating differences and similarities between brands and private labels, with the aim of identifying which are the main drivers of private labels' extension success.

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Essay 2

Are private labels the same as brands? A further investigation within the brand equity process

Abstract

This paper focuses as essay one on private labels as brand. The aim is to answer the very same question on whether private labels are brands the same way manufacturers' brands are or they are sufficiently different that the actual application of some branding principles can vary for them. This question is there addressed within the brand equity domain. Brand equity is relevant for many reasons, among them the fact that it has been identified as a relevant driver in brand extension success.

The paper reports the results of a survey-based study analyzing similarities and differences between the two types of brands in the brand equity process. In particular we test a model on the brand equity components' effect on attitudinal and behavioral loyalty. This model investigates whether the relationships among the key variables identified in the literature change for private labels compared to national brands.

The results of this paper seem to contradict the results of essay one as they support the view according to which private labels are similar to national brands. This implies that the reason why private labels seem to gain over national brands in brand extension is not due to differences on the brand equity process.

Keywords Private label, national brand, brand equity, brand trust, brand loyalty

With the realization that brands are one of a firm's most valuable intangible assets, branding has become an important tool for retailers to influence customer perceptions and drive store choice and loyalty. Store loyalty has become particularly relevant nowadays, given the highly competitive nature of the retailing industry. The offert of the retailers' own brands (private labels or store brands) in the shelves has become one of the most important trends in retailing. An empirical evidence of this phenomenon can be found in many markets, where private labels have become a dominant feature. The widespread of private labeled products has been widely addressed in essay one; we therefore refer to that paper for greater insights on private labels' introduction by retailers and acceptance by consumers.

In spite of the emergence and growing importance of store brands, academic research on branding has largely concentrated only on national brands. However, a number of important differences between national and store brands (i.e. brand exclusivity, the role of the store compared to advertising and the related advantages for them[3]) require a further and separate attention be given to the latter (Ailawadi and Keller 2004; Erdem et al. 1999; Steenkamp and Dekimpe 1997). Due to the lack of specific investigation, little is known on the extent to which some important branding principles can be applied to retailers's branded products directly.

Therefore, a host of questions about retailers' branding are raised. How should we consider a retailer brand? What strategies should retailers implement to exploit their own brand equity?

In this paper we will test whether there are any differences between national brands and private labels on their customer-based brand equiy process, with the aim of answer to these underinvestigated questions.

Since brand equity is recognized in literature as a relevant driver to brand extension (Farquhar 1989; Lassar, Mittal and Sharma 1995), the study presented in this paper

[3] These elements have been described in essay 1, to which we invite you to refer for further information.

adds further evidences on the main question we started to address in essay one: are private labels the same of brands?

We therefore concentrate on brand equity, a construct regarded as a very important concept in business practice as well as in academic research. Brand equity relevance is rooted on its capacity to represent a valuable source of firm's competitive advantage. The advanteges for firms having brands with high equity include not only the already mentioned opportunity of launching succesfull brand extensions, but also the resilience against competitors' promotional pressure and the creation of entry barriers to competitors (Farquhar 1989; Lassar, Mittal and Sharma 1995).

Since private labels have been introduced in the market as a source of competitive advantage, understanting whether the value creation process based on brand equity can apply to them as for national brands, beside the theoretical contribution in understanding private labels as brands, will lead also to relevant managerial insights.

The remaining of the paper is structured as follows. First we summarize the main findings of previous literature on brand extension and develop a model on the relationships between the brand equity components and its consequences. This model is widely recognized to hold for national brands. Then we present the results of a survey-based study that tested these relationships with the aim id identifying if they hold also for private labels. Finally we come up with some concluding considerations on the similarities and differences between private labels and brands.

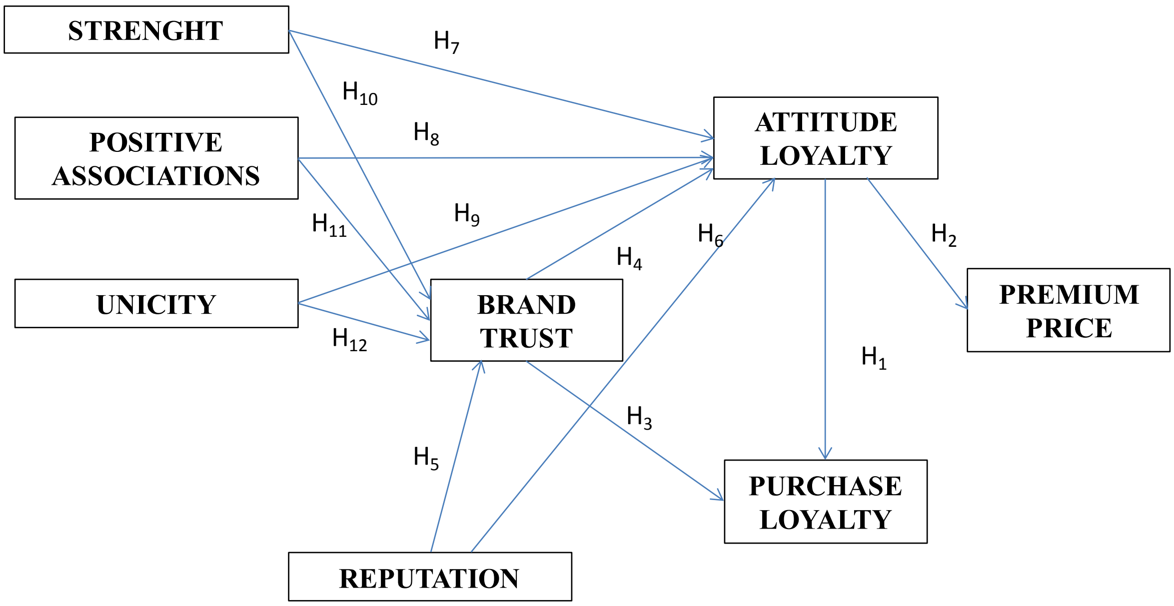
Studies on Brand Equity and Model Development

Brand equity is an important topic both in marketing research (Aaker and Biel 1992; Erdem and Swait 1998) and in the business world (Agarwal and Rao 1996) as it is considered as perhaps the single most important asset that marketing contributes to a firm (Goldfarb, Qiang and Sridhar 2009).

Brand equity has been described by the Marketing Science Institute as "the set of associations and behavior on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name" (Leuthesser 1988).

In this paper we will refer to the perception-preference-choice paradigm and the hierarchy of effects model (Lavidge and Steiner 1961; McGuire 1972) to develop the model to be tested (illustrated in Figure 1). This framework allows identifying the various stages - antecedents (brand equity components) and consequences of brand equity from the perspective of the individual consumer - through which a consumer passes within the brand equity process (Agarwal and Rao 1996; Cobb-Walgren, Ruble and Donthu 1995). The test on whether this model holds also for the private labels can thus provide useful information on their brand equity process. The model is described in the following sections. In our description we will start from the consequences of brand equity and go back to its main antecedents.

Figure 1. The brand equity process



Consequences of brand equity: brand loyalty and premium price

Different definitions of brand equity have been offered in the literature. Aaker (1991) defined brand equify as a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to the firm's customers. Keller (1993) offered a cognitive psychology perspective, defining customer-based brand equity as the differential effect that brand knowledge has on consumer response to the marketing of that brand. Adopting an information economics view, Erdem and Swait (1998) argue that consumer-based brand equity is the value of a brand as a credible signal of a product's position. More generally, brand equity was referred to as the added value to the firm, the trade, or the consumer with which a brand endows a product (Farquhar 1989).

Therefore brand equity is often defined as the added value a brand gives a product (Erdem and Swait 1998; Farquhar 1989) or similarly, as the difference between the value of the branded product to the consumer and the value of the product without that brand (McQueen, 1991). This added value has been viewed from a variety of perspectives in literature (Aaker 1991; Farquhar 1989; Tauber 1988). There is a widespread agreement that it can be analyzed from two main perspectives: the consumer’s or the firm’s (Shocker and Weitz 1998).

From the firm's point of view, brand equity can be measured by the incremental cash flow from associating the brand with the product (Farquhar 1990).

