THE EFFECT OF STORE IMAGE AND SERVICE QUALITY ON PRIVATE LABEL BRAND IMAGE AND PURCHASE INTENTION

Case Study: Lotte Mart Gandaria City

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Retailers produce their own private label brand as one of the strategies to distinguish their products from competitors’. Based on previous research, store image and service quality can be used to improve private label brand image and purchase intention. A Research is conducted at Lotte Mart to find out whether store image and service quality could influence private label brand image and purchase intention in Indonesia. This research adopts Wu at a (2010). Data processing uses Structure Equation Modeling. Research outcome reveals that service quality is a significant factor in influencing private label brand image and purchase intention.

Keywords: Store image, service quality, private label brand, purchase intention

Introduction

The increasing number of retail companies makes the competition getting fiercer. The competition among the existing and new companies forces each company to determine the right and most effective strategy in order to survive in this retail industry. One of the strategies is by launching their own brand, or private label brand (Arslan and Altuna, 2011). This strategy enables the company to boost store loyalty and improve store differentiation (Richardson et al., 1996; Baltas, 1997; De Wulf et al., 2005; Walsh and Mitchell, 2010 in Sheau-Fen, 2011). This strategy is also strong contributors to profitability and return-on-sales (Glemet and Mira, 1993 in Olsen et al, 2011). Unfortunately, there is a perception that private label brand has a poor quality because its price is lower compared to national brand (Gabrielsen dan Sorgard, 2007). To overcome this perception and to reduce the doubtful feeling toward private label brand quality, retailers can use store image (Vahie and Paswan, 2006) and service quality (Ailawaldi and Keller, 2004). Besides store image and service quality, retailers also have to consider other factors such as perceived risk and price consciousness as these two factors also contribute in consumers’ purchase intention to-

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wars private label brand product (Semeijn et al., 2004; Burger and Schott, 1972; Jin and Suh, 2005; Sinha and Batra, 1999 in Wu et al, 2010). In order to analyze the effect of these variables towards private label brand image and purchase intention for private label brand product, this study will use Lottemart as the study case with Lottemart Save as the private label brand.

**Literature Review**

**Store Image**

Martineau (1958) in Chang and Luan (2010) defines store image as “the way in which the store is defined in the shopper’s mind. This image is a combination of more visible attributes (functional qualities), such as the quality and availability of merchandise and the less tangible attributes (psychological attributes) such as the atmosphere (e.g. lighting, sounds, smells and colors) of the store (Chang dan Luan, 2010). The understanding and comprehension about store image is very important because store image is often considered as a predictor of consumer behavior and store performance. This study will use the scales developed by Wu et al (2010) to measure store image of Lotte Mart. The scale consists of product variety, product quality, price, value of money and store atmosphere.

**Service Quality**

Service quality is the extent to which a service meets customers’ needs or expectations (Lewis, 1990 in Singh, 2010). According to Parasuraman (1985) in Singh (2010), Service quality is a condition where a service can fulfill consumers’ needs and expectation. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs. This study will adapt scales from Brady and Cronin study (2001) in Fullerton (2005) which uses three dimensions to evaluate service quality. The dimensions are interaction quality, outcome quality and environment quality. Interaction quality is the interaction happened in the location of service between service providers and consumers (Brady and Cronin, 2001). This dimension consists of three indicators, which are attitude, behavior and expertise. Environment quality is consumers’ overall evaluation towards environment and atmosphere of a service. This can be measured by ambient, design and social factor. Outcome quality is defined as consumers’ overall evaluation of service result or outcome. It consists of three indicators: waiting time, tangibles and valence.

**Private Label Brand Image**

Private label, which often defined as private brand and store brand, is a brand created and owned by retailers (Kotler and Armstrong, 2004). The concept of private label brand is actually an extension of brand concept. A brand-image is defined as the sum total of brand associations held in consumer memory that lead to perceptions about the brand (Keller, 1993 in Vahie and Paswan, 2006). For this study, a concept from Vahie and Paswan (2006) will be used to measure private label brand image. Vahie and Paswan (2006) categorized private label brand image into two dimensions, which are quality and affection.

**Perceived Risk**

Perceived risk is the uncertainty faced by the costumer when they cannot predict the consequences of the purchase decision that they make (Batra dan Sinha, 2000). Tzeng et al (2005) stated that the concept of perceived risk can be defined with 2 things: uncertainty and consequences of purchase decision. This study will use scales developed by Wu et al (2010) in measuring perceived risk for private label brand product. The scales used by Wu et al is an adaptation from Stone and Gronhaug study (1993) which stated that risks affecting consumer behavior related to private label brand are perceived financial risk, perceived performance risk and perceived physical risk.

