The Relationship Between Retail Store Types and Consumer Price Expectations

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ABSTRACT

As consumers hold distinct beliefs about competing retailers, there has been considerable development in the way brands are managed in the field of retailing and firms are making significant efforts to create ever richer and more differentiated store identities (Beristain and Zorrilla 2011). Given the abundant choices of retail formats and diverse product categories and brands available to consumers, retailers use every means available to survive and compete (Kumar et al. 2017).

This study provides useful managerial insights into the roles of price expectations in consumer purchase decisions in different product categories along with both national or store brands. With respect to price expectation, store brand equity has been shown to vary across consumers, creating an opportunity for segmenting and targeting consumers on the basis of price. In particular, this study is unique in that it shows how consumer characteristics relate to retail brand equity.

INTRODUCTION

Given the considerable research on the various forms of relationships between brands and consumers, marketing practice suggests that branding is an effective differentiation strategy and most valuable assets enabling a statement of identification for the product, the firm, and the consumer (Kumar et al. 2017). As consumers hold distinct belief about competing retailers, there has been considerable development in the way brands are managed in the field of retailing and firms are making significant efforts to create ever richer and more differentiated store identities (Beristain and Zorrilla 2011). One of the most powerful and effective strategic tools in retailing is pricing (Levy et al. 2018) and another critical and long-term strategic decision that retailers must make pertains to the store format (Gonzalez-Benito and Martos-Partal 2014).

Competition across retail channels and formats appears to be much more intense than ever before (Bolton et al. 2010). For example, consumers shop different store formats for similar merchandise categories and therefore can usually distinguish between pricing strategies within a format or across formats (Inman et al. 2004). Given the abundant choices of retail formats and diverse product categories and brands available to consumers, competition for patronage and loyalty continues to intensify. Thus, retailers use every means available to survive and compete.

For many years marketing researchers have considered issues related to consumers’ store choices across various purchasing situations. Price-related behaviors represent an important area of focus of within the stream of research on patronage behavior (Moore and Carpenter 2006). Because price is a widely noted variable in the choice to patronize a given retailer, and or to buy products and services, identifying the linkages between consumer perceptions of price and their ultimate
choice of retail format provides timely information to marketers and retailers related to this important element of the marketing mix (Moore and Carpenter 2006). Consumers decide which store to visit depending on factors such as store location, assortment and quality of products, overall price level of the store, and prices of specific brands (Mazumdar et al. 2005). Then, how might price strategies differ from across the store formats for similar merchandise and services? Do consumers behave differently across the store types? What competitive attitude or behavior effects exist? Uncovering the drivers of retail prices is of great importance to marketing executives and academics. While research has shown that price clearly enhance customer's perceptions of value, how customers form their expectation price upon exposure to store formats got less attention. In order to understand the role of retailer-specific attributes it would be useful to investigate and compare similar products sold under the different retail stores. Therefore, the purpose of this research is to develop a better understanding of how consumers respond to the brands, store types, and price expectation, and to develop an appropriate branding strategy for both national and store brands. Specifically, the hypothesized effect will be estimated by measuring consumer price expectation within in fashion (apparel) context using both national and store brands.

The current study is expected to provide ongoing stream of academic research that attempts to ascertain the determinants of price expectation within the context of apparel industry where few studies of brand equity has been done (Ramirez and Goldsmith 2009). In particular, this study is unique in that it shows how consumer characteristics relate to retail brand equity. In addition to furthering the understanding of the determinants of price expectation, this study provides useful information to assist both manufactures and retailers in implementing brand strategies. Given the significant growth and importance of retail branding, comprehending the dynamics of brand equity affecting customer’s behavior can empower marketing practitioners and researchers to enhance the understanding of unique and distinctive consumer behavior and devise effective marketing strategies including relevant positioning and specific marketing direction. The conceptual framework has been developed in accordance with the research objectives. Specifically, the framework considers the possibility that the store types can vary affect consumers as a result of individual differences in price expectation, brand equity, demographics, and so on.

REVIEW OF LITERATURE

Price Expectation

Price is an important element for consumers when purchasing and has a large influence on consumer’s satisfaction judgments (Herrmann et al. 2007). No matter how the product, store, the consumer, or purchase situation might differ, price presents the monetary expenditure that the consumer must incur in order to make a purchase (Ailawadi and Farris 2017). Consumers have distinctive price responses that reflect the manner in which they process price information for the brand choices (Moon et al. 2006). Thus, retail pricing and positioning are among the most challenging decisions facing retailers (Levy et al. 2018).