Brand equity from an individual consumer's perspective is reflected by the increase in attitude strength for a product using the brand. An attitude is defined as the association between an object (the branded product) and the evaluation of that object stored in an individual's memory (Fazio 1986). The value of a brand to consumer is generally referred to as consumer-based brand equity (Keller 1993), it is rooted in cognitive psychology and focuses on consumers’ cognitive processes (Erdem and Swait 1998). It stemps form the greater confidence that consumers place in a brand than they do in its competitors that in turn translates into the two main consequences of consumer-based brand equity: consumers' loyalty and willingness to pay a premium price for the brand (Lassar, Mittal and Sharma 1995).

Brand loyalty is a concept whose importance has been recognized in the marketing literature for many years as it is an important element in the brand equity process (Chauduri 1999). It is defined a consumer's preference to buy a single brand in a product class (Chauduri 1999) even in presence of situational influences and marketing having the potential to cause switching behavior (Oliver 1999).

This definition of brand loyalty emphasizes two different aspects of it that have been described in previous works: behavior and attitude (Aaker 1991; Assael 1998; Day 1969; Jacoby and Chestnut 1978; Jacoby and Kyner 1973; Oliver 1999; Tucker 1964). *Behavioral*, or purchase, *loyalty* consists of repeated purchases of the brand, whereas attitudinal brand loyalty includes a degree of dispositional commitment in terms of some unique value associated with the brand (Chaudhuri and Holbrook 2001). Brand equity therefore leads to greater sales for the brand (Howard and Sheth 1969), that is *behavioral loyalty*, which in turn is driven from attitudinal loyalty. Therefore a first relationship in our brand equity model is the following:

H_1: The higher the attitudinal loyalty, the higher the behavioral loyalty

Attitudinal loyalty and its effect on behavioral loyalty are particularly relevant for the firm. As Aaker (1991) pointed out in his discussion on the role of brand loyalty in the brand equity process, brand loyalty leads to other marketing advantages such as reduced marketing costs, given to their requirement of less advertising, more new customers and greater trade leverage. Additionally, Dick and Basu (1994) suggest other marketing advantages as a result of brand loyalty such as favorable word of mouth and greater resistance among loyal consumers to competitive strategies.

Brand loyal consumers are also willing to pay more for a brand because they perceive some unique value in the brand that no other alternative can provide

(Jacoby and Chestnut 1978; Pessemier 1959). *Premium price* has therefore been closely associated with the concept of brand equity (Aaker 1996; Bello and Holbrook 1995; Holbrook 1992; Park and Srinivasan 1994; Winters 1991). Previous studies have shown that greater attitudinal loyalty should lead to greater willingness to sacrifice by paying a premium price for a valued brand (Chaudhuri and Holbrook 2001). Therefore, on the basis of the literature, we expect a significant and positive relationship between a brand's attitudinal loyalty and its relative price in the marketplace (Chaudhuri and Holbrook 2001):

H_2: attitudinal brand loyalty is positively related to premium price

Antecedents of brand loyalty: brand trust

Has we have seen, superior brand performance outcomes such as greater attitudinal and behavioral buying and acceptance of premium price (relative to the leading competitor) may result from greater customer loyalty. This loyalty, in turn, may be determined by trust in the brand and by feelings or affect elicited by the brand (Chaudhuri and Holbrook 2001).

Brands high in consumer trust are indeed linked to both attitudinal and purchase loyalty (Chaudhuri and Holbrook 2001). This proposition stems from the emerging theory of commitment (that some authors within the brand domain consider very similar to and therefore overlapping with loyalty) in relationship marketing (Fournier 1998; Gundlach, Achrol, and Mentzer 1995; Moorman, Zaltman, and Deshpande 1992; Morgan and Hunt 1994; Webster 1992).

Brand trust leads to brand loyalty or commitment because trust creates exchange relationships that are highly valued (Morgan and Hunt 1994). Since commitment has been defined as "an enduring desire to maintain a valued relationship" (Moorman, Zaltman, and Deshpande 1992, p. 316), loyalty (or commitment) underlies the ongoing process of continuing and maintaining a valued and important relationship that has been created by trust.

Thus, trusted brands should be purchased more (behavioral loyalty) and should evoke a higher degree of attitudinal loyalty:

H_3: brand trust positively influences attitudinal brand loyalty

H_4: brand trust positively influences behavioral brand loyalty

Brand trust can be defined as the willingness of the average consumer to rely on the ability of the brand to perform its stated function (Chaudhuri and Holbrook 2001). Trust reduces the uncertainty in an environment in which consumers feel especially vulnerable because they know they can rely on the trusted brand (Moorman, Zaltman, and Deshpande 1992; and Doney and Cannon 1997), so it is particularly relevant in situations of uncertainty (e.g., when greater versus lesser differences among brands occur).

Doney and Cannon (1997, p. 37) suggest that the construct of trust involves a "calculative process" based on the ability of an object or party (e.g., a brand) to continue to meet its obligations and on an estimation of the costs versus rewards of staying in the relationship. At the same time, they point out that trust involves an inference regarding the benevolence of the firm to act in the best interests of the customer based on shared goals and values. Thus, beliefs about reliability, safety, and honesty are all important facets of trust that people incorporate in their operationalization of trust. These beliefs can be summarized within the construct of brand reputation.

Reputation is the aggregate perception of outsiders on the salient characteristics of companies (Fombrun and Rindova 2000), or brands (Veloutsou and Moutinho 2009). To be successful and hence profitable, brands should have a positive reputation (Herbig and Milewicz 1995).

The development of brand reputation means more than keeping consumers satisfied, it is something a company earns over time and refers to how various audiences evaluate the brand. Companies and brands with a good reputation are likely to attract more customers (Milewicz and Herbig 1994). A brand can also lose its positive reputation - and eventually develop a negative reputation - if it repeatedly fails to fulfill its stated intentions or marketing signals (Milewicz and Herbig 1994). Brand reputation is considered in this model as an antecedent of both brand trust and attitudinal loyalty:

H_5: Brand reputation is positively related to brand trust

H_6: Brand reputation is positively related to attitudinal loyalty

Brand equity building elements

As already stated, customer-based brand equity is defined as the differential effect of brand knowledge on consumer response to the marketing of the brand (Keller 1993). That is, customer-based brand equity involves consumers' reactions to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named or unnamed version of the product (Keller 1993).

Brand researchers have developed several conceptualizations of brands equity components. Earlier models – such as Aaker’s brand equity model and Keller’s customer-based brand equity model – have focused heavily on how consumer perceive and evaluate brands by investigating certain knowledge structures such as brand awareness, image and personality (Aaker 1991; Aaker 1997; Keller 1993).

Different authors have presented different perceptual and cognitive factors that influence purchase. Aaker (1991), identified three key perceptual/cognitive variables: name awareness, brand associations, and perceived quality. Feldwick (1996) and de Chernatony and McDonald (2003) have distinguished six types of brand attributes: awareness, image, perceived quality, perceived value, personality, and organizational associations.

One of the most widely used, and most parsimonious, models is Keller's (1993, 2003) customer-based brand equity model. Keller (1993, p. 2) conceptualizes customer-based brand equity as "the differential effect of brand knowledge on consumer response to the marketing of the brand". Customer-based equity occurs when the consumer is aware and familiar with the brand and holds positive associations about the brand in memory (Esch et al. 2006). That is, there are two distinct dimensions of brand knowledge: brand awareness and image. These two dimensions have been generally confirmed in prior marketing research (Agarwal and Rao 1996; Mackay 2001; Pappu et al. 2005).

Brand awareness refers to the strength of the brand node in memory, i.e. how easy it is for the consumer to remember the brand (Keller 1993). Brand recall is the most common way to measure brand awareness.

Brand image refers to strong, favorable and unique brand associations in memory (Keller 2003), which result in perceived quality, a positive attitude and overall positive affect. Indeed, many of the brand factors identified as different aspects of brand equity by other authors (such as perceived quality, personality and organizational associations) may be viewed as belonging to the overall category of brand image and its immediate effects (Esch et al. 2006). We therefore concentrate in this study on brand image and its components as antecedents on the attitudinal and behavioural outcomes we described earlier and rely to the literature stream according to which customer-based brand equity occurs when the consumer is familiar with the brand and holds some favorable, strong, and unique brand associations in memory.

