

**UNDERSTANDING RETAIL BRANDING:  
CONCEPTUAL INSIGHTS AND RESEARCH PRIORITIES**

Kusum L. Ailawadi  
Associate Professor of Business Administration  
Tuck School of Business  
Dartmouth College  
Hanover, NH 03755  
(603) 646-2845 (o)  
(603) 646-1308 (f)  
[kusum.ailawadi@dartmouth.edu](mailto:kusum.ailawadi@dartmouth.edu)

Kevin Lane Keller  
E. B. Osborn Professor of Marketing  
Tuck School of Business  
Dartmouth College  
Hanover, NH 03755  
(603) 646-0393 (o)  
(603) 646-1308 (f)  
[kevin.keller@dartmouth.edu](mailto:kevin.keller@dartmouth.edu)

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## **Understanding Retail Branding: Conceptual Insights and Research Priorities**

With the growing realization that brands are one of a firm's most valuable intangible assets, branding has emerged as a top management priority in the last decade. Given its highly competitive nature, branding can be especially important in the retailing industry to influence customer perceptions and drive store choice and loyalty. We integrate lessons from branding and retail image research to provide a better understanding of how retailers create their brand images, paying special attention to the role of the manufacturer and private label brand assortment. We also highlight some important areas that deserve further research in the form of three sets of research priorities.

## **RETAILERS AS BRANDS**

The last decade has seen major flux in retailing, especially in the U.S. grocery and general merchandise industry. On one hand, the growth of promotions and private labels has been seen by many as an indicator of growing retailer power. On the other hand, the growth of discounters and warehouse clubs has put immense pressure on traditional retailers and significantly increased retail competition both within and between retail formats. Since a large portion of most retailers' revenue and profit comes from selling manufacturer brands, which many of their competitors also offer, building their own equity is a particularly challenging problem, but one with big potential rewards. Such equity insulates them from competing retailers, which has the direct impact of increasing revenue and profitability, and the indirect impact of decreasing costs as their leverage with brand manufacturers also increases.

Although many important branding principles apply, retailer brands are sufficiently different from product brands that the actual application of those branding principles can vary. Retailer brands are typically more multi-sensory in nature than product brands and can rely on rich consumer experiences to impact their equity. Retailers also create their brand images in different ways, e.g., by attaching unique associations to the quality of their service, their product assortment and merchandising, pricing and credit policy, etc.

In most consumer industries, the image and equity of retailer brands also depends on the manufacturer brands they carry and the equity of those brands. Retailers use manufacturer brands to generate consumer interest, patronage, and loyalty in a store. Manufacturer brands operate almost as "ingredient brands" that wield significant consumer pull, often more than the retailer brand does. To the extent "you are what you sell," manufacturer brands help to create an image and establish a positioning for the store.

At the same time, retailers compete with manufacturers for consumer pull to increase their relative market power and their share of the total channel profit pie (Steiner 1993). In doing so, they may sell some of their own brands. In fact, in industries like apparel, one can find several examples of retailers who carry only their own private label products, e.g., GAP, Brooks Brothers, and Talbots. Private label products may have their own unique brand names or be branded under the name of the retailer. They allow the retailer to differentiate its offerings from competing retailers, although often without the support afforded manufacturers brands.

Understanding how a retailer should be positioned and how the brand assortment sold by the retailer is related to its image are thus of critical importance. Some retailers have managed their brands more effectively than others, as is evident in their performance. For instance, although overall U.S. retail profitability did not improve during the eighties and nineties, some retailers have fared exceedingly well (Ailawadi, Borin, and Farris 1995).

The purpose of this article is to (1) integrate the lessons from branding and retail image research to provide a better understanding of how retailers create their brand images; (2) review what we know about how the types of brands that retailers sell – manufacturer brands and private labels – influence and are influenced by the retailers' brand image; and (3) highlight some important areas that deserve further research in the form of three sets of research priorities.

### **THE DIMENSIONS OF RETAILER IMAGE**

Following the American Marketing Association's definition of a brand, a retail brand identifies the goods and services of a retailer and differentiates them from those of competitors. A retailer's brand equity is exhibited in consumers responding more favorably to its marketing actions than they do to competing retailers (Keller 2003). The image of the retailer in the minds of consumers is the basis of this brand equity.

Researchers have studied a multitude of retailer attributes that influence overall image, e.g., the variety and quality of products, services, and brands sold; the physical store appearance; the appearance, behavior and service quality of employees; the price levels, depth and frequency of promotions; and so on. Lindquist (1974) and Mazursky and Jacoby (1986) categorized these attributes into a smaller set of location, merchandise, service, and store atmosphere related dimensions. To organize our review of the key lessons from retailer image research, we adopt this categorization, but modify it slightly to better reflect the increasing emphasis that pricing and the breadth and depth of merchandise assortment have received in more recent research. The five dimensions we use to review past research are: 1) access, 2) in-store atmosphere, and 3) price & promotion, 4) cross-category product/service assortment, and 5) within-category brand/item assortment.