A brand’s expected price refers to price customers expect to pay for the brand on a given purchase occasion as a reference in forming price judgments (Kalwani et al. 1990). The term expected price is little different from the actual price, normal price, or price reference. The price
expectation used in this study conveys the idea that customers not only use information from past prices but also consider contextual variables including store environment and expectations of future prices in buying decision (Kalwani et al. 1990). Customers form expectations of prices in evaluating the transaction and use them in formulating response to retail prices. The current study assumes that a customer’s prior expectation for finding fair price may be different depending on the types of stores and suggests that the overall price point of a store (e.g., department store, full discount store, off price store, and etc.) and the price of specific products that overlap with other stores (e.g., difference price point across the stores). Therefore, knowledge of what factors determine price can help retailers implement marketing strategies with different prices in different stores and retail market areas. Such differential pricing better matches prices to consumer expectation and can increase the retailer’s overall profitability. Therefore, based on prior research in marketing, this study hypothesizes that store types have an effect on customer price expectations:

Hypothesis 1: Store types are positively related to consumer's price expectation

**Store Attributes: Store formats and Brands**

There has been considerable research on how pricing and format strategies affect consumers’ brand and store choice behavior, as well as which consumer profiles tend to be drawn to each strategy (Voss and Seiders 2003).

Store formats refer to competing categories of retailers that match varying customer needs and shopping situations (Gonzalez-Benito and Martos-Partal 2014). The multiple available formats in general merchandise category include full discount stores, department stores, specialty stores, category specialists, home improvement centers, off-price stores, and extreme-value stores (Levy et al. 2018). For the current study, three different store formats are chosen; the department store (Macy’s, Dillard’s, and Kohl’s), full discount store (Wal-Mart and Target), and off-price store (TJMaxx).

Brands are one of a firm’s most valuable intangible assets and retailers must understand the factors influencing consumer's brand choice. Most retailers carry manufacturer brands, but, increasingly, they also offer store brands (Ailawadi and Farris 2017). The fact that the perceived quality differential between national brands and store brands is so important clearly means that the better store brands position in terms of quality, the more likely it is to succeed (Ailawadi and Farris 2017). In addition, the competition between national and store brands have become an important marketing issue (Kurata et al. 2007).

The penetration of store brand sales in the apparel business is very substantial. For the current study, apparel was chosen as the product category because of its application to diverse, ever-changing product assortments, and that it invariably operates as a universally consumed product. In addition, prices for apparel range widely, but income should have little influence on apparel brand loyalty because of the availability of affordable brands suitable for the survey participants (Ramirez and Goldsmith 2009). Moreover, apparel functions as a means of creating and communicating an identity for the customers. It is found that apparel can be seen as an important symbolic meaning in the expression of self-identity (Dittmar et al. 1995). In order to successfully manage store brands, it is necessary to understand consumers’ specific perceptions of, and response to, the store brands of different stores.
Brand Equity

A brand is an intangible asset that a firm owns. The image of the retailer in the minds of consumers is the basis of this brand equity. Brand equity is defined as the marketing effects or outcomes that accrue to a product with its brand name compared with those that would accrue if the same product did not have the brand name (Keller 2003). Also, Yoo et al. (2000) define the brand equity as the incremental utility or value added to a product by its brand name. For the current study, Aaker’s (1991) brand equity model has been chosen because it provides a complete and integrating approach to the concept of brand equity for both the customer and the firm. In addition, this model previously has been used to measure retailer equity by several researchers (Beristain and Zorilla 2011). Aaker's brand equity consists of multiple dimensions such as perceived brand quality, brand loyalty, brand awareness and brand associations.

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 (Aialawadi and Keller 2004).

Retailers are making considerable efforts to improve their brand management. However, the challenge is how best to integrate their stores as brands (national and store brands) in order to increase the brand equity and offer the market differential value that will stimulate customer loyalty (Beristain and Zorrilla 2011). Thus, following hypotheses are proposed: Each component of brand equity is positively related price expectation

Hypothesis 2a: the perceived quality of store is positively related to price expectation.
Hypothesis 2b: store loyalty is positively related to price expectation.
Hypothesis 2c: awareness of store is positively related to price expectation.