Building strong brands is one of the most important goals of product and brand management (Esch et al. 2006). Strong brands result in higher revenue streams, both short term and long term (Aaker 1991, 1996; Kapferer 2004; Keller 2003). Therefore the *strength of the brand* is a key variable in determining attitudinal loyalty (Chaudhuri and Holbrook 2001):

H_7: Brand strength is positively related to brand attitudinal loyalty

The brand loyalty literature (Dick and Basu 1994; Jacoby 1971; Jacoby and Chestnut 1978; Jacoby and Kyner 1973) generally supports the contention that favorable *(positive) brand attitudes* are determinants of brand loyalty. For instance, Jacoby and Chestnut (1978) maintained that brand loyalty is a function of both behavioral and psychological (attitudinal) processes. More recently, Dyson, Farr and Hollis (1996) explained the variation in brand loyalty based on persons' attitudes toward the brand and Cobb-Walgren, et al. (1995) showed that brand perceptions are linked to brand preferences. Most importantly, Baldinger and Rubinson (1996) clearly demonstrated that brand loyalty depends on positive brand attitudes.

Positive affective responses will be associated with high levels of attitudinal brand loyalty (Chaudhuri and Holbrook, 2001). Similarly, Dick and Basu (1994) have proposed that brand loyalty should be greater under conditions of more positive emotional affect. Therefore:

H_8: Brand positive associations are positively related to attitudinal brand loyalty

The third component, *unicity*, has coherently the same effect on brand loyalty than the previous two:

H_9: Brand unicity is positively related to attitudinal brand loyalty

Brand equity’s components (strength, positivity and unicity) are also expected to be antecedents of brand trust (Esch et al. 2006):

H_{10}: Brand strength is positively related to brand trust

H_{11}: Brand positive associations are positively related to brand trust

H_{12}: Brand unicity is positively related to brand trust

The aim of this paper is to test whether the relationships described above that till now have been tested only for national brands are the same also for private labels or the type of brand (private label vs. national) can be considered a moderator.

Methodology

We used brands –that is, specific branded versions of particular product classes (Chaudhuri and Holbrook 2001) - as the units of analysis in this study. This enables us to bring consumer-level notions of the measured contructs (Chaudhuri and Holbrook 2001). Therefore, before collecting the data we conducted several preliminary analysis necessary to many ends. First of all we needed to identify within the Fast Moving Consumer Goods on which category/ies to concentrate. Then for each category we had to identify the brand/s that would represent the unit of analysis for the data collection.

We also had to adapt the measures taken from the literature to our context.

All the steps of our analysis preliminary to the data collection are described below.

Preliminary studies: product categories selection

The characteristics of the product category under investigation can act as intervening variables in the relationships among the key variables identified above. Previous studies usually concentrate on just a product category and therefore are poor on external validity. To verify wheter the results of our study were generalizable or category specific we decided to collect data on more categories. To select the categories we conducted a series of preliminary analysis described in the following paragraphs.

Interviews to FMCG experts 1. Before screening the product categories we asked 5 experts on the FMCG (top managers and consultants) to list the key variables to be considered in our analysis. From the cross-check of their answers emerged the following relevant variables: private label penetration, promotional intensity, concentration, product seasonality, and perceived risk of the category. We therefore concentrated on these variables in the following steps.

Desk analysis 1. To perform this analysis we used a database provided by a market data provider (IRI Infoscan) that contained the 2011 data on sales (at the category level and disaggregated for each SKU) and promotional intensity in each product category. In this first analysis we concentrated on category turnover with the aim of focusing on categories relevant both for the consumer and the FMCG market. The database was composed of 68 categories. To select the categories to concentrate on we considered the sales in value. We selected all those categories with a share higher than 1,5% on the grocery total turnover. They were 29 and counted for 73.52% of the grocery sales.

Desk analysis 2. We therefore ranked the 29 categories according to the penetration of private labels in the category. This was a variable on which we wanted to have variance so to also control for it in the analysis. In this setp we highlighted the 10 categories with higher penetration of private label and the 10 categories in which private labels had the lower market share. To be noticed that in all these categories private labels were present.

Desk analysis 3. In this step we concentrated again on the 29 categories selected within the first desk analysis and ranked them according to the promotional intensity. Again this was a variable on which we wanted to have variance. As for desk analysis 1 we selected the 10 categories with higher promotional intensity and the 10 with the lower one.

We then cross-checked the two ranks of categories (based on private label and on promotional intensity) to define 4 clusters of categories: high penetration of PL/high promotional intensity; high PL/low promo; low PL/high promo and low PL/low promo. This analysis resulted on 12 categories, 3 per cluster.

Desk analysis 4. We then concentrated on the category concentration of firms within the categories. Again we wanted variance on this variable but we deleted 4 categories that were too much fragmented to avoid problems in the selection of the brands. We consequenlty deleted also a seasonal category. At this stage we had 7 remaining categories.

Pre-test 1. We therefore preformed a pre-test to check potential respondents' familiarity with the product categories. This variable was relevant as a pre-resquisite for respondents to answer our questionnaire on the product category. So we were looking for categories on average familiar to consumers so to simplify the data collection. 42 subjects were asked to declare their familiarity with the product category. From the analysis of their answers we deleted a product category on which we had a great variance on the answers, with a high percentage of respondents showing none familiarity with it, which could be translated in a low response rate for that catgory in the data collection.

Pre-test 2. We finally conducted a pre-test to verify the perceived risk of the category. Risk is a component of involvement which has been identified in previous studies as a contributor to brand equity (Cobb-Walgren et al. 1995). Also on this variable we were looking for variance so to control our results for it. 20 respondents ranked their perceived risk for the categories. We deleted a further category that showed a medium level of risk not significantly different form the one of the others in the Analysis of Variance results.

We therefore come up with 5 product categories: 2 food (snack and salami) and 3 non food (hair care, detersive and petfood). Table 1 summarises the characteristics of each product category according to the key variables considered for their selection.

Table 1 – Characteristics of the product categories

Category	*Food/Non Food*	*PL penetr.*	*Promo int.*	*Concentration*	*Risk*
Detersive	Non Food	-	+	+	-
Hair care	Non Food	-	-	medium	+
Petfood	Non Food	+	-	+	-
Salami	Food	+	+	-	+
Snacks	Food	+	-	medium	-

Preliminary studies: brand selection

At this stage we needed to identify for each category the brands on which the respondents would have to focus while answering the questionnaire.

Desk analysis 5. We therefore asked to the data provider the detailed database at the SKU level. We aggregated the SKU data for each brand to obtain the data at the brand level. The aim of this analysis was to identify potential brands to be used in the data collection showing a different level of brand awareness, so to control also for this variable, that as previously seen is very relevant, together with brand image, on brand equity studies. At the same time the brand with lower awareness should not have to be totally unknown to be sure to find enough respondents to have a similar sample size for both the levels of awareness. Basing on the data on sales and promotion of each brand we selected a list of suitable brands to be included in our study. This activity was possible only for national brands as private labels in the dataset were listed at the aggregate label, so without the detail of the retailer selling them. For private labels we performed a different desk analysis with the aim of list them in a qualitative way.

Interviews to FMCG experts 2. We asked again the experts involved in the categories selection to evaluate the brands in the two lists (national and private label) we built in the desk analysis according to their awareness, providing suggestions on which ones should be included in our stuy given our aims. The result of this stage were two shorter lists of brands for each product category.

Pre-test 3. Finally a pre-test at the consumer level was run to select the final set of brands. 30 respondents were asked to evaluate their awareness on the brands on a scale 1 (not know at all) to 7 (know very well). For each product category we deleted the brands with an average awareness below 3 and conducted an analysis of variance (ANOVA) on the knowledge scores of the remaining brands. We therefore selected for each category 2 manufacturer and 2 retail brands, the ones showing the higher difference in knowledge.

Preliminary studies: measures refinenement

In this article we focused on consumer-based measures as they allow the assessment of equity at the brand level (Agarwal and Rao 1996).

We derived the measures for the constructs in our framework from existing scales available in the literature, and we adapted them to suit the context of our study. To measure the constructs we used multi-item scales based on seven point ratings of agreement (1 = very strongly disagree, 7 = very strongly agree) with an only exception, behavioural loyalty. The latter was measured by asking respondents the percentage of their total expenditures for products in the category accounted for the brand (Agarwal and Rao 1996; De Wulf and Odekerken 2003).