### **Access**

The location of a store and the distance that the consumer must travel to shop there are basic criteria in their store choice decisions. Beginning with gravity models (e.g., Huff 1964) store choice and the optimization of retail site location attracted a lot of research attention in the eighties (e.g., Achabal, Gorr, and Mahajan 1982; Ghosh and Craig 1983; Donthu and Rust 1989). Today, suburban sprawl, greater driving distances, the appearance of new warehouse retail formats that are often located in large spaces away from residential areas, and online retailing have made location somewhat less central as a store choice criterion.

Consistent with this trend, Bell, Ho, and Tang (1998) find that location no longer explains most of the variance in store choice decisions. Rather, store choice decisions seem to be consistent with a model where consumers' optimize their total shopping costs, effort to access the store location being one component of their fixed cost of shopping. That is not to say,

however, that location is unimportant. Consumers' store choice may be based on different criteria depending upon the nature of the trip. For instance, small basket, fill-in trips are very unlikely to be made to distant or inconvenient locations. And, retailers in some formats, like convenience, drug, or supermarket have less flexibility in their location decision than mass merchandisers or warehouse clubs.

In summary, although location no longer explains a major portion of the variance in consumers' choice of stores, it is a key component in consumer's assessment of total shopping costs and is still important for retailers who wish to get a substantial share of wallet from fill-in trips and small basket shoppers.

### **Store Atmosphere**

Mehrabian and Russell (1974) note that the response that atmosphere elicits from consumers varies along three main dimensions of pleasantness, arousal, and dominance. This response, in turn, influences behavior, with greater likelihood of purchase in more pleasant settings and in settings of intermediate arousal level. Different elements of a retailer's in-store environment, e.g., color, music, and crowding, can influence consumers' perceptions of a store's atmosphere, whether or not they visit a store, how much time they spend in it, and how much money they spend there (Bellizzi, Crowley, and Henderson 1983; Milliman 1982; Eroglu and Machleit 1990; Grewal et al. 2003). Baker et al. (2002) provide a good review of this research and categorize the elements of in-store atmosphere into physical features like design, lighting, and layout, ambient features like music and smell, and social features like type of clientele, employee availability and friendliness. They note that atmosphere can affect consumers' perceptions of the economic and psychological costs of shopping in a store and find that pleasing physical design lowers both economic and psychological costs while music lowers the latter.

Store atmosphere mediates consumer perceptions of other dimensions of store image. For instance, Baker et al. (2002) find that store environment factors, particularly physical design perceptions, significantly affect consumers' perceptions of merchandise price, merchandise quality, and employee service quality. Schlosser (1998) argues that, since store atmosphere has a social identity appeal, a pleasing atmosphere in the store should influence perceptions of socially communicative products in the store, not so much intrinsically rewarding products. This logic can be extended to argue that store atmosphere would have a greater impact on perceptions of products with higher perceived (social) risk. Indeed, Richardson, Jain, and Dick (1996) do find that consumers' ratings of the private label's quality are higher when the store is aesthetically pleasing than when it is less attractive, although there is no significant difference in their ratings of national brands' quality.

In summary, a pleasing in-store atmosphere provides substantial hedonic utility to consumers and encourages them to visit more often, stay longer, and buy more. Although it also improves consumers' perceptions of the quality of merchandise in the store, consumers tend to associate it with higher prices. From a branding perspective, an appealing in-store atmosphere offers much potential in terms of crafting a unique store image and establishing differentiation. Increasingly, brands are being positioned on the basis of their intangibles and attributes and benefits that transcend product or service performance. Even if the products and brands stocked by a retailer are similar to others, the ability to create a strong in-store personality and rich experiences can play a crucial role in building retailer brand equity.

### **Price and Promotion**

No matter how the characteristics of the consumer, product, store, or purchase situation might differ, price represents the monetary expenditure that the consumer must incur in order to

make a purchase. From the vast literature on pricing, we highlight three areas that are of direct relevance to consumers' image and choice of retailers.

***Store price perceptions.*** A retailer's price image should be influenced by attributes like average level of prices, how much variation there is in prices over time, the frequency and depth of promotions, and whether the retailer positions itself as EDLP or HILO. Decades ago, however, Brown (1969) highlighted the difference between consumers' perceptions of price levels in various stores and reality, showing that consumers may use non-price related cues like service offerings and quality levels to form their price perceptions. That consumers may not form valid perceptions of actual prices in a store is supported by Dickson and Sawyer's (1990) widely cited work, but consumers do develop some general price perceptions of products in a store, and can evaluate their expensiveness in relative terms (Monroe and Lee 1999).