**Price Consciousness**

Price consciousness is defined as “the degree to which the consumer focuses exclusively on paying a low price” (Liechenstein et al 1993 in Alford and Biswas, 2002). Price conscious-
ness is also defined as a consumer’s reluctance to pay for the distinguishing features of a product if the price difference for these features is too large (Sinha and Batra, 1999). Monroe in Gauzente (2011) describes the high price-conscious consumer as a consumer who is unwilling to pay a higher price for a product, and if the price is greater than what is acceptable to pay, the consumer may refrain from buying. On the other hand, for low price-conscious consumer, price is not the main criteria in deciding to buy a product. They pay more attention for other factor, which is product-related information. This study will use scales developed by Glynn and Chen (2008) which is an adoption from Sinha and Batra (1999) and also Aiwaldi and Keller (2001) to measure price consciousness of the consumers. The scales are comparing price before making purchase decision, considering price as the most important factor and trying to get a product with the best price available.

**Purchase Intention**

Purchase intention is a probability of consumer buying certain product in the future. Purchase intention refers to the extent of consumer buying a certain product regularly and refusing to switch to another product (Yoo, Donthu, and Lee, 2000). This study will use scales developed by Knight (2007) in measuring purchase intention towards private label brand product. The scales are the intention to buy the private label brand periodically and intention to buy private label brand regularly.

**Hypothesis Development**

**The effect of store image on private label brand image**

Store image has an important role as the indicator of private label brand quality (Dick et al, 1995). When a certain private label brand is not popular, consumers speculate the private label brand image from the image of the retail store (Vahie and Paswan, 2006). This is because many people can view the private label brand as an extension of the brand name of the store itself. When consumers have a high perception of a store image, it creates a positive effect on the brands carried by the store (Dhar and Hock, 1997; Pettijohn et al., 1992). Based on the preceding discussion, the hypothesis is:

**H1**: Store image has a positive effect on the private label brand image

**The effect of store image on purchase intention towards private label brand**

When consumers are unfamiliar with the brand, the store image is often one of the biggest cues for quickly judging the private label brand. Therefore, store image has a direct and positive relationship with consumers’ purchase intention for private label brand (Wu et al, 2010). The more positive a store image, the higher the consumers’ purchase intention would be (Dodds et al., 1991; Grewal et al., 1998 in Wu et al, 2010). Here is the hypothesis:
H2: Store image has a positive effect on purchase intention towards private label brand

The effect of service quality on private label brand image

Dhar and Hock in Wu et al (2011) stated that consumers rely on service quality of the retail to determine the quality of unfamiliar private label brand product. When consumers have a good image of the store from their quality of service, they simultaneously form a positive private label brand image (Wu et al, 2010). Here is the hypothesis:

H3: Service quality has a positive effect on the private label brand image

The effect of service quality on purchase intention towards private label brand product

Service quality is one of the important factors affecting consumer decisions. Therefore, there is a connection between service quality and behavioral intention (Brady et al, 2002 in Wu et al, 2010). Better service leads to a positive behavioral intention and increases the purchase intention of the consumers and the frequency of going to the store (Carrillat et al., 2009; Cronin and Taylor, 1992; Fornell, 1992; Szymanski and Henard, 2001; Zeithaml et al., 1996 in Wu et al, 2010). Here is the hypothesis

H4: Service quality has a positive effect on the purchase intention towards private label brand product

The effect of private label brand image on perceived risk

Since there are limits to the vending locations and advertising for the private label brand, the information related to the private label brand products consumers possess is not as complete as the national brand products. Therefore, consumers use extrinsic cues, such as brand image and prices, as the references for evaluating the store’s private label brand to reduce the perceived risk of the private label brand products (Shimp and Bearden, 1982; Perry and Perry, 1976 in Wu et al, 2010). When consumers perceive that the brand image is getting better, they have a lower perceived risk (Cox, 1962; Kotler and Keller, 2008; Roselius, 1971 in Wu et al, 2010). Here is the hypothesis:

H5: Private label brand image has a negative image on perceived risk

The effect of private label brand image on purchase intention towards private label brand product

Consumers will generate more positive attitude towards the brand with good image and thus generate a higher purchase intention (Kamins and Marks, 1991; Laroche et al., 1996; Romaniuk and Sharp, 2003 in Wu et al, 2010). An increase in the private label brand image enhances the purchase intention of the consumer (Wu et al, 2010). Based on this discussion, the following hypotheses are advanced.