To come up with our final scales to measure the latent variables we followed several steps.

Scale selection. Given the absence in the literature of agreement on the measurement of the constructs that compose our model and therefore the high number of different scales available we first of all referred to end-consumer (the target of our research) for the selection of the most suitable scale for each construct. We therefore held three focus group, that were run in three different locations so to cover differences in consumption due to the geographical provenience of participants. Based on the focus groups we selected the best scales to measure our constructs and finally conducted interviews to four experts to check the scale wording appropriateness for each product category.

Scales translation. As mentioned the scales were taken from previous studies. First of all they have been translated in Italian and then back translated in English by a second translator to check face validity.

Scales pre-test. The final version of the scales have been pre-tested. 80 respondents have been used to this end. We run an Explorative Factor Analysis (EFA) to check the discriminant validity of the items composing the scale. Basing on the results of the factorial analysis we deleted two items, one on the reputation and one on the attitudinal loyalty scale.

We finally run a reliability analysis of the final scales based on the Cronbach Alpha whose results are shown in table 2. For each latent construct the value of Alpha was above 0.9, showing a high reliability of our scales. The reliability analysis also showed no need to delete any additional item as for none of them the value of the alpha if item deleted would have been greater than the actual one.

Table 2 – Scales reliability analysis

Scale	*N° of items*	*Crombach Alpha*
Positive Associations	4	0.981
Unicity of associations	3	0.969
Strenght of associations	3	0.943
Brand reputation	3	0.954
Brand trust	4	0.976
Premium price	3	0.967
Attitudinal loyalty	2	0.958

Data collection and Sample

Data were collected through a web-questionnaire administered on the panel of one of the top Italian firm in marketing research. Before the beginning of the questionnaire, a filter question controlled for the knowledge of the 5 product categories of each respondent. A minimum level of knowledge of the category was a necessary condition to answer the questionnaire. Each respondent was then randomply assigned one of the selected categories she declared to know. Category knowledge was assessed on a scale ranking from 1 (not know at all) to 7 (know very well) and a declared knowledge of 3 was the minimum threshold to include the category in the set to be randomly assigned for each respondent. Once respondents were assigned to a product category, they were randomly asked to concentrate on one of the brands selected for that category. Again a minimum level of knowledge (3 on a 1-7 scale) was a necessary condition to answer the questions. If the answer was below 3, participants were randomly assigned another brand. If they did not know any of the brands they were dropped out of the study.

The final sample was composed of 5.000 respondents (1.000 per product category – equally splitted between brand and private labels and more/less brand awareness) representative of the population of the country in which the study was run (Italy). Participants showed a different educational background going from no school degree to the Ph.D. level and there was also variance in terms of professional activity. 90.7% of respondents were responsible for at least 50% of the buyings in their family. 51% of respondents were female and 49% were male. Their age ranged from 18 to 82 years, with an average of 40.

Before analyzing the data a preliminary analysis of variance controlled that there were not significant differences among the sub-samples (5 product categories; 2 types of brands with 2 levels of brand awareness) to be used further in the analysis for the key demographics variables (gender, age, education, place of residence) so to avoid the presence of any differences in the sub-samples composition could have an impact on the results of the models to be tested. Once no significant differences emerged we performed our analysis.

Results

Structural equation modeling (AMOS 18.0) was used to test both our structural and measurement model. The model was estimated using the maximum likelihood method.

We assessed the goodness-of-fit of the models with the chi-square test, the comparative fit index (CFI), the normed fit index (NFI), the goodness-of-fit index (GFI) and the root mean square error of approximation (RMSEA), the standardized root mean square residual (SRMR), and the nonnormed fit index (NNFI). Satisfactory model fits are indicated by nonsignificant chi-square tests, NFI, CFI and GFI values ≥ .90 and RMSEA value ≤ .08.

Measurement Model Evaluation

Our full-sample structural equation model included all survey respondents, and we used it to test the structural relationship hypothesized in the literature review. Before testing the structural model we tested the measurement model.

We built a confirmatory factor analysis model with 7 latent constructs and a total of 22 measures. The chi-square was significant ($p < .05$), which is usually the case for large sample sizes. All the other statistics are within the acceptable ranges, which indicates a good model fit: RMSEA = .066, GFI = .98, NFI = .979, and CFI = .98.

Internal consistency. We used three measures to evaluate the internal consistency of constructs: standardized factor loadings, composite reliability and average variance extracted. All these measures are reported in Table 3. The factor loadings are all significant at p=0.00 and their standardized values are greater than 0.868 (the lower loading), so greater to the threshold 0.7 value for a good convergence validity.

The composite reliability is a measure analogous to the coefficient Crombach Alpha, whereas the average variance extracted (AVE) estimates the amount of variance captured by a construct's measure relative to random measurement error (Fornell and Larcker 1981). Estimates of CR greater than .60 and AVE greater than .50 are usually considered to support internal consistency (Bagozzi and Yi, 1988).

As Table 3 shows, all values are significantly greater than these stipulated criteria and therefore are indicative of good internal consistency.

Table 3 – Measures internal consistency

	Positive a.	**Unicity**	**Strenght**	**Reputation**	**Brand Trust**	**Attitudinal Loyalty**	**Premium price**
POS1	0.95						
POS2	0.97						
POS3	0.971						
POS4	0.964						
U1		0.962					
U2		0.951					
U3		0.951					
S1			0.91				
S2			0.921				
S3			0.933				
R1				0.971			
R2				0.971			
R3				0.868			
BT1					0.969		
BT2					0-97		
BT3					0.968		
BT4					0.909		
AL1						0.96	
AL2						0.958	
PP1							0.948
PP2							0.962
PP3							0.947
AVE	0.93	0.91	0.91	0.87	0.91	0.91	0.90
CR	0.98	0.97	0.94	0.96	0.98	0.96	0.97

Discriminant validity. We evaluated discriminant validity of the model constructs using two different approaches. As a first test of discriminant validity, we checked whether the correlations among the latent constructs were significantly less than one.

In addition, for each pair of factors, we compared the chi-square value for a measurement model and constrained the correlation to equal one to a baseline model without this constraint. We performed a chi-square difference test for each pair of factors, and every case resulted in a significant difference, again suggesting that all the measures of constructs in the measurement model achieve discriminant validity.

Structural Model Estimation

A total of 12 structural paths were estimated for the model containing the seven latent variables and an observed variable.

Again, the chi-square was significant ($p < .05$), which is usually the case for large sample sizes. Also two other statistics (RMSEA and GFI) were not in line with the acceptable ranges, which indicates a poor model fit: RMSEA = .109, GFI = .859, NFI = .938, and CFI = .938.

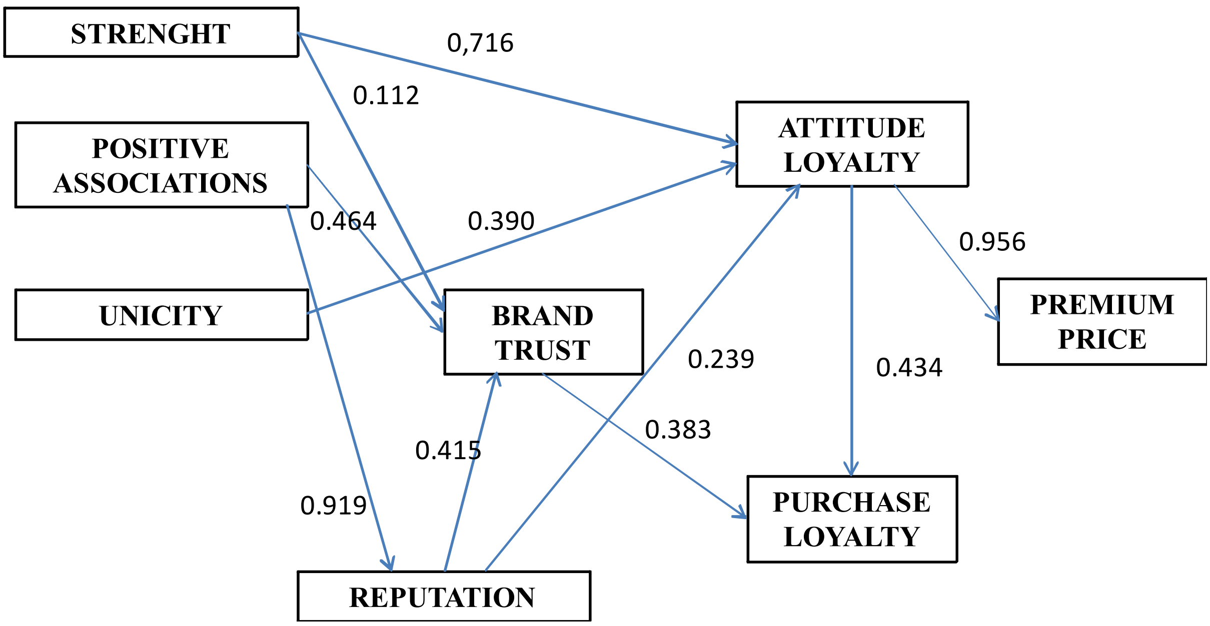
Three of the tested paths (positive association → attitudinal loyalty; unicity → brand trust; brand trust → attitudinal loyalty) were not statistically significant (p>0.10). All other paths were statistically highly significant (p <0.01). Furthermore, all these paths met the proposed causal directions.