Desai and Talukdar (2003) develop a product-price saliency framework to examine how consumers form an overall store price image (OSPI). They show that products with high unit prices and high purchase frequency are more salient and therefore contribute more to OSPI, with purchase frequency dominating unit price in importance. Alba et al. (1994) examine how consumers' perceptions of store prices change with prior beliefs and information about how frequently a store has a price advantage on a set of products and the magnitude of that price advantage. They find that, although prior beliefs affect price perceptions, frequency of price advantage dominates both prior beliefs and magnitude of price advantage in influencing consumers' perceptions of store price level.

***Retailer pricing format.*** A retailer's price format, which is on a continuum between EDLP (Every Day Low Price) and HILO (High-Low Promotional Pricing), also influences consumers' store choice and shopping behavior. Bell and Lattin (1998) show that "large basket

shoppers” prefer EDLP stores whereas “small basket shoppers” prefer HILO stores. The intuition behind the finding is straight-forward. Large basket shoppers are captive to the pricing across a large set of product categories at a time and do not have the flexibility to take advantage of occasional price deals on individual products. They therefore prefer EDLP because it gives them a lower expected price for their shopping basket. Small basket shoppers, on the other hand, can take advantage of variations in prices of individual products and, by buying on deal, can lower their basket price even if average prices in the store are high.

Ho, Tang, and Bell (1998) also explain why both EDLP and HILO co-exist in the market. They show that average prices are higher in HILO stores and average purchase quantities are lower. HILO pricing is more effective in enticing shoppers to make more frequent store visits, but, since shoppers have the flexibility to buy more on trips when prices are lower, the HILO store’s revenue per unit time is lower. In contrast, EDLP decreases shopping frequency but generates higher revenue per unit time. Thus, neither format is dominant.

***Price promotion induced store switching.*** The third research area studies whether retailer price promotions result in store switching by consumers. Kumar and Leone (1988) and Walters (1991) find a significant impact of promotions on store switching/traffic. However, it is unlikely that consumers would keep track of weekly promotions on a multitude of categories in all the stores in their neighborhood. Bucklin and Lattin (1992) show that retail promotions in any one category do not directly influence a consumer’s store choice decision, but they indirectly affect where the category is purchased. Consumers typically shop in more than one store. They may purchase a promoted product in the store they happen to be visiting whereas they would otherwise have purchased it in another store. This also reiterates the important moderating effect of in-store atmosphere. The impact of promotions will be higher in a pleasant atmosphere

because the longer consumers stay in a store, the more likely they are to notice promotions and buy more than planned during the shopping trip.

In summary, consumers are more likely to develop a favorable price image when retailers offer frequent discounts on a large number of products than when they offer less frequent, but steeper discounts. Further, products that have high unit price and are purchased more frequently are more salient in determining the retailer's price image. One pricing format does not dominate another, but large basket shoppers prefer EDLP stores while small basket shoppers prefer HILO, and it is optimal for HILO stores to charge an average price that is higher than the EDLP. Finally, price promotions are associated with store switching but the effect is indirect, altering consumers' category purchase decisions while they are in the store rather than altering their choice of which store to visit.

These findings are crucial for retailers who are trying to build their retail brand. They highlight the levers that retailers can use to influence their price image and the impact of their price promotions, and they show that retailers have considerable flexibility in following different pricing strategies and avoiding head-to-head price competition with other retailers even though they may carry many of the very same manufacturer brands that competing retailers carry.

### **Cross-Category Assortment**

Consumers' perception of the breadth of different products and services offered by a retailer under one roof significantly influence store image. The benefits of a wide assortment are clear. First, the greater the breadth of product assortment, the greater the range of different situations in which the retailer is recalled and considered by the consumer, and therefore the stronger its salience. As noted by Keller (2003), salience is the most basic building block for a brand. Second, the one-stop shopping convenience that a broad product assortment enables is

becoming more important than ever for today's time-constrained consumer (Messinger and Narasimhan 1997), putting pressure on retailers to broaden their assortment. Third, consumers regularly shop at more than one store, and, as noted earlier, they may purchase a category in the store that they are visiting based on in-store assortment and marketing mix activities whereas they would otherwise have purchased it in another store. Together with the fact that unplanned purchases comprise a significant portion of consumers' total shopping basket, this gives an advantage to retailers with broader assortments.

The branding literature, however, suggests some potential pitfalls of broad assortments, apart from the rather obvious downside that increasing assortment breadth brings with it significantly higher costs for the retailer. Inman, Shankar, and Ferraro (2004) show that certain types of product categories have "signature" associations with specific channels, e.g., supermarkets with food, drug channel with medications and health products, and mass merchandisers with household items. But, research has shown that a brand that is seen as prototypical of a product category can be difficult to extend outside the category (Farquhar and Herr 1993). Therefore, if a retailer has strong signature associations with certain categories, consumers may find it difficult to think of the retailer in connection with other, very different categories. Brand extension research also shows that a large number of associations could produce interference effects and lower memory performance (Meyers-Levy 1989).

