The impact of organic private label on retailer perceptions and recommendation and shopping intent towards a retailer.

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Abstract:

Retailers are introducing more and more organic private label (PLB). The impact of standard PLB image on retailer brand image is known while the impact of organic PLB image remains unclear. This study compares the impact of standard vs. organic PLB on retailer perceptions and consequent intent to recommend and to shop at the retailer. To test our hypotheses, we carry out an online experiment and show that organic PLB improves the CSR image of the retailer and thus increases the intention to recommend and shop at the retailer.

Keywords: organic private label brands, private label brands, retailer perception

Track: Retailing & Omni-Channel Management

1. Introduction

The growing importance of organic brands in the retail markets has pushed retailers to introduce organic private label brands (PLB) whose market shares are increasing (Bauer et al., 2013). They have now become the types of PLB that exhibit the strongest increase in market share (Nielsen, 2016). These brands diverge from standard PLB as they convey different signals (in terms of price and quality: e.g., Ngobo & Jean, 2012). Research shows that standard PLB are brands that influence perceptions of a retailer (Kremer & Viot, 2012). Although the impact of PLB on retailer perception has been studied, the impact of organic PLB on retailer perception is not known. As the signals sent by organic PLB are different from the ones sent by standard PLB the impact of this type of PLB could be different compared to standard PLB.

Indeed, firms use organic products to show their corporate social responsibility (CSR) activities (Peloza and Shang, 2011). Organic products convey signals related to ethics and sustainability that influence the perceived CSR of a firm (Öberseder et al., 2013). Hence, organic labels are an ethical signal that can affect consumers' perceptions of a retailer. Since awareness of CSR activity is generally low (Sen et al., 2006), ethical judgments rely on incomplete information regarding corporate activity, leaving room for consumer inference making (Kardes et al., 2004). Thus, we investigate how organic labels prompt inferences leading to two types of ethical judgements: one related to the core business functions, namely activities that a company must perform by definition, and one related to peripheral activities, namely activities that a company can choose to perform or not. Like Matute-Vallejo et al. (2011), we focus here on price fairness (judgements related to the ethical content of proposed prices; Xia et al., 2004) for the core functions and on CSR image for the peripheral functions kind. Since organic PLB also convey a quality signal (Ter Braak et al., 2014), we want to investigate which path (core ethical behavior, side ethical behavior or perceived quality) can lead to higher behavioral intentions toward the retailer.

All types of retailers (including conventional retailers and hard discounters) have introduced organic PLB. These different types of retailers have different positioning with hard discounters focusing on low price and with a limited number of items while conventional retailers offer a larger assortment as well as better services to consumers (Cleeren et al., 2010). This difference in positioning means that the impact of organic PLB on retailer perception may vary among different types of retailers. Indeed, the high price and high quality of organic PLB may not match the positioning of hard discounters and may be a

better match for conventional retailers. The aim of this study is thus twofold: a) we want to investigate the impact of organic PLB on the perceptions of a retailer in terms of perceived quality, CSR image and price fairness and ultimately shopping and recommendation intentions towards the retailer and b) we want to test if the impact of organic PLB is stronger or weaker depending on the type of retailers (conventional retailers vs hard discounters).

2. Theoretical background and hypotheses development

The following conceptual model is proposed:

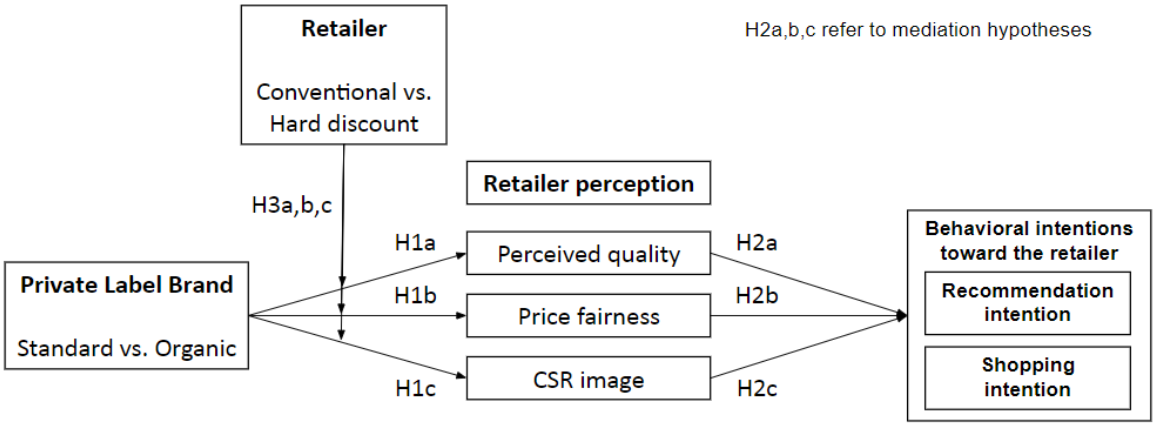

Figure 1: Conceptual model

Several studies show that PLB have an impact on retailer perception. Collins-Dodd & Lindley (2003) show a positive relationship between consumers' perception of a store brand and their associated store's image dimensions. Martenson (2007) shows that PLB contribute to the formation of the corporate image of the store. Finally, Kremer & Viot (2012) study the impact of standard PLB's image on retailer brand image dimensions. They study price-related, supply-related, and values-related dimensions for standard PLB and conventional retailers. Price dimension is linked to low prices, good deal, and value for money. The supply dimension refers to the perceived quality of the PLB, packaging and innovation, and to the possibility of customers arbitrating between NB and PLB. Finally, values dimension refers to values such as proximity, affordability, convenience, and sustainability. They show that PLB positively impact retailer brand image on price and values-related dimensions. While Kremer & Viot (2012) study only standard PLB, we investigate the differences between standard and organic PLB. Our objective is to deepen the analysis of the values-related dimensions of their study.

Research shows that consumers' perceptions and reactions to these organic PLB are better compared to non-organic PLB (Bauer et al., 2013). For instance, they convey better perceptions (such as in terms of environment friendliness and healthiness; Bauer et al., 2013) compared to standard PLB. Organic PLB are brands that display higher quality and higher price than standard PLB (Ter Braak et al., 2014). They focus more on quality, and thus we expect organic PLB to prompt greater perceived quality judgement than standard PLB.

Organic labels embed an ethical content that can be linked to various ethical dimensions of the retailer. We focus on two main ethical attributions for the retailer, namely price fairness and CSR image. Price fairness is a "consumer's assessment of whether the difference (or lack of difference) between a seller's price and the price of a comparative other party is reasonable, acceptable, or justifiable" (Xia et al. 2004: 3). Fairness judgements involve explicit or implicit comparisons with sometimes unspecified prices, and in this case consumers rely on inferences to fill informational gaps (Kardes et al. 2004). Price fairness inferences may be drawn from social norms (Xia et al. 2004), especially when consumers are subject to an ethical signal. Because of the ethical content embedded in the organic label, we expect consumers to attribute greater price fairness to organic PLB than to standard ones.

Contrary to price fairness which is a fairness judgement addressing a core element of the marketing strategy (namely price), CSR relates to actions enacted by a firm beyond their traditional scope of activity. Research usually consider organic labeling of products as a CSR-related activity (Peloza & Shang, 2011; Öberseder et al., 2013) but to our knowledge none of these studies have empirically examined the link between organic labelling and consumer perceptions of CSR. As with price fairness, we expect organic labels to embed an ethical content that prompt more socially responsible attributions to the retailer. Hence:

H1: Organic PLB prompt attributions on retailer perception that are a) greater for perceived quality of the retailer, b) greater for price fairness, and c) greater for CSR behaviors compared to standard PLB.