We therefore relied on the modification indeces indicating a high increase of the model fit including an additional structural path in the model, between the positive attitude toward the brand and the brand reputation (the former causing the second).

We therefore re-run the model including this path and deleting the three not significant paths. The deletion of the not significant paths came after the test of a nested model without them. It is indeed generally agreed among researchers conducting SEM tests that nested models should be assessed and compared with the original (full) model in order to obtain the most parsimonious model, which will accentuate the effects of critical factors. If there is no significant difference between the full model and the model with lesser paths, as it was in this case, then the researcher should accept the model with fewer paths (the nested model) for parsimony.

The modified model shows improvements both on GFI and RMSEA, showing a good model fit: RMSEA = .066, GFI = .911, NFI = .976, and CFI = .977. The model is shown in Figure 2. All the paths were significant at p=0.00 and met the causal direction.

Figure 2 – Structural model (standardized Beta parameters)



Check for reverse causality

To check for reverse causality, we also tested a nonrecursive model that freed the paths back from premium price and loyalty (both attitudinal and behavioral) to brand trust and reputation and from trust, reputation and attitudinal loyalty to the brand equity components. The feedback effects were nonsignificant.

Comparison with a Rival Model

One important criterion of a model's success is its performance compared with that of rival models (Bagozzi and Yi 1988). Our proposed model is based on a theory that hypothesizes a specific nomological network of constructs.

For example, our model allows no direct paths from antecedents, the brand components and reputation, to behavioral loyalty and premium price. A nonparsimonious rival model would hypothesize these direct paths. Such a model imposes relatively little nomological structure on the constructs. We compared our hypothesized model with the rival model using the following criteria: overall fit, percentage of the model's statistically significant parameters, and theoretical interpretation of the paths. The overall fit for the rival model was about equal to that of our proposed model (RMSEA = .064, GFI = .91, NFI = .974, and CFI = .979), but it was accompanied by reduced parsimony. In our proposed model a higher percentage of paths were significant, as many of the added paths on the rival model were nots. Even more problematic, many of the paths in the rival model did not make theoretical sense. Therefore we refused the rival model.

Model robustness

To determine the robustness of the model to variations among specific groups of products, we ran the same model on the five product categories within the final data set (Chaudhuri and Holbrook 2001).

We therefore tested a multigroup model based on the program default multigroup analysis's nested model sequences. The analysis showed that there were no significant differences among the sub-samples in the measurement model (a necessary condition to test for differences in the structural model) and that the hypotheses of a difference in the structural path of the model has to be rejected as it significantly lowered the model fit.

We therefore did the same with the brand awareness subsample and come to the same conclusion.

The model seems therefore robust both in terms of product category and of brand awareness.

The final step, that is also the main goal of this paper, of our analysis was to verify whether the type of brand (private label vs national brands) moderate the relationships in the brand equity model.

Test of type of brand moderation

To test the moderation role of type of brand we run a multiple group analysis based on AMOS's default nested models sequence. Again the analysis showed that there were no significant differences among the sub-samples in the measurement model (a necessary condition to test for differences in the structural model). But here again the hypothesis of a difference in the structural path of the model has to be rejected as it significantly lowered the model fit.

We therefore performed a formal comparisons of parameters across the two samples. This is done to establish whether some paths were statistically different. To do this we tested a series of differently contrained models based on the measure contrained one. The structure of the models was the same. All the factor loadings were constrined to be equal on the two subsamples while the structural paths were were allowed to vary but one at time.

As for all the models the fit indeces were significantly lower than those of our general model, we had to reject the moderation effect of brand type on the structural model.

These results suggest that the brand equity process does not vary for private labels compared to national brands.

Discussion

In this essay we tested an accepted brand equity model for national brands with the aim of verify whether it holds also for the private labels.

The aim of this study was to go deeper in the investigation on whether relevant branding priciples can be applied alsto to private labels or these latter should be treated differently from brands. This seems justified by some peculiarities that private labels have compared to brands, such as their exclusivity to a retailer.

The model we considered refers to the perception-preference-choice paradigm and the hierarchy of effects model (Lavidge and Steiner 1961; McGuire 1972). Therefore it allows identifying the various stages - antecedents (brand uniqueness, brand strength, positive associations, reputation and trust) and consequences of brand equity (brand loyalty – both attitudinal and behavioral – and premium price) from the perspective of the individual consumer - through which a consumer passes within the brand equity process (Agarwal and Rao 1996; Cobb-Walgren, Ruble and Donthu 1995).

To verify whether the brand equity process carried according to the type of brand (private label vs. national brand) we tested for differences in the model for the two brands. The results of the analysis showed not significant differences in the model for the two types of brand. They seem therefore to support Uncles and Ellis's position that private labels should be treated like brands as consumers buy own labels in the same way as a brand with a comparable market share (Uncles and Ellis, 1989).

These results seem to contradict the results of essay one where the results of the experiments showed statistically significant differences between private labels and brand n the brand extension domain. Since brand equity is recognized in literature as a relevant driver to brand extension (Farquhar 1989; Lassar, Mittal and Sharma 1995), these results seem to lead to the conclusion that brand equity could not be seen as a variable that can explain neither the differences we saw in essay one among the two brands nor the private labels' advantage in the extension.

Further studies should therefore attempt to identify other variables that could be useful to these ends. Among the possible variables, the relationship between the private label and the brands. Their exclusivity, the fact that the product brand and the store brand coincide, their advantage position within the store compared with other brands, could explain the success of private label identified in essay 1.

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Essay 3

Building store loyalty: the role of culture

Abstract

This paper focuses on store loyalty. Trust and satisfaction have been identified as relevant antecedents of loyalty by previous literature but the results of existing studies, being partially contradicting, do not allow the understanding on which is the relevant driver of loyalty. Also the causal relationship between the two variables (trust and satisfaction) is not clear.

In this paper we argue that culture could help researchers in clarifying these issues as it may intervene as a moderating variable. We report the result of a web-survey-based study comparing the relationships among these variables in two countries with differences in their culture.

The results support the role of culture in the loyalty-building model.

Keywords store loyalty, trust, satisfaction, culture

One of the most critical phenomena that characterize markets today is the exponential development of their complexity, which determines major consequences on the behaviour of economic actors. This is evident in particular in retailing, where the competitive pressure has radically changed the sector structure which shifted in a relatively short period from a fragmented to a highly concentrate landscape, due to the absorption of small firms by big international groups. Furthermore, the increasing pressure on prices is decreasing firms' margins and reducing consumers' loyalty. Retailers are hence continuously looking for new ways to attract shoppers in the store, increase purchases after their entrance and keep their loyalty to the store. This goal is particularly difficult to be reached because of the parallel evolution of the demand. Indeed, customers' needs are becoming more and more complex and appear with increased frequency as bunches.