The good news, however, is that if the retailer attempts to sell a new line of products or offer a new service that fails to connect with consumers, there may be little long-term harm as long as the new line is not too closely connected to the retailer's signature categories or its own brand name. Research on brand equity dilution has found that parent brands generally are not particularly vulnerable to failed brand extensions: An unsuccessful brand extension potentially

damages a parent brand only when there is a high degree of similarity or "fit" involved (Ahluwalia and Gurhan-Cali 2000; Gurhan-Canli and Maheswaran 1998; Keller and Aaker 1992). Of course, the retailer's image and reputation would be more vulnerable if the expanded product assortment is a private label branded under the store's own name.

Another finding from brand extension research is also relevant to retailers' assortment decisions. Keller and Aaker (1992) 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). Successfully introduced brand extensions can lead to enhanced perceptions of corporate credibility and improved evaluations of even more dissimilar brand extensions that are introduced later. In other words, retailers are most likely to be successful if they expand their meaning and assortment in gradual stages, as for example Amazon, or even Walmart, did.

In summary, a broad assortment can create customer value by offering convenience and ease of shopping. It is risky to extend too far too soon, but, staying too tightly coupled to the current assortment and image may unnecessarily limit the retailer's range of experimentation (Danneels 2003). The logic and sequencing of a retailer's assortment policy are critical to its ability to successfully expand its meaning and appeal to consumers over time

### **Within-Category Assortment**

Consumers' perceptions of the depth of a retailer's assortment within a product category are an important dimension of store image and a key driver of store choice. As the perceived assortment of brands, flavors, and sizes increases, variety seeking consumers will perceive greater utility (McAlister and Pessemier 1982; Kahn and Wansink 2004), consumers with

uncertain future preferences will believe they have more flexibility in their choices (Kahn and Lehmann 1991), and, in general, it is more likely that consumers will find the item they desire.

More offerings in a category, however, can be costly both for the retailer and the consumer. From the viewpoint of the retailer, cutting out 20% of the most inefficient items from its assortment can mean savings of several million dollars per year for a large chain. From the viewpoint of the consumer, researchers like Greenleaf and Lehmann (1995), Tversky and Shafir (1992) and Iyengar and Lepper (2000) argue that increasing the choice set leads to cognitive overload and uncertainty and can actually decrease the likelihood of purchase. In recent years, therefore, researchers have focused on how consumers perceive an assortment and whether and how actual assortment can be reduced without adversely affecting consumer perceptions.

Kahn and Lehmann (1991), Hoch, Bradlow, and Wansink (1999), and Boatwright and Nunes (2001) highlight, for example, the importance of uniqueness or differences in attribute levels among items, with greater uniqueness being associated with greater perceived variety in assortment. Kahn and Wansink (2004) show that the organization and symmetry of an assortment moderate the impact of actual assortment variety on perceived variety and consumption, with organized and asymmetric assortments having a more positive effect.

Broniarczyk, Hoyer, and McAlister (1998) find that SKU reduction does not lower consumers' perceptions of assortment much unless their favorite item is dropped or the total amount of space devoted to the category is reduced. Further, a moderate decrease in number of SKUs can actually increase consumers' perceptions of assortment as long as their favorite item and total category space are maintained. Dreze, Hoch, and Purk (1994) and Boatwright and Nunes (2001), do find that aggregate sales actually increase when less popular SKUs are deleted.

In summary, greater perceived assortment does influence store image, store choice, and satisfaction with the store, but a greater number of SKUs need not directly translate to better perceptions. Retailers can reduce the number of SKUs substantially without adversely affecting consumer perceptions, as long as they pay attention to the most preferred brands, the organization of the assortment and the availability of diverse product attributes.

## **BRAND ASSORTMENT**

One specific aspect of the retailer's assortment strategy, brand assortment, has become particularly important in the last decade as a tool for retailers to influence their image and develop their own brand name. Most retailers carry manufacturer brands, but, increasingly, they also offer private label products. One motivation for offering private labels is the higher percent margins that they provide to retailers (Hoch and Banerji 1993); another is the negotiating leverage they provide over manufacturers (Narasimhan and Wilcox 1998); and a third is the implicit assumption that providing a private label brand engenders loyalty to the retailer (Steenkamp and Dekimpe 1997).

The growth in private labels has spawned much research on who buys private label products, whether and how private labels provide leverage to retailers, and the category and market determinants of private label share. We review the main findings from this research and summarize the implications for retail branding. We also review the rather small body of research that throws light on whether and how the manufacturer brands carried by a retailer influence consumers' evaluation of private label products.

### **Private Labels**

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

private label growth could be seen in some ways as a consequence of cleverly designed branding strategies.