H6: Private label brand image has a positive effect on purchase intention towards private label brand product

The effect of perceived risk on price consciousness

Lambert (1972) stated that perceived risk can influence price consciousness of the customer. When the perceived risk of a product is high, the consumers become concerned with the risks of purchasing the product. This produces a high “price–quality” association and consumers perceive high price to mean high quality, which means a reduction in the price consciousness. They choose the product with higher prices to avoid risks. On the contrary, when the perceived risk of a product is low, it produces a low “price–quality” association and increase consumer price consciousness. They are now motivated to find low priced products (Kukar-Kinney et al., 2007; Lichtenstein et al, 1988; Sinha and Batra, 1999 in Wu et al, 2010). Here is the hypothesis

H7: The perceived risk consumers have towards private label brand products has a negative effect on price consciousness of the consumers.

The effect of perceived risk on purchase intention towards private label brand product

Dursun et al (2011) stated that perceived risk has a great impact on purchase intention...
towards private label brand product. When consumers perceive high risk for an unfamiliar brand, it lowers their price consciousness and reduces their purchase intention (Tseng and Hwang, 2003 in Wu et al, 2010). They are now not motivated to search for products with lower prices and tend to purchase products from a national brand. However, when the perceived risk is low, the price consciousness increases and the purchase intention for the private label brand products are higher (Bettman, 1974; Jacoby and Kaplan, 1972; Narasimhan and Wilcox, 1998; Richardson et al, 1996; Shimp and Bearden, 1982; Taylor, 1974 in Wu et al, 2010). Here is the hypothesis:

**H8**: The perceived risk consumers have towards private label brand products has a negative effect on the purchase intention of private label brand.

### The effect of price consciousness in purchase intention towards private label brand product

Price consciousness is a predictor of a private label brand purchase (Burger and Schott, 1972 in Wuet al, 2010). A high price consciousness means consumers tend to adopt low price purchasing tactics (Moore and Carpenter, 2006 in Wu et al, 2010). Low price is one of the important factors that attract consumers to purchase private label brand products (Batra and Sinha, 2000; Burton et al., 1998; Lee, 2008; Tseng and Hwang, 2003; Huang, 2007 in Wu et al, 2010). Here is the hypothesis:

**H9**: Price consciousness has a positive on purchase intention towards private label brand products.

### Methods

#### Study design

This study uses a descriptive and quantitative method. Descriptive study is one of conclusive study which is used to help decision maker in determining, evaluating and choosing the best alternative in every occasion (Malhotra, 2007). The descriptive method applied in this study is done by distributing a questionnaire as a tool to the respondents for only one time, or in other words for only on period. *(single cross-sectional design)*

#### Data Accumulation

This study uses consumers of Lottemart as the object. Lottemart is chosen because of its new existence compared to other retailers (existing since 2008). The descriptive method applied in this study is done by distributing a questionnaire as a tool to the respondents for only one time, or in other words for only on period. *(single cross-sectional design)*

### Table 1. Measurement model result

<table>
<thead>
<tr>
<th>LATENT VARIABLE</th>
<th>OBSERVATION VARIABLE</th>
<th>SLF</th>
<th>T Value</th>
<th>CR</th>
<th>VE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store Image S1</td>
<td>0.74</td>
<td>10.71</td>
<td>0.85</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>S2</td>
<td>0.66</td>
<td>9.21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S3</td>
<td>0.59</td>
<td>7.9</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>S4</td>
<td>0.67</td>
<td>9.36</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>S5</td>
<td>0.71</td>
<td>10.06</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>S6</td>
<td>0.68</td>
<td>8.66</td>
<td></td>
<td></td>
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<tr>
<td>S7</td>
<td>0.68</td>
<td>9.47</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Service Quality IQ</td>
<td>0.94</td>
<td>11.06</td>
<td>0.96</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>EQ</td>
<td>1</td>
<td>10.57</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>OQ</td>
<td>1</td>
<td>12.01</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Private Label Brand Quality</td>
<td>1</td>
<td>11.45</td>
<td>0.97</td>
<td>0.94</td>
<td></td>
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<tr>
<td>Affection</td>
<td>0.94</td>
<td>10.91</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceived Risk  FR</td>
<td>0.91</td>
<td>11.35</td>
<td>0.91</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td>PFR</td>
<td>1</td>
<td>11.93</td>
<td></td>
<td></td>
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<tr>
<td>PHR</td>
<td>0.71</td>
<td>9.43</td>
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<tr>
<td>Price Consciousness PC1</td>
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<td>7.59</td>
<td>0.76</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td>PC2</td>
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<tr>
<td>PC3</td>
<td>0.82</td>
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<tr>
<td>Purchase Intention PI1</td>
<td>0.95</td>
<td>16.05</td>
<td>0.92</td>
<td>0.86</td>
<td></td>
</tr>
</tbody>
</table>
The questionnaire is divided into 3 sections, which is (1) screening sections (to determine whether the respondent ever purchased Lottemart save), (2) Research question section (indicators of variables used in the study) and (3) respondents’ profile section. Before conducting the main study, a pre-test is conducted to 30 respondents in order to test the validity and the reliability of the indicators used in the questionnaire. The result of the pre-test shows that the questionnaire is valid (correlation test exceeds 0.360) and reliable (cronbach alpha above 0.6). Then the questionnaire is distributed to 175 respondents by using google docs as a media.