Building intangible marketing resources can represent a path that retailers can follow to face the increasing uncertainty in current and future competitive arena, and the challenges emerging in this broader scenario. Reinforcing those resources related to customer relationship management could be of paramount importance for gaining the needed "synergetic flexibility" to respond to changing contexts. Unilateral and instantaneous exchanges should in this view become long-term bilateral relationships, in which the demand will actively interact with firms, thus contributing to the overall mutual knowledge development and the relation consolidation leading to loyalty.

Many examples of successfully relationship management with customers leading to positive effects on firms' performances can be found in retailing. The well-known retailer Tesco, for instance, has been able to build with its customers a strong relationship mainly based on shared values. This in turn, has allowed it to successfully extend the relationship with the demand, such as through the offer of the retailer branded products. Tesco is indeed one of the chains with the highest index of private label penetration. Furthermore, the firm has leveraged its relationship patrimony and extended its service range to some typologies of experience products perceived as risky, such as financial services or tour package brokerage.

Another interesting example is offered by Migros, the largest retail group in Switzerland. The firm has always been synonymous with a socially responsible firm, always on the side of the consumers, whose interests it promotes and defends (similarly to the French retailer Leclerc). For instance, in several product divisions, Migros has developed strict codes of conduct that suppliers must subscribe and adhere to. In order to fulfil these goals, the firm usually collaborates with institution-partners (mostly non-profit), who also act as guarantors, vouching for the credibility of the firm's commitment toward the public. At the same time, Migros has deliberately decided not to market products considered harmful for its customers' health, such as cigarettes and hard liquor. The strong connection felt by customers toward the firm allows Migros to satisfy wide and highly structured clusters of needs. It suffices to say that, in addition to distributing private-labelled products (some well-known industrial brands are present thanks to co-branding), Migros offers its customers financial services, insurance coverage and tour packages, as well as training and educational services for younger people and baby-care activities.

Among the various measures used to address the overall strength of a relationship, customer satisfaction and trust are perhaps the most prominent ones (Garbarino and Johnson 1999; Johnson and Selnes 2004; Morgan and Hunt 1994).

Several studies have been developed in literature within the service, and in particular retailing, context on the outcome of these variables for the firms. However the results of previous studies are somehow diverging and partially contradicting. They therefore fail to converge on a generalizable framework clearly pointing out the relationships among the key variables.

In this paper we argue that the cause of this diversion can be due to the omission of a relevant variable, culture, that can act as moderator of the causal relationships, thus explaining the differences among various tested models. Past researches have indeed shown that typical assumptions in the service literature, such as the relationships between satisfaction and word-of-mouth communication and complaining behavior, do not necessarily transcend cultures (Money and Gilly 1998; Richins and Verhage 1985; Rose 1999). Similarly, the nature of feelings and emotions and how they are expressed are also known to differ cross-culturally (Bagozzi et al. 1999; Dube´ et al. 2003; Trompenaars and Hampden-Turner 1997; Wierzbicka 1992; Williams and Aaker 2002).

In the following sections we will briefly review the role of trust and satisfaction in building store loyalty and then present the result of a study comparing the same model of store loyalty building in two nations selected for their difference in culture. This would contribute to the theoretical debate on the role of satisfaction and trust in building loyalty. This as the answer to the not univocally answered questions: which is the main driver, trust or satisfaction, leading to loyalty? Which is the causal order between trust and satisfaction (is satisfaction leading to trust or viceversa?)? could be "it's a matter of culture".

The highlight of the differences among cultures would also be relevant for managers operating in international retailers as they would imply differences in the management of the retailer at the local level.

Store loyalty development: the role of satisfaction and trust

Marketing academics and practitioners generally agree that customer loyalty is vital to business success. *Loyalty* at the service level, easily transferable to retiling as a service context, can be defined as "the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises" (Gremler and Brown 1996, p. 173). The view of loyalty as a mix of attitudinal and behavioral factors is now well accepted by marketing scholars.

Consistently with previous research (Nijssen et al. 2003), we define loyalty attitude (or intentions) as the customer's intention to perform a diverse set of behaviors, like recommending the store to a friend, remaining loyal to the store or spend more in the store, that signal a motivation to maintain a relationship with the store (Zeithaml, Berry and Parasuraman 1996).

In turn, loyalty intentions should predict actual customers' behaviours (behavioural loyalty). Nonetheless, there is scarcity of empirical studies on this topic, which consequently deserves special attention (Chandon, Morwitz, and Reinartz 2005). Most of the studies using loyalty intentions as the final dependent variable underlined the need to investigate actual behaviors in research (see for example Sirdeshmukh, Singh, and Sabol 2002). In this study we therefore focus on a particular buying intention very relevant for retailers given their strategic focus: the percentage of the retailers' private label bought.

The main antecedents of store loyalty emerged in the literature are trust and satisfaction.

Trust has been identified as an essential ingredient for successful relationships (Berry 1995; Dwyer, Schurr and Oh 1987; Moorman, Deshpande and Zaltman 1993; Morgan and Hunt 1994). Moorman, Deshpande, and Zaltman (1993, p. 82) define trust as "a willingness to rely on an exchange partner in whom one has confidence."

The importance of trust in service environments, like retailing, has been pointed out by Berry (1996, 42) who stated that "the inherent nature of services […] positions trust as perhaps the single most powerful relationship marketing tool available to a company". Service exchanges rely on trust because the intangible nature of services creates uncertainty and perceived risk for the consumer during purchase and consumption (Berry 1995; Crosby, Evans, and Cowles 1990). Within the retail context trust can be interpreted as the expectations held by the consumer that the retailer is dependable and can be relied on to deliver its promises (Sirdeshmukh, Singh, and Sabol 2002). Some works (for example, Singh, and Sirdeshmukh 2000; Chaudhuri and Holbrook 2001, p.83) have noted that trust is the main cognitive antecedent of consumer loyalty. By enhancing customers' loyalty, trust generates important consequences for the firm (Anderson and Sullivan 1993; Johnson, Anderson and Fornell 1995; Srivastava, Shervani and Fahey 1998), namely: an increased differentiation, extension and relationship-associated learning potential, thus obtaining a premium price; a reduced price sensitivity; a higher propensity to buy; a favourable word-of-mouth; trading up propensity (i.e. purchasing higher quality goods within the same product line); cross-buying propensity, (i.e. purchasing other goods/services offered by the same firm); reduction of sales and assistance costs; knowledge sharing propensity (i.e. activating co-evolutionary processes between demand and supply, based on knowledge exchange and integration).

Satisfaction is another key variable particularly relevant in the relationship management within the service domain. Information regarding consumers' satisfaction is indeed vital for service redesign/development (Edvardsson and Olsson 1996), motivating staff (Voss et al. 2004), and decision making generally (Grönroos 2000). Furthermore, several studies (e.g. Zeithaml et al. 1996) have established relationships between consumers' satisfaction and their behavioral loyalty intentions towards the service provider. Satisfaction in loyalty research is typically conceptualized as an overall evaluation of a customer's experiences with a service provider (Harris and Goode 2004; Henning-Thurau, Gwinner, and Gremler 2002; Johnson and Gustafsson 2000).

Many studies within the service and retailing domain link both trust and satisfaction to intentional and behavioral loyalty. However the results of these studies do not converge on the identification of the main driver of loyalty, trust or satisfaction. Also the causal relationship between the two variables is not clear. For example Henning-Thurau, Gwinner and Gremler (2002) described confidence benefits as similar to trust and found that that satisfaction mediated the effects of confidence benefits on commitment across a range of services. Sirdeshmukh, Singh and Sabol (2002) reported that value - a construct that is conceptually similar to satisfaction - mediated the influence of trust on service loyalty. Likewise, in an online retail setting, Harris and Goode (2004) demonstrated that trust influences loyalty through satisfaction but also that trust has direct effects on loyalty. The results of these studies support the view of trust as an antecedents of satisfaction. There are theoretical reasons, however, to propose the reverse causality, that that is that satisfaction fosters trust, especially over time (Bendapudi and Berry 1997). Garbarino and Johnson (1999) found that satisfaction mediated the effects of service attitudes on loyalty intentions for new customers but not for customers with established relationships with the firm, for whom trust and commitment mediate the attitudes-loyalty link. Agustin and Singh (2005) demonstrated that trust partially mediates the effects of satisfaction on loyalty. Given such ambivalent findings, scholars argued that the relationship between the two variables is circular.