One of the most fundamental questions that researchers have asked about private labels is “Who is the private label prone consumer?” Interestingly, despite a large body of research on this issue (e.g., Richardson, Jain, and Dick 1996; Ailawadi, Gedenk, and Neslin 2001), we have few empirical generalizations about the characteristics of the private label user. The best we can say is that s/he is price sensitive but not image sensitive, middle-income, and educated.

Another key question is “Do private labels give retailers negotiating leverage over national brand manufacturers?” Several analytical models have been developed in recent years that claim the answer to this question is “yes” (Mills 1995; Narasimhan and Wilcox 1998), and Ailawadi and Harlam’s (2004) empirical analysis supports the hypothesis that retailers are able to earn high margins on national brands in categories where their private label has a high share.

A third question relates to the category characteristics that are conducive to private label success. Several researchers have noted that private label proneness is more category specific than consumer specific (e.g., Sethuraman 1992; Sethuraman and Cole 1997). Private labels gain higher share in large, less-promoted categories with a small number of brands, and when the price differential between national brands and private label is large (Hoch and Banerji 1993; Dhar and Hoch 1998; Sethuraman 1992). But, the most important driver of private label share is its perceived quality (Hoch and Banerji; Sethuraman 2000).

The fact that the perceived quality differential between private labels and national brands is so important clearly means that the better the private label position in terms of quality, the more likely it is to succeed. However, should the private label be positioned against the leading national brand? Sayman, Hoch, and Raju (2002) show analytically that it is profitable for the

private label to position itself close to the leading national brand, particularly when the leading brand has a high share. Empirically, they find that, when private labels do target a particular national brand, they tend to target the leading brand. Interestingly, though, the large majority of private labels do not seem to target a particular national brand, perhaps because that positioning may not be credible.

Is private label use related to store loyalty? The answer has direct relevance to the ability of private labels to help build retailers' brands. Conventional wisdom certainly has it that store image and loyalty may improve as consumers become familiar with the private label and their shopping is facilitated by the ability to buy a single brand across a wide range of product categories (e.g., Steenkamp and Dekimpe 1997). Corstjens and Lal (2000) also show analytically that the ability to engender store loyalty can make private labels profitable for retailers even if they do not have a cost advantage. However, empirical evidence of the relationship between private label use and store loyalty is not only sparse but mixed.

Corstjens and Lal (2000) provide empirical evidence of a positive correlation using scanner data for one product category, and Ailawadi, Gedenk, and Neslin (2001) show a positive association using survey data. On the other hand, Ailawadi and Harlam (2004) find that heavy private label users buy significantly less from a retailer than do medium private label users. Further, none of these studies can attest to the direction of causality in the relationship. As a result, it is by no means clear that private labels increase consumer loyalty to a retailer's stores.

In summary, private label users span a wide array of demographic and psychographic characteristics, so retailers who use a strong private label strategy are not limiting themselves to only a narrow section of the market. The negotiating leverage provided by a successful private label can make it easier for a retailer to strengthen some of the other levers of brand image, e.g.,

more attractive prices and promotions for the best national brands. There is significant variation in private label share across categories, and the quality differential with national brands is a much more important driver of share than the price differential. But, it is not clear whether private labels really improve store loyalty, and though analytical research suggests that positioning next to the leading brand is a smart strategy for maximizing category profit, it is not clear whether such positioning is credible in the minds of consumers.

### **The Impact of Manufacturer Brands on Private Label Success**

Since consumers' representations of private labels, which are not advertised much and vary from one retailer to another, may not be as well elaborated as their representations of well known manufacturer brands, extrinsic cues are more likely to affect perceptions of private labels. The manufacturer brands carried by the retailer can serve as one important extrinsic cue.

The quality of manufacturer brands positively influences consumers' image of the retailer. In turn, strong retailer image spills over to improve ratings of private label products. Jacoby and Mazursky (1984) find that carrying strong brands can improve the image of a retailer although strong retailer image cannot improve the image of a weak brand. And, Richardson, Jain, and Dick (1996) find that consumers' ratings of private labels are higher when store image is favorable although their ratings of manufacturer brands are not affected by store image. Simmons, Bickart and Buchanan's (2000) analysis of whether the presence of high equity brands increases the economic value of less established brands also suggests that stocking high quality manufacturer brands can help retailers improve the performance of their private label products.

However, the influence of manufacturer brands on private label evaluation and choice may vary depending upon the assortment of price-quality tiers and display structure in the store. Simonson and Tversky (1992) show that adding an even higher quality option to an existing

assortment leads consumers to prefer a higher-quality, higher-price option, with the cheapest option losing the most. On the other hand, adding a lower quality option does not shift choices to lower quality levels. This reiterates the importance of quality in private label success and shows that the strategy of stocking an even lower quality manufacturer brand to make a low quality private label look more appealing will not be effective.