Customer characteristics

Price Consciousness. Price consciousness is defined as the degree to which the consumer focuses exclusively on paying low prices (Lichtenstein et al. 1991). Allenby and Lenk (1995) found that frequent buyers tend to be more price-sensitive than infrequent ones. The frequent buyers tend to be more knowledgeable about a brand's characteristics and regular prices and consequently may be more price-sensitive.

Brand Consciousness. Brand consciousness is an associative network memory model consisting of two dimensions: brand awareness and brand associations. Positive customer-base brand equity occurs when the customer is aware of the brand and holds strong, unique and favorable brand associations in their memory (Keller 1993). Brand consciousness may play an increasingly powerful role in encouraging customers to repeat purchases in today’s marketplaces which is complicated due to breadth and complexity of available products.

Self-Confidence. Self-confidence is defined as the subjective certainty in making a judgment of the quality of a brand and is a central construct in explaining consumer behavior (Howard 1989). Also, self-confidence is derived from consumers’ attitudes and significantly influences their buying intention (Smith and Sivakumar 2004). Consumers with a high level of self-confidence
may feel very driven and confident in their decision making for buying products. Specifically, self-confidence is important to consumers who buy clothing which can be seen as an important symbolic meaning in the expression of self-identity (Dittmar et al. 1995). Based on the extensive literature review, following hypotheses are proposed:

Hypothesis 3a: Price consciousness is negatively related to brand equity.
Hypothesis 3b: Brand consciousness is positively related to brand equity.
Hypothesis 3c: Self-confidence is positively related to brand equity.

**METHODOLOGY**

**Sample and Instrument Development**

Data were collected using a self-administered survey distributed to 250 students at a southwestern university in the U.S. A total of 216 completed questionnaires were retained for the further analysis. This study measures consumer’s price expectation of seven national brands and seven store brands in apparel product category (e.g., jeans, trousers, shirts, shocks, and so on) and sold in six different retail stores using different store formats (i.e., full discount store – Wal-Mart and Target; department store – Macy’s, Dillard’s, and Kohl’s; and off-price store – T.J. Maxx).

The scale items for all constructs were adapted from previously validated measures of brand equity (brand awareness, brand loyalty, and perceived quality) and price expectation and then modified to match the context of this study. Based on the Aaker’s model, components of store brand equity were measured. Specifically, the brand awareness and brand loyalty were measured using scales from Yoo et al. (2000) and perceived quality was measured using scales by Dodds et al. (1991). To assess the formation of price expectation, the scale proposed by Kopalle and Lindsey-Mullikin (2003) was employed. For the price expectation measure, specifically, subjects were asked to expect the price that would be charged for store brands of apparel product categories from different retail stores given and the price that would be charged for some national brands sold across the stores given. All of constructs but price expectation was measured using a 5 Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). In addition, participants’ demographic characteristics were measured for descriptive purposes.

**RESULTS**

**Sample**

The sample was primarily female (66.8%) and Caucasian (61.0%). Participants ranged in age from 18-40 with a mean age of 22.59 years (SD= 3.183) and reported that they had purchased apparel (44.3%) followed by books and gift items. Of the respondents, monthly clothing expenditures in conventional retail stores for 49% of the respondents were $26-$100 while more than half of them (57.6%) spent under $25 for clothing in online stores. For the store preference, Target is ranked first and is followed by Macy's, Dillard's, T.J. Maxx, Kohl's, and Wal-Mart.

**Data Analysis**
Since the scales used in this study were taken from different studies, the Exploratory Factor Analyses (EFA) was performed to identify potential cross-loadings and resulting problems with the discriminant validity of the factor solution. ANOVA was employed to test a significant effect of store types on price expectation across all the stores. The prices that respondents are willing to pay for the product categories (national vs. store brands) were different depending on the store formats. Specifically, the results reveal that store types have impact on the price expectation for the pair of jeans of store brands (F = 44.133, p < .001) and national brand, Levi’s (F = 21.186, p < .001) showing support for hypothesis 1. For example, for the pair of jeans which are store brands from six stores, participants are willing to pay more for the store brands by department stores such as Macy’s ($46.29), Dillard’s ($47.20), and Kohl’s ($29.36) than those by full discount stores such as Wal-Mart ($16.00) and Target ($22.99) or off-price store – TJMaxx ($25.17). This similar effect of store types on the price expectation for the store brands was found in various product categories including socks, underwear, shoes, shirts, and trousers. Also, the findings show that participants form the price expectation differently for the national brands sold in different stores. For the national brand, Levis’ jeans, participants are still willing to pay more for the Levi’s jeans sold in department stores such as Macy’s ($35.57), Dillard’s ($35.67), and Kohl’s ($28.6), compared to those in full discount stores such as Wal-Mart ($20.53) and Target ($26.77) or in off price store – TJMaxx ($25.13). This similar effect of store types on the price expectation was found in different national brands in the various product categories aforementioned. In sum, participants differently respond to various store formats in forming the price expectation. Regardless of national or store brands, they are willing to pay more for the products sold in department stores compared to full discount stores or off-price stores. Interestingly, it is found that participants are in general willing to pay more for the store brands over national brands which both are sold within the department store. Specifically, for the pair of jeans, the price differential between store brand and national brand (i.e., Levi’s) is as is following; Wal-Mart ($-4.53), Target ($-3.78), Macy’s ($10.72), Dillard’s ($11.54), Kohl’s ($0.76), and TJMaxx ($0.05).