The inclusion of a culture dimension in the investigation of these relationships can in our view help better understanding them. Even if the tendency in consumer research has been to implicitly assume the universality of models (Albaum and Peterson, 1984; Cunningham and Green, 1984), some researchers are recognizing the limitations of their models and have sought to understand the role that cultural forces play in consumption (Arndt, 1978; Clark 1990; Firat et al. 1987; Malhotra, 1988; Olshavsky et al. 1988; Sheth and Sethi 1978; Ueltzhoffer and Ascheberg 1999; van Raaj 1978).

The moderating role of culture

Culture has been identified as the broadest influence on many dimensions of human perceptions, dispositions, and behavior (Soares et al. 2007; Markus and Kitayama 1991). The failure to take cultural differences between countries into account has been the cause of many business failures (Ricks 1993).

Several scholars discuss the choice of dimensions most appropriate for conceptualizing and operationalizing culture (Bond 1987; Clark 1990; Dorfman and Howell 1988; Hofstede 1984, 1991; Inkeles and Levinson 1969; Keillor and Hult 1999; Schwartz 1994; Smith et al. 1996; Steenkamp 2001). Among the available options, Hofstede's framework is the national cultural framework most widely used in psychology, sociology, marketing, or management studies (Sondergaard 1994; Steenkamp 2001). He created five dimensions, assigned indexes on each to all nations, and linked the dimensions with demographic, geographic, economic, and political aspects of a society (Kale and Barnes 1992).

Hofstede's work has been simultaneously enthusiastically praised and acidly criticized. Although the critiques, his study has been defined as the most comprehensive and robust in terms of the number of national cultures samples (Smith et al., 1996) and is the norm used in international marketing studies (Dawar, Parker and Price 1996; Engel, Blackeweel and Miniard 1995; Samiee and Jeong 1994; Sivakumar and Nakata 2001; Søndergaard 1994).

The 5 dimensions identified by Hofstede (1980, 1991) are:

- *Individualism–collectivism*: that describes the relationships individuals have in each culture. In individualistic societies, individuals look after themselves and their immediate family only whereas in collectivistic cultures, individuals belong to groups that look after them in exchange for loyalty.
- *Uncertainty avoidance*: that refers to "The extent to which people feel threatened by uncertainty and ambiguity and try to avoid these situations"

(Hofstede 1991, p.113). This dimension deals with the need for well-defined rules for prescribed behavior.

- *Power distance*: which reflects the consequences of power inequality and authority relations in society. It influences hierarchy and dependence relationships in the family and organizational contexts.
- *Masculinity–femininity*: dominant values in masculine countries are achievement and success and in feminine countries are caring for others and quality of life.
- *Long-term orientation*: that "stands for the fostering of virtues oriented towards future rewards, in particular perseverance and thrift" (Hofstede 2001, p.359).

Past research has confirmed the relevance of these cultural dimensions for international marketing and consumer behavior. Notably, collectivism influences innovativeness (Lynn and Gelb 1996; Steenkamp et al. 1999; Yaveroglu and Donthu 2002; Yeniyurt and Townsend 2003; van Everdingen and Waarts 2003), service performance (van Birgelen et al. 2002), and advertising appeals (Albers-Miller and Gelb 1996). Uncertainty avoidance impacts information exchange behavior (Dawar et al. 1996), innovativeness (Lynn and Gelb 1996; Steenkamp et al. 1999; Yaveroglu and Donthu 2002; van Everdingen and Waarts 2003; Yeniyurt and Townsend 2003), and advertising appeal (Albers-Miller and Gelb 1996).

Power distance affects advertising appeal (Albers-Miller and Gelb 1996), information exchange behavior (Dawar et al., 1996), innovativeness (Yaveroglu and Donthu 2002; Yeniyurt and Townsen, 2003; van Everdingen andWaarts 2003), and service performance (Birgelen et al. 2002). Masculinity impacts sex role portrays (Milner and Collins 1998; 2000), innovation (van Everdingen and Waarts 2003), and service performance (van Birgelen et al. 2002). Finally, long-term orientation influences innovativeness (van Everdingen and Waarts 2003).

In this paper we focus on the individualism-collectivism dimension that has been identified as the most central dimension of cultural variability identified in cross-cultural research (Hofstede 1990; Triandis 1993; 1994; 1995). This dimension is also potentially particularly relevant in our study as it is the dimension that most shapes the way a person manages her relationships. Indeed members of individualist cultures (e.g., the USA, Australia, UK and Canada) tend to hold an independent view of the self that emphasizes separateness, internal attributes, and the uniqueness of individuals. In contrast, members of collectivist cultures (e.g., China and Japan) tend to hold an interdependent view of the self that emphasizes connectedness, social context, and relationships (Cousins 1989; Singelis 1994; Triandis 1989). Therefore, it could be concluded that people in the individualistic cultures have strong characters, which make them distinctly different from one another.

Individualism is the opposite of collectivism and represents the degree to which individuals are supposed to look after themselves or remain integrated into groups (Hofstede and Hofstede 2005). Individualistic societies tend to have a self-focused view that only extends to his or her immediate family; whereas societies high in collectivism have a people-group view from cradle to grave of lifetime protection in exchange for unquestioning loyalty.

In the following we present the results of a study that compares the relationship between trust, satisfaction, attitudinal loyalty and behavioral loyalty (percentage of private label purchase) in two countries differing on the individualism and collectivism dimension.

Methodology

Data collection. Data were collected in two countries that ranked at the opposite levels of the Hofstede's individual-collectivism dimension: Australia (the second individualistic country after US – excluded as it was the countries were the majority of studies on consumer behavior have been conducted[4]) and Columbia (the last country for individualism, therefore highly collectivistic).

Data have been collected within the online panel members with MarketTools, a reputable independent, third-party verification and respondent-quality-research provider, already used in cross-cultural research (Migliore 2011).

Measures. Trust, satisfaction and attitudinal loyalty have been measured using existing scales taken from the literature. In particular, the scale for satisfaction was derived by Seiders et al. (2005), the scale for trust by Guenzi, Johnson, and Castaldo (2009). All the scale were translated by professional translators in the languages of the countries in which we collected our data. They were then back-translated in English to check for face validity. Behaviolar loyalty was measured directly as the percentage of private label buying.

On these scales we run for each country an Explorative Factor Analysis (EFA) to check the discriminant validity of the items composing the scale that confirmed them. We finally run a reliability analysis of the final scales for each country based on the Cronbach Alpha whose results are shown in table 1 and they a high reliability of our scales. The reliability analysis also showed no need to delete any additional item as for none of them the value of the alpha if item deleted would have been greater than the actual one.

[4] In recent years, there have been several calls to expand the geographic scope of consumer research to include participants from cultures outside of the USA (Aaker 2000; Aaker and Williams 1998; Alden et al. 1999; Gorn 1997; Klein et al. 1998; Steenkamp and Baumgartner 1998; Williams and Aaker 2002; Wong et al. 2003).

Table 1 – Scales reliability analysis

Scale	*N° of items*	*Crombach Alpha Australia*	*Crombach Alpha Columbia*
Store trust	5	0.962	0.959
Satisfaction	3	0.963	0.940
Attitudinal loyalty	3	0.831	0.901

Sample. 1400 interviews have been collected in both countries, a check on the final data resulted in 1392 and 1395 usable questionnaire respectively in Colombia and Australia.

The final sample is representative of the population in the two countries, to overcome the traditional use of students as sample in cross-cultural studies. Cross-cultural student samples have both strengths and limitations (Winsted 1997). Indeed on one hand it allows to easily establish sample equivalence because of the use of more homogeneous respondents (students), which is essential in this type of comparative research (Reynolds, Siminiras and Diamantopoulous 2003). On the other end it limits the generalizability of the findings to wider populations (Smith and Reynolds 2009).

The homogeneity of finding is therefore critical when using wider populations as we did. We therefore controlled that there were not significant differences among the two sub-samples for the key demographics variables (gender, age, education, place of residence) so to avoid the presence of any differences that could have an impact on the results of the models to be tested.

The two samples showed a statistically significant difference in the gender proportions: equally divided in Columbia (49.5% female and 50.5% male) vs. highly feminine in Australia (32.2% male and 67.8% female).