CSR has a positive impact on evaluations and can also impact purchasing behavior for a firm (Sen & Bhattacharya, 2001; Lai et al., 2010). Similarly, if a retailer enjoys higher perceived quality and better price fairness consumers will be more likely to have better perceptions and behavioral intentions towards it (Xia et al., 2004; Diallo et al., 2015). Hence:

H2: Organic PLB lead to greater shopping and recommendation intentions related to the retailer through the mediating effect of a) perceived quality of the retailer, b) price fairness and c) CSR image compared to standard PLB.

A PLB effect may also depend on the type of retailer it is introduced by (Koschate-Fisher et al., 2014; Ngobo & Jean, 2012; Keller et al., 2016). For instance, if a retailer is more focused on price (such as hard discounters) the signals sent by organic PLB may not match the signals sent by the retailer. They will better match the signals sent by conventional retailers (Keller et al., 2016; Ngobo & Jean, 2012). The positive impact of organic PLB may then be stronger for conventional retailers than for hard discounters. Hence:

H3: The impact of organic PLB image on retailer brand image is stronger for conventional retailers than for hard discounters for a) the perceived quality of the retailer dimension, b) the price fairness dimension, c) the CSR dimension.

3. Methodology

A 2 (retailer: conventional vs. hard discounter) by 2 (product: standard PLB vs. organic PLB) between-subject experimental design was carried out. 296 respondents were recruited on a consumer panel and allocated randomly to each experimental cell. First, respondents received a description of a fictional foreign retailer, which considered developing its activity into their country. Second, they were exposed to a PLB product of the retailer (grounded coffee). In the following section the respondents evaluated their perception of the retailer using 7-point Likert scales (from 1 "strongly disagree" to 7 "strongly agree"). We first evaluated their intention to recommend the retailer (Sivadas & Baker-Prewitt, 2000) and shopping intention (7-point Likert: "If I could, I would shop at Tully's instead of shopping at another similar retailer"). We then evaluated the three mediators with scales adapted from existing literature: perceived quality of the retailer was adapted from Diallo (2012), CSR image of the retailer measured with Lai et al. (2010), and price fairness was evaluated on a scale adapted from Babin et al. (2003). Manipulation-checks led to the removal of 78 individuals who did not identify the organic label or identified the wrong type of retailer. This final sample includes 218 valid observations.

The internal consistency of the scales was measured with Cronbach's alpha and composite reliability and was found satisfactory (Chin, 1998). Convergent validity was established by examining the factor loadings and average variance extracted (AVE). All the items loaded significantly on their posited underlying constructs, and all the AVE scores were more than 0.80 (Fornell & Larcker, 1981).

To validate the hypotheses, we perform mediation and moderated mediation analyses with a Process Macro 3.2 in SPSS (Hayes, 2013). Mediation analyses were conducted using

model 6 and 59 and the bootstrapping method developed by Hayes (2013), with each analysis employing N = 5,000 bootstrapped samples. All our models include price consciousness and quality consciousness as control variables.

4. Results

Direct effect on mediating variables			**Indirect effect on outcome variables (intentions) (95 % CI)**			
	B	***p***	**Outcome**	***β***	**LLCI**	**ULCI**
Perceived quality	0.113	.39	**Recommendation**	.085	-.024	.215
			IMM (x retailer type)	-.040	-.314	.241
			Shopping	.035	-.016	.113
			IMM (x retailer type)	-.062	-.259	.124
Price Fairness	0.196	.13	**Recommendation**	.018	-.026	.089
			IMM (x retailer type)	-.026	-.184	.069
			Shopping	.014	-.026	.069
			IMM (x retailer type)	.003	-.081	.106
CSR Image	0.387*	.003	**Recommendation**	.082*	.009	.188
			IMM (x retailer type)	-.047	-.314	.116
			Shopping	.121*	.0269	.224
			IMM (x retailer type)	-.007	-.242	.194

* $p<.05$; IMM : Index of Moderated Mediation

Table 1: Effect of Organic PLB (vs. standard PLB)

We find that organic PLB has a positive impact on the CSR image of the retailer (β=0.387, p<0.010 which validates H1c. We find no significant impact on perceived quality (β=0.196, p>0.05) and price fairness dimensions (β=0.113, p>0.05): H1a and H1b are rejected. Mediating effects and moderated mediating effects were assessed using bootstrapped confidence intervals (Hayes, 2013). A mediating effect is validated if the bootstrapped confidence interval for the coefficient does not include 0. A moderated mediation is said to be significant if the bootstrapped confidence interval for the index does not include 0 (Borau et al., 2015).