A principal components factor analysis with varimax rotation revealed three dimensions of brand equity labeled as awareness, loyalty, and quality explaining 81.33% of the variance with a significant eigenvalue which is greater than 1 (Hair et al. 1998). Specifically, the factor loadings tested in this model are in the range of .737 to .893. Internal reliabilities of the scales (awareness, loyalty, and quality) are supported by the alphas values ranging .852, .925, and .896 respectively. In addition, discriminate and convergent validity are tested with items and constructs correlations. Item correlations within constructs are higher than those of across constructs. This indicates that the constructs in this study have acceptable convergent and discriminate validity as suggested by Churchill Jr. (1979).

Table 1 Factor Analysis of Brand Equity
Using multiple regression, each dimension of brand equity was employed as independent variables and the estimate of price expectation on product (nation or store brands) across the stores was employed as a dependent variable. The regression models explained the effect of brand equity on price expectation \([F = 10.432, p < .001; R^2 = 0.05]\) when buying a pair of jeans. However, quality \((\beta = .25, p < .001)\) is the only significant predictor in forming expected price for the pair of jeans. Thus, only hypothesis 2a was supported.

Also, it was tested how consumer characteristics affect consumer’s expected price for products. The results show the effect of consumer characteristics on price expectation \([F = 10.250, p < .001;\)
$R^2 = 0.064$] when buying a pair of jeans. Specifically, price consciousness ($\beta = -0.139$, $p < .05$), brand consciousness ($\beta = 0.12$, $p < .05$), and self-confidence ($\beta = -0.116$, $p < .05$) were significantly related to price expectation. Interestingly, price consciousness is negatively related to price expectation. Thus, all of Hypothesis 3 was supported.

**DISCUSSION AND CONCLUSION**

This study provides an assessment of the current understanding of (1) how price expectation is formed depending on store types and brands (store vs. national brands) (2) how brand equity affects the price expectation, and (3) the effect of individual consumer characteristics on brand equity.

Retailers invest substantial resources to develop and maintain a desired price positioning. Previous research on consumer perceptions of store prices has focused mainly on stimulus-based store price perceptions (Ofir et al. 2008). However, this study draws attention to the effect of extrinsic cues such as store types on consumers’ price expectation that has not been investigated in the brand equity domain.

The present research suggests that store types affect price expectation of a specific product category. It is consistent with the findings by Grewal et al. (1998) indicating that the store name is a predictor that influences perceived store image, perceived brand quality, and internal reference price, which in turn affect perceived value and willingness to buy. Just like the brand name, store types can be extrinsic cue to infer quality perceptions and may represent an aggregate of information about a product and brand.