Data Analysis Method

To analyze the data for this study, the researcher uses structural equation modeling method in Lisrel 8. This study uses 2 step approach method. The first step of this method is respecifying the hybrid model as a CFA (Confirmatory Factor Analysis). In this first step, the CFA model should be acceptable, in other words, has a good validity and reliability (Wijanto, 2008). The 2nd step of two-step approach is including the structural model on the CFA model to generate a hybrid model. This hybrid model will be estimated and analyzed to see the overall model fit and also the evaluation of the structural model.

Result and Discussion

Respondents Profile

Based on the study, the majority of respondent aged between 15 and 24 years old (57%). As for marriage status, 67% of them is single, while the rest is married. For education background, most of the respondents are possessing S1 degree (53%) followed by High school (36%) and Diploma (7%). Majority of the respondents live in South Jakarta and Tangerang, with 25% and 22% respectively.

Measurement Model

Table 1 shows that all indicators used in the study Tabel 1 have standardized loading factor above 0.5 and t value above 1.96 (significance level is 5%). This indicates that all indicators are already valid. For reliability, all indicators also have a reliable result, proven by the construct reliability ≥ 0.70 and also variance extracted ≥ 0.5.

Structural Model

For this study, a hypothesis will be considered significant if the t-value is above 1.645.
(for positive effect hypothesis) or below -1.645 (for negative effect hypothesis). Based on the structural model, there are four significance hypotheses, which are H3, H4, H5 and H8, while H1, H2, H6 and H7 are rejected because their t-value is lower than cut-off value used in this study (1.645). Store image variable has an insignificant effect on private label brand image and purchase intention towards private label brand product as the t-value is -1.77 and -0.05. Service quality is proven to have a positive image on private label brand image and purchase intention as the t-value exceeds the cut-off value (7.75 and 3.63). Meanwhile, private label brand image gives a significant effect on perceived risk as the t-value is below -1.645 (-16.75) but not on purchase intention towards private label brand product (t-value is 0.87; lower than 1.645 as the cut-off value). Perceived risk doesn’t give a significant effect on price consciousness (t-value is -0.02) but significant on purchase intention towards private label brand products (t-value is -3.00). Last but not least, price consciousness is not significantly affecting purchase intention as the t-value is only 0.97 (below cut-off value).

Based on this result, it can be concluded that retailers can enhance private label brand image and purchase intention towards private label brand product by increasing the service quality of the retail. Other finding from this study is the improving image of private label brand will reduce the perceived risk related to the purchase of private label brand product. Since the consumers no longer consider private label brand as a risky brand, they will develop a better purchase intention for private label brand products in the future.

Conclusion

This study is conducted to analyze whether store image and service quality have an effect on private label brand image and purchase intention towards private label brand product. Besides that, this study also includes perceived risk and price consciousness as a variable that can form an attitude towards the purchase of private label brand products. Based on the result, there are 4 significant paths, they are service quality to private label brand image, service quality to purchase intention towards private label brand image, private label brand image to perceived risk and perceived risk to purchase intention. It means that service quality is a factor that affects consumers’ purchase behavior towards private label brand. For future study, there are some things that can be improved. First improvement is increasing the number of respondents and increasing the variety of respondent as well, as this study is majority dominated by the 18-25 years old respondents thus having a rather similar point of view and behavior. Second improvement is distributing the questionnaire directly in the related retail. Because this study uses online method by using google docs, the included respondents are only the ones who have the access to internet. The third improvement is specifying the subject of the study, for example distinguishing the private label brand into food category and non food category. The purpose of this categorization is to analyze whether there are a difference of attitude in each product category. The last but not least is gathering the data by using different methods such as in-depth interview or focus group discussion in order to be able to dig deeper insights and informations from the consumers.

References