We find that an organic PLB has an indirect positive effect mediated by the CSR image on the intention to recommend the retailer (β=0.082, CI=[0.009; 0.188]) and on shopping intentions (β=0.121, CI=[0.0269; 0.224]). We thus validate H2c. However, we find no mediating effect of price fairness and perceived quality on our two outcomes (confidence intervals include 0): H2a and H2b are rejected. Furthermore, we found no moderating effect of the retailer type (confidence intervals for the index of moderated mediation all include 0): H3 is rejected.

5. Discussion

Our results show that PLB type (standard vs. organic) impacts behavioral intentions toward the retailer only through the mediating effect of perceived CSR. Organic labelling of PLB does not have an impact on price fairness and perceived quality of the retailer. Furthermore, we do not find an effect of the retailer type (hard discounter vs. traditional) on these mediation paths.

Concerning perceived quality, the null effect of organic labelling could imply that an effort made by the retailer regarding its own products do not prompt inferences regarding the quality of the whole assortment. Similar results regarding the absence of transfer from PLB image to retailer image in terms of quality were found by Kremer and Viot (2012). This could imply that consumers use specific heuristics to infer the quality of the assortment. Our scale of perceived quality (Diallo, 2012) evaluates elements linked both to the quality of individual products and to the range and availability of products: the two last features refer to procedural qualities of the retailer, and organic labelling refers to intrinsic qualities of the products. Maybe other kinds of labelling linked to procedural elements (such as ISO norms or Fair Trade labels) could have an impact on perceived quality as a whole.

Regarding the differential effect of price fairness (ethical behavior related to core business activity) and CSR perceptions (ethical behavior related to side business activity), these results imply that organic labelling of PLB prompts ethical inferences regarding side business activities only. In other words, consumers tend to think that retailers can work on socially responsible actions as long as that does not alter their core business functions. These findings add to those of Matute-Vallejo et al. (2011) who investigate the relationship between CSR perceptions and price fairness in the banking industry. They find that CSR perceptions influence judgements of price fairness for consumers of banking services. The difference in results between their study and ours could be explained by the fact that their respondents

already knew about CSR behavior of their bank. In our case, we were interested in manipulating a signal (organic labelling) for an unknown brand. The combination of their findings and ours could imply that the relationship between CSR and price fairness has a timing effect: in the long run, side and core ethical behaviors tend to align. However, when faced with an unknown retailer, consumers tend to make separate ethical judgements for core and side business activities.

Interestingly, the type of retailers does not influence our results. This could have two different explanations: while retailer types have a different perceived quality, the absence of a quality image transfer from the PLB to the retailer (Kremer & Viot, 2012) may cause insignificant moderating effects for perceived quality. On the other hand, if the sole difference between retailers lies in their perceived quality, this variation of quality may influence perceptions of both core and side ethical behaviors.

6. Limitations and future research

The main limitation of our study lies in the use of mock-up retailers in the experiment. On one hand, it helped isolate the effect of the label from previous perceptions of the retailer. On the other hand, real life situations usually imply some previous brand knowledge about the retailer: future research could study the impact of retailer brand knowledge on the effect of an organic PLB. The investigation of different labels with an ethical content, such as Fair trade labels, could bring interesting new results. As we explained earlier in this paper, Fair trade PLB are based on financial procedures (how retailers manage financial relationships with their producers) while organic PLB relate to production procedures. Fair trade PLB could therefore have a greater impact on price fairness than organic PLB. A last avenue of research would be to test the joint effect of different labels (e.g. organic and fair trade labels) and see if the presence of two labels could create redundancy or compensatory effects.

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