Simonson and Tversky (1992) also show that consumers choose middle or compromise alternatives in some cases but not in others. Simonson (1999) proposes that compromises are chosen when the dimensions on which choices vary have diminishing marginal values whereas non-compromise options are chosen when marginal values are increasing. Given that most private labels in U.S. packaged goods are not positioned at the extremes, this may explain why they perform better in utilitarian versus hedonic categories.

Nowlis and Simonson (1997) show that low price, low equity brands are more likely to be chosen when they are displayed alongside competing options while high price, high equity brands are more likely to be chosen when they are displayed separately. In seeming contradiction, Simmons, Bickart, and Buchanan (2000) find that, when unfamiliar brands share the retail portfolio with well known brands, the former do better in separate displays than in mixed displays. A key difference between the studies is that, in the latter, the unfamiliar brand is described to be identical to the high equity brand, generally even in price, whereas Nowlis and Simonson's low tier brands are low equity and low price. Thus, mixed displays may help the private label when it has a lower price and superior features compared to the higher equity manufacturer brands, because comparisons are easier. Otherwise, separate displays may be better because they reduce consumers' ability to use informational cues from manufacturer brands.

In summary, stocking high quality manufacturer brands improves the valuation of a retailer's private label by improving consumer perceptions of the retailer's overall image. However, the assortment of price quality tiers that the retailer carries and displays along with the private label can influence private label choice. Positioning the private label as a compromise between high and low tier manufacturer brands may increase its share in some categories but not in others. And, whether a mixed or separate display is better for private labels may depend upon whether it has superior price and product features.

### **FUTURE RESEARCH PRIORITIES**

The above review highlights several insights that past research has provided into some relevant retailer branding considerations. Yet, much work clearly still needs to be done. In this concluding section, we review three areas that deserve greater research attention.

#### **Development and Application of Traditional Branding Theory**

There are a number of branding principles and concepts that could be productively applied to retailer brands. Here we highlight three important ones.

***Brand personality.*** Much of the theory and practice of branding deals with intangibles – how marketers can transcend their physical products or service specifications to create more value. One important brand intangible is brand personality – the human characteristics or traits that can be attributed to a brand. One widely accepted brand personality scale is composed of five factors (Aaker 1996): 1) Sincerity (e.g., down-to-earth, honest, wholesome, and cheerful), 2) Excitement (e.g., daring, spirited, imaginative, and up-to-date), 3) Competence (e.g., reliable, intelligent, and successful), 4) Sophistication (e.g., upper class and charming), and 5) Ruggedness (e.g., outdoorsy and tough). But, how applicable are these brand personality

dimensions to retail brands? Do other dimensions emerge? Which retailer attributes affect which dimensions of retailer brand personality and how does this vary across market segments?

***Experiential marketing.*** An important trend in marketing is experiential marketing – company-sponsored activities and programs designed to create daily or special brand-related interactions. Schmitt (1999, 2003) has developed the concept of *Customer Experience Management (CEM)* – which he defines as the process of strategically managing a customer’s entire experience with a product or company.

Retailers are obviously in an ideal position to create experiences for their customers. These experiences may involve their own private labels, manufacturer brands, or not be tied to a specific product but the store as a whole. A host of questions are raised by such strategies. What kinds of feelings can be engendered by a retailer’s event? How can that become linked to the retailer’s brand? How do retailers develop their communication strategies as a whole? Can retailers use the Web to provide further event support and additional experiences?

A related issue is how retailers can engage in activities, perhaps in collaboration with national manufacturers, to encourage product use and communicate or demonstrate product information to build brand awareness and enhance brand image for the individual products or services that are sold. How can in-store merchandising, signage, displays, and other activities leverage the equity of the brands that the retailer sells while still building its own equity?

***Brand architecture.*** Brand architecture involves defining both *brand boundaries* and *brand relationships*. The role of brand architecture is two-fold: 1) to clarify all product and service offerings and improve brand awareness with consumers and 2) to motivate consumer purchase by enhancing the brand image of products and services. In general, there are three key brand architecture tasks:

1. *Defining brand potential.* What can the brand stand for? What should the brand promise be? How should the brand be competitively positioned?
2. *Identifying opportunities to achieve brand potential.* What *products or services* are necessary to achieve the brand potential? What *markets* should be tapped to achieve growth?
3. *Organizing brand offerings.* How should products and services be branded so that they achieve their maximum sales and equity potential?

These tasks suggest a number of research questions. In a retailing context, brand architecture issues revolve around how many and what kind of products and services are provided by the retailer (i.e., cross- and within-category assortment) and how the various products and services are branded. An obvious question is how the retailer chooses to develop private label offerings, if at all, as described in the next section. But, several other issues need to be considered, as follows.

For example, at the store level, how can a retail brand be optimally positioned with respect to competitors? How should competition best be identified and addressed? How should the brand essence or core meaning of a retail brand be defined? How flexible are the mental categories consumers form for retail brands? Within the store, other brand architecture issues also exist. Should the retailer develop brands for different sections of the store or groups of branded products or services? How can the retailer add value to already-branded products and services? Does creating sub-brands under the retailer brand name help increase awareness or enhance the image of the brands that are being sold? Retailers need to carefully design and implement a brand architecture strategy to maximize retailer brand equity and sales.