More in detail, the findings show that, when stores carry the same brand, the large expected price difference between the department store and the discount store. Regardless of national or store brands, participants are willing to pay more for the products sold in department stores compared to full discount stores or off-price stores. It implies that customers are influenced by the store types where the differences exist in product, store, and service and generally associates both store brands and national brands sold in department stores with greater product quality or higher levels of customer service attributing higher price. This enables customers to perceive the price fairer in department stores. In this context, department stores can use their reputation and good image to brand their store brands thus giving the product a quality. For the department store, product overlap can be used strategically to signal that prices are more reasonable than might otherwise be expected. Specifically, to foster a positive price image, the price of an overlapping product need not be lower in a department store than in another store. Vice versa, store brands are unlikely to be successful at stores with a low image which is related to discount stores in this study. Retailers with an unfavorable image such as full discount store along with lower price/quality could improve that image by carrying national brands with a more favorable image. Interestingly, participants show that they are willing to pay less for off-price store, TJMaxx and there is no price difference exists between the store brands and national brands. This result supported by the researchers (Kalwani and Yim 1992) reporting that the price consumers expected to pay for an item was significantly lower after they observed either more frequent or deeper promotions for the item. In forming the price expectation on both national brands and store bands, while previous research has dealt with the phenomenon of store brands as a concept that is different from national brands, but does not explore store specific brand influences (Collins-Dodd and Lindley 2003), the results of this study confirm that a generalized attitude...
toward store brands is an important determinant of individual store brand evaluations. Store brands were traditionally perceived to be of lower quality and cheaper choices compared with national brands (Collins-Dodd and Lindley 2003). However, the findings of the current study support this perception only for the full discount stores such as Wal-Mart and Target. This implies that store types have an effect on consumer’s price expectation regarding purchasing of national brands or store brands. Also, this can be explained by tremendous effort by store brands specifically in department stores. Store brands have substantially improved their quality in the last decade. Reasons for this improvement include higher quality standards imposed by powerful retailers, the desire of retailers to offer consistent quality and the increased cooperation between manufacturers and retailers to develop store brands that match consumer taste (Apelbaum et al. 2003).

The current study suggests a new approach for studying the relationship between store types and brand equity along with price expectation. Brand equity has received significant research attention and has been recognized as an important concept in marketing research. Built on Aaker’s (1991) theoretical structure, this paper develops a conceptualization on brand equity and provides several theoretical and practical contributions to the understanding of brand equity specifically within the apparel industry. Specifically, this study found that perceived store quality among brand equity dimensions aforementioned was significantly related to price expectation. With regard to store quality, this study shows that store types can contribute to increase the perceived quality of store brands. This finding is in line with the prior research by Martin-Consuegra et al. (2007) stating that consumer’s price acceptance is directly influenced by customer loyalty. Also, the findings of this study propose a specific brand management approach consisting of strengthening the components of the store brand equity through suitable store types and pricing, in accordance with an integrated long-term brand practice. Although the quality of some store brands of apparel approach the quality of national brands, consumers are still likely to associate store brands with a higher risk. However, the perceived risk is reduced if quality is perceived as high. For apparel, perceived quality is also expected to reduce the perceived risk of buying a store brand.

In conclusion, this study offers useful managerial insights into the roles of price expectations in consumer purchase decisions in different product categories along with both national or store brands. With respect to price expectation, store brand equity has been shown to vary across consumers, creating an opportunity for segmenting and targeting consumers on the basis of price. Because different price expectation segments use different referents, retailers should use appropriate strategies to target each segment. Specifically, on the demand side, there are implications for the retailer’s store brands. The retailer can take advantage of the positive equity build up by the brand among its consumers. This paper helps retailers understand customers’ evaluation of their brand and help them develop clear directions to brand positioning based on the customer preference. The growing emphasis on private brands underscores the need for retailers to understand consumers' perceptions and factors influencing brand choice. There is no doubt that part of today’s brand success lays on the development of relationships between the brands and the consumers as well as consumption experience in different stores. As branding is more popular, understanding what makes customers become loyal to the brand by doing repeated purchases is a challenging task for firms to make more profits in today’s competitive marketplaces. Successful identification and communication with consumers will bring with it more involved customers and loyal customers.
LIMITATIONS AND FUTURE RESEARCH

This research has limitations providing challenges for further research. First, research on single category which is apparel category in this study inevitably ignores other marketing mix variables and environmental impacts. Consumers may retain a category-specific expected price in product class with low variability in brand quality and price, because small differences across brands may not justify the cognitive burden of attending to and retaining price information for several brands in memory (Mazumdar et al. 2005). Therefore, it would be valuable to examine how the proposed relationships may differ when compared to different retailers in different channels (e.g., Internet), with a wider range of product categories. Second, researchers may attempt to include additional independent variables of consumer behavior including social, situational, and technological factors to understand the proposed relationship. It is suggested that future study may include consumer characteristics and examine how those attributes are related to store choice and behavioral intention. As consumers have different lifestyles and values, they may prefer different experiences with store, brand, and price. In addition, consumer’s knowledge regarding products and brands can be desirably considered. Consumers who are more knowledgeable about product, store, and price information may make different decisions than consumers who are less knowledgeable. Finally, the use of other methodological approach is suggested to gain more complete understanding about brand and retail management.

REFERENCES


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