Consequently, a series of ANOVA tests were conducted on every latent construct in the model to see whether there was a significant difference between male and female Australian participants. The analysis showed that there was not significant differences between the two sub-samples and we therefore proceeded with the analysis.

The sample criteria included: minimum two years work experience, living and working in the respective countries of the USA and India, a minimum education of a four-year bachelor's degree from a college or university in business or in a technical specialty (e.g. IT, engineering, design, etc.).

Results

Structural equation modeling (AMOS 18.0) was used to test both our structural and measurement model. The model was estimated using the maximum likelihood method.

We assessed the goodness-of-fit of the models with chi-square tests, the comparative fit index (CFI), the normed fit index (NFI), the goodness-of-fit index (GFI) and the root mean square error of approximation (RMSEA), the standardized root mean square residual (SRMR), the nonnormed fit index (NNFI), and. Satisfactory model fits are indicated by non-significant chi-square tests, NFI, CFI and GFI values $\geq .90$ and RMSEA value $\leq .08$.

Measurement model evaluation

We first of all run a multi-group confirmatory factor analysis to check for measure invariance that is that there were not significant differences among the sub-samples in the measurement model (a necessary condition to test for group differences in the structural model).

The measurement model chi-square is significant ($p < .05$), which is usually the case for large sample sizes. All the other statistics are within the acceptable ranges, which indicates a good model fit: RMSEA = .078, GFI = .949, NFI = .98, and CFI = .982.

Internal consistency. We used three measures to evaluate the internal consistency of constructs: standardized factor loadings, composite reliability and average variance extracted. All these measures for both countries are reported in Tables 2 and 3. The factor loadings are all significant at p=0.00 and their standardized values are greater than 0.787 (the lower loading), so greater to the threshold 0.7 value for a good convergence validity.

The composite reliability is a measure analogous to the coefficient Crombach Alpha, whereas the average variance extracted (AVE) estimates the amount of variance captured by a construct's measure relative to random measurement error (Fornell and Larcker 1981). Estimates of CR greater than .60 and AVE greater than .50 are usually considered to support internal consistency (Bagozzi and Yi, 1988).

As Table 3 shows, all values are significantly greater than these stipulated criteria and therefore are indicative of good internal consistency.

Table 2 – Measures internal consistency – Australia

	Store Trust	**Satisfaction**	**Attitudinal Loyalty**
ST1	0.935		
ST2	0.84		
ST3	0.946		
ST4	0.957		
ST5	0.946		
S1		0.907	
S2		0.902	
S3		0.954	
AL1			0.79
AL2			0.787
AL3			0.871
AVE	85.74%	84.88%	66.74%
CR	97%	94%	91%

Table 3 – Measures internal consistency - Columbia

	Store Trust	**Satisfaction**	**Attitudinal Loyalty**
ST1	0.933		
ST2	0.854		
ST3	0.895		
ST4	0.952		
ST5	0.936		
S1		0.893	
S2		0.933	
S3		0.932	
AL1			0.904
AL2			0.84
AL3			0.897
AVE	83.66%	84.55%	77.58%
CR	96%	94%	95%

Discriminant validity. We evaluated discriminant validity of the model constructs using two different approaches. As a first test of discriminant validity, we checked whether the correlations among the latent constructs were significantly less than one.

In addition, for each pair of factors, we compared the chi-square value for a measurement model and constrained the correlation to equal one to a baseline model without this constraint. We performed a chi-square difference test for each pair of factors, and every case resulted in a significant difference, again suggesting that all the measures of constructs in the measurement model achieve discriminant validity.

Structural model evaluation

Finally we tested the multi-group structural model. The multi-group analysis confirmed the measurement constraint and refused the path constraint, meaning that constraining the path to be equal across the two countries significantly lowered the fit of our model. Therefore the hypotheses of differences due to culture had to be accepted. We therefore run a path by path analysis to check which of them were significantly different. Only the path of trust on attitudinal loyalty was not significantly different between the two groups. Three of our paths were significantly different: satisfaction on attitudinal loyalty, attitudinal loyalty on behavioral loyalty and the path between satisfaction and trust (which had a different causal order in the two groups). Finally two paths were not significant in both the samples: trust on behavioral loyalty and satisfaction on behavioral loyalty.

We therefore re-run the model constraining to be equal the path emerged as not different and allowing to vary those that emerged as different so to have our final model. Also in this model the two path on behavioral loyalty were not significant. We therefore compared our model with a nested one without those paths and since the fit indexes were the same as the original one we accepted the latter as more parsimonious.

Again the model chi-square is significant ($p < .05$), which is usually the case for large sample sizes. All the other statistics are within the acceptable ranges, which indicates a good model fit: RMSEA = .072, GFI = .952, NFI = .979, and CFI = .982.

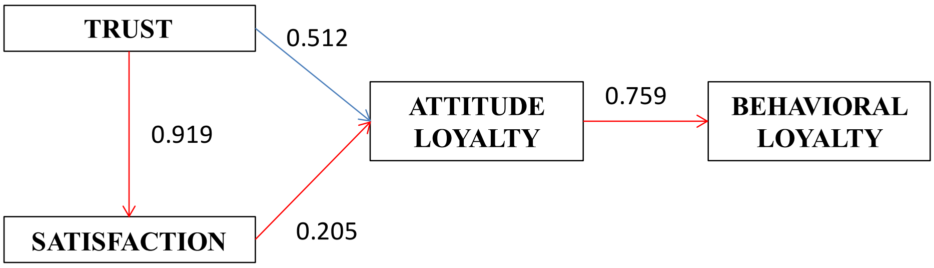
The models for the two countries are shown in figure 1.

In Australia (individualistic) the key variable seems to be trust, as it’s the main antecedent both of satisfaction and attitudinal loyalty. The impact of satisfaction on attitudinal loyalty is significantly lower than in the Colombia (collectivist) sample. In the Columbia sample the relationship between trust and satisfaction is reversed compared to Australia, here being satisfaction leading to trust.

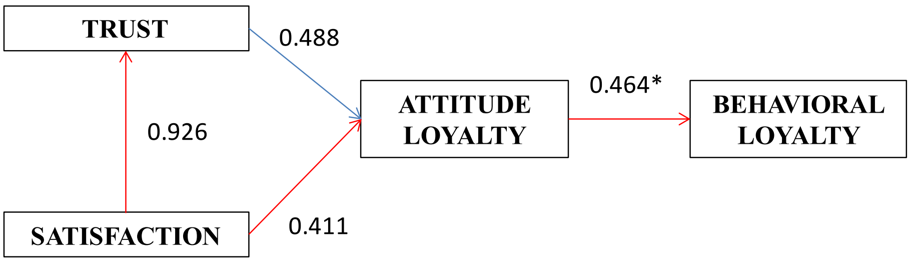
Relevant and not significantly different is the impact of trust on attitudinal loyalty, highlighting the generalizable relevance of this variable in building strong relationship with shoppers. The effect of attitudinal loyalty on behavioral one is more strong for the individualistic country, as in Colombia the beta is sign. Only at 10% and lower than the one of Australia.

Figure 1 – the final model for the two countries (in red significantly different paths)

a. AUSTRALIA



b. COLUMBIA



* Sign. 10%

Discussion

The paper presented a study on the moderating role of culture, in its individualism-collectivism dimension on the relationship between store trust, satisfaction and loyalty.

The results show a generalizable relevant role of trust in influencing the attitude loyalty, thus underlining the relevance of this construct both at a theoretical level both at a managerial one.

The study also clearly point out the relevance of culture in explaining some contradictory results of previous literature, in particular on satisfaction and its relationship with trust.

In an individualistic country, satisfaction comes from trust and has a minor role compared to that of trust in building attitudinal loyalty. This is coherent with the stream of literature that sees trust as a choice to reduce risk. Individualists seem to confirm their choice, in line with the self-fulfillment prophecies theory, in transforming it in satisfaction and attitudinal loyalty, which in turns is again confirmed with behavioral loyalty.

On the other hand collectivists are driven in their trust building by their satisfactory experience (that can be seen as a relationship with the store).

This is a preliminary result based on two countries. In order to reach full generalizability future research should test this for different countries, verifying not significant differences among those who belong to the same group (individualist or collectivist).

Furthermore future research should investigate which are the drivers of trust and satisfaction at the store level and verify whether they differ according to culture.

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