### **Role of Private Labels in Building Retailer Brand Equity**

Although researchers have discussed optimal private label introduction, quality, pricing, and positioning strategies from the perspective of private label sales or category profit maximization, there is little work, either normative or descriptive, that links these strategic

decisions to building the retailer's brand equity. We discuss below some issues that are particularly important from the perspective of retail branding.

***Category determinants of private label success.*** What are the category and market factors that determine how effective private labels will be in building the retail brand? Should retailers in different formats emphasize private labels in different categories? Inman, Shankar, and Ferraro (2004) show that consumers associate different product categories with different retail formats. Bell, Ho, and Tang (1998) also argue that consumers build both category-independent and category-specific store loyalty. Would it be more effective for retailers to develop private labels in categories that consumers already associate them with or in categories that are not traditionally associated with them?

***Private label tiers and retailer brand positioning.*** There are at least four tiers of private label products, ranging from low quality, no-name generics to cheap, medium quality own labels to somewhat less expensive, comparable quality private labels, to premium quality, high value added private labels that are not priced lower than national brands (Laaksonen and Reynolds 1994). In Europe, especially in the U.K., one can find many examples of the last two tiers, most notably Marks and Spencer's or Tesco's private labels. In North America, brands such as GAP, Tiffany, Brooks Brothers, and Talbots have established strong, premium private labels, but Loblaw's Presidents Choice may be the only really successful example of a premium private label in packaged goods.

However, more retailers are attempting to create a line of private labels that spans these tiers. For instance, the supermarket retailer Kroger offers a line of three private labels – the premium quality “Private Selection”, the Kroger Brand that is guaranteed to be better than or equal to national brands, and the most economical FMV brand (For Maximum Value). Clearly,

this private label portfolio strategy allows the retailer to cover a range of price-quality tiers but, how effective is it in building the retail brand? Is the retailer's ability to position his or her retail brand improved or restricted by the presence of a private label, and the tier(s) in which the private label is positioned? What types of retailers are most likely to benefit from private labels in terms of their retail brand equity?

***Private label branding strategy.*** Many retailers give their own name to their private label, whereas others use different names for their private label products. For instance, CVS puts the "CVS" name on all its private label products while Kmart does not. Aldi, a German hard discounter who is becoming a major force in European retailing, also does not put its own name on any of the products it sells even though only private labels are sold in its stores.

Little research has examined the effectiveness of retailer's private label branding strategy. The one exception we are aware of is Dhar and Hoch (1998) who included the private label branding decision as one of the variables in their analysis of private label market share and found that putting the retailer's own name on the private label is positively associated with private label share. What are the factors that determine whether one strategy would be more or less effective than the other? On one hand, having the same name and perhaps even the same package design for products in a wide array of categories across the store, certainly strengthens awareness and recall of the retail brand, and may facilitate the consumer's decision making. On the other hand, will consumers find it credible that the retailer can provide a good value, strong product in so many different product categories? Would it be desirable for a retailer like Aldi to have its big box, discount image be transferred to the products it sells?

Consumer perceptions of a private label product branded under the store name are more likely to color their impressions of the store as whole – and vice versa – than if a different name

were used to brand the product. Yet, the different inherent qualities of a retail store and its products suggest that the flow of meaning and equity may not always be strong. In other words, consumers may be able to mentally compartmentalize product offerings as distinct from retailing activities such that, even if they deemed a particular store brand product as unacceptable, they may be less inclined to downgrade their evaluations of the retailer as a whole. If the retailer chooses not to use the store name for private label products, the feedback effects, both positive and negative, would presumably be less strong,

*Extending private labels.* One of the major benefits of brand equity is the option it provides for extending the brand name to other market segments within the category or to other product categories. Although some retailers with premium private labels sell those private labels through other retail outlets (e.g., Starbucks), it is not yet common for North American packaged goods retailers to do so -- they do not yet seem to have that kind of equity.

In terms of building brand equity, the key point of difference to consumers for private labels has generally been "good value," a desirable and transferable association across many product categories. As a result, private labels can be extremely "broad," and their name can be applied across many different products. Research has shown that because of their intangible nature, more abstract associations may be seen as more relevant across a wide set of categories (Aaker and Keller 1990; Rangaswamy et al. 1993).

But all brands have boundaries. If a retailer extends its private label assortment too far beyond the categories that consumers associate with its channel type, will the benefits be so small as to outweigh the costs of that assortment breadth? Or will such an action be particularly effective in differentiating the retailer's image from competitors in its own channel? Is a strategy

of multiple private label brand names more effective from the point of view of extension than having a single private label under the store name?

***Manufacturer response.*** Manufacturers have responded to the rise of private labels in a number of different ways: decreasing costs, cutting prices, increasing R & D expenditures, increasing promotions, introducing discount "fighter" brands, and supplying private label makers. Hoch (1996) and Dunne and Narasimhan (1999) discuss how manufacturers should think about private labels and what issues they should consider in deciding whether to supply private label products. Ailawadi, Gedenk, and Neslin (2001) show that although there is a segment of value conscious consumers who buy private labels and manufacturer brands when the latter are promoted, there are also two separate and sizeable segments that buy one but not the other. Offering deeper promotions to combat private labels may therefore not be the ideal response for manufacturers. However, more empirical analysis is needed to examine the effectiveness of different types of manufacturer response. Some manufacturers have their own outlets (e.g., Niketown, Polo) which compete with their retailers. What are the brand equity and consumer loyalty implications of manufacturer-controlled stores?

### **Measuring Retailer Brand Equity**

The measurement of brand equity has been one of the most challenging and important issues for both academics and managers. A common conceptual definition of brand equity and a clear distinction between the consumer-based sources of brand equity and the product-market outcomes of brand equity have been very useful in efforts to develop measures of brand equity (e.g., Keller and Lehmann 2002; Ailawadi, Lehmann, and Neslin 2003), but a single measure that offers rich insights and diagnosticity and yet is easy to compute and track still evades us.

As if the measurement of brand equity were not hard enough, the measurement of retail brand equity adds its own unique challenges. Brand equity is defined as the marketing effects or outcomes that accrue to the product or service with its brand name as compared to the outcomes if that same product or service did not have the brand name (Keller 1993). Since it is difficult to determine what outcomes would accrue in the hypothetical “no brand name” situation, researchers often use private labels as the “no brand name” benchmark (Park and Srinivasan 1994; Sethuraman 2000; Ailawadi, Lehmann, and Neslin 2003). What should be the benchmark for assessing a retailer’s equity and comparing it with other retailers?

One possibility is the approach developed by Dubin (1998) who uses oligopoly economic theory and a series of simplifying assumptions to derive an analytic expression for the incremental profit that a product would get with its brand name versus if it did not have the brand name. However, although Dubin does not treat the private label directly as a benchmark, it does play a role in his analysis – his expression for brand equity is a function of, among other things, the price elasticities of branded and private label products.

Another possibility might be to use a cross-retailer hedonic regression type of approach.<sup>1</sup> For instance, one could regress retailer revenue or profit on various physical attributes such as location, square footage, store timings, product/service assortment, availability of private label, etc. A retailer’s residual from this regression, i.e., the portion of its revenue or profit that cannot be explained by physical attributes, can be conceptualized as a measure of its retail brand equity.

A second complication in the measurement of retailer brand equity is that brand equity is supposed to enable the brand to charge a price premium. In fact, many researchers view this price premium as a measure of brand equity (Aaker 1991, 1996; Sethuraman 2000; Sethuraman and Cole 1997). However, several of the strongest retailers today, e.g. Walmart, Target, Aldi,

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<sup>1</sup> We thank Don Lehmann for this suggestion.

are built squarely on a low price positioning. Clearly, the fact that these retailers charge lower prices than their competitors does not mean they do not have equity. Perhaps one way to conceptualize retail brand equity is to think in terms of the “resources premium” that consumers are willing to expend in order to shop with the retailer. Resources may reflect financial considerations but also other factors such as distance traveled, brand or size preferences compromised, or services foregone.

### **CONCLUSION**

Our contention is that branding and brand management principles can and should be applied to retail brands. Even though there has not been much academic research on retail branding per se, a lot of work has been done on retailer actions and consumer perceptions of retailer image that has direct relevance to branding. We reviewed academic research on five main dimensions of store image – access, in-store atmosphere, price and promotion, cross-category assortment, and within-category assortment – and integrated the major findings with lessons from branding research.

Consumer perceptions of these dimensions of retailer image can help develop strong and unique retail brand associations in the minds of consumers. They also influence the utilitarian and hedonic benefits that consumers feel they gain from retailer patronage and ultimately the price premium consumers will pay, the extra effort they will be willing to expend in order to shop the retailer, and the share of trips, share of requirement, and loyalty that the retailer enjoys. By influencing consumer preferences and shopping behavior in these ways, retailers’ image becomes an important base for their retail brand equity. The relative importance of different image dimensions and of utilitarian versus hedonic utility vary for different retail formats,

different consumer segments, and even for different purchase occasions for the same consumer, thus providing ample opportunity for retail brands to differentiate themselves from one another.

Perhaps because of the lack of explicit focus, however, a number of important retail branding questions and issues are yet to be resolved. We have offered suggestions in three main areas – applications of traditional branding principles, the role of private labels in building retailer brand equity, and the measurement of retailer brand equity. We hope our discussion will stimulate progress in these and other areas of retail branding.

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