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The Effect of Store Name Investments on Perceived Store Quality

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Abstract

This study is about store names as brand signals. It focuses on the effects of store name investments on store name credibility and perceived store quality. Using the theoretical framework of Erdem and Swait (1998), hypotheses are developed vis-à-vis the effects of store name investments on consumers' perceived store quality. The proposed hypotheses are empirically tested on data collected from a sample of students. The study is part of a project that looks at how store name and brand name credibility affect consumers' expected utility.

Keywords: Store Names, Signalling, Branding, Store Image, Consumer Behaviour

Introduction

Branding is a core construct in marketing and a vast literature has developed on branding, brand equity and related concepts. However, in this literature, brands are mostly conceived as referring specifically to product names. Little attention has been paid to store names as brand names, and in particular store name credibility seems under-researched. As Burt and Sparks (2002) argue, within most of the work on branding, retailing is "conspicuous by its absence" (p. 195). This is surprising as clearly many products are traded through branded retail outlets and many consumer purchase decisions are made within a retail store, making not only product choice conditional on store choice but also providing the consumer with an additional brand signal when making this final purchase decision.

This paper builds on the conceptualisation of customer-brand equity as proposed by Erdem and Swait (1998) to explore the effects of store name investments on consumers' perceived retail quality. Adopting an information economics perspective, we wish to explore how the investments made by a store on its own name affects the perceived retail name quality via the credibility of the store name. Our main project focuses on conditions where store names and product brand names can both act as signals that consumers can use to infer the credibility of the brand (product) promise. The present paper discusses the special case where only store names are present and for this case proposes hypotheses based on an extension to a retail context of Erdem and Swait's (1998) framework, which in turn draws from signalling theory (e.g. Akerlof, 1970; Spence, 1973; Stigler, 1961).

The structure of this paper is as follows. We will first review relevant literature on branding and store names and then review the concept of credibility. We will then further discuss Erdem and Swait's (1998) paper in light of our application to the study of store names and present our hypotheses. We will next outline the methodology, then the results and conclude with a section discussing further research and implications.

Branding and store names

The value of branding has been recognised for a long time by academicians and practitioners. Branding provides a number of utilities to both consumers and companies. Consumer brand equity represents "the value (to a consumer) of a product, above that which would result for an otherwise identical product without the brand's name" (Leuthesser *et al.*, 1995, p. 57).

One stream of the research on brand equity (see e.g. Aaker, 1991; Keller, 1993) centres on consumers' brand associations. In that, brand equity may be viewed as the outcome of long-term investments designed to build a sustainable, differential advantage relative to competitors. This perspective of brand equity is embedded in cognitive psychology and its focal point is the consumer cognitive process.

However, another stream of research has built on signalling theory and substantiated building credibility as the principal function of consumer-based brand equity (see Erdem and Swait, 1998). This theory explains how high quality firms can differentiate themselves from the lower quality ones. Based on this theory it has been argued that brand signalling inferences emerge from *dissipative* signals (Rao *et al.*, 1999), which derive from an *ex ante* expenditure comprising investment in building a reputation that could be lost, should the promised product quality not correspond to the actual quality delivered (see e.g. Erdem and Swait, 1998). Ippolitio (1990) argues that this investment can be seen as a "bond". "Bonding occurs when some asset or wealth is forfeited under specified conditions" (Ippolito, 1990, p. 92). A brand incorporates and represents a firm's past and present marketing mix strategy, activities and brand investments. Firms spend resources on their brands to assure that promises are maintained. Firms make brand investments to exhibit commitment to their brands (Klein and Leffler, 1981). Brand investments contribute to credibility by signalling. When a branded product fails to fulfil the promise expressed in the brand signal, the brand compromises the expected returns on these brand investments as well as its reputation for delivering on its promises. The literature suggests that investments in brand strategies and activities (i.e. brand logo, sponsorship, or a powerful advertising campaign) are sunk costs that cannot be recuperated (Ippolito, 1990). If brands damage their credibility they cannot command the premium associated with their reputation and brand investment (Erdem and Swait, 1998).

The above premises have recently been subject to further explorations and fruitfully applied to several product categories (cf. Swait and Erdem, 2004) but not to store names. As any other brand, store names can communicate unobservable quality and influence choice by serving as a proxy for unobserved attributes, or by possessing an inherent image that consumers demand (Sullivan, 1998). Therefore store names may directly influence the perceived value of a product. For example, Aaker (1992) suggests that knowing that a piece of jewellery came from a store like Tiffany can affect the experience of wearing it. The users can actually feel different because of Tiffany's perceived quality and associations.

Store names may however not only affect perceived product quality but they will also affect perceived retail service quality, thereby contributing additional value to the product offer. Indeed, while previously outlined conceptualisations of brand equity are valuable in explaining customer preference and perceived value for particular brands of products, Dorsch and Carlson (1996) noted that many of the same brands are found in competing retailers. In such circumstances product brand names are no longer a differentiating factor upon which consumers may infer product quality, as the intrinsic value given by a brand name would be the same irrespective of the store it is sold. We argue that in such situations perceived store quality becomes more important in determining customer value.

Where the same branded products are found in competing retailers, product brands are no longer an exclusive signal of product quality and consumers may rely on other signals, including the store name, to maximise their product utility. In this respect, the literature has highlighted a few distinctions between product brands and store image. According to Christensen and Askegaard (2001) "image" refers to the total impression an organisation makes on its various audiences. It helps people to think about a brand abstractly rather what

they think the brand actually does. Keller (2001) further argues that brand imagery denotes more intangible aspects of the brand as it deals with the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs. The retailing literature however seems to have mainly focused on the store image construct without interpreting store image as a brand signal (see e.g. Mazursky and Jacoby, 1986; Thang and Tan, 2003). Grewal, Krishnan, Baker and Borin (1998) argue however, that consumers use store name cues as signals of retailer's store image (see also Dawar and Parker, 1994; Dodds *et al.*, 1991).

In this regard, similar to brands, store names provide a great amount of information to consumers, so much so that retailers are spending more and more to promote their name (Grewal *et al.*, 1998). Thus, we argue that the more positive is the association that consumers have with a store when they use such store name as a cue (Dodds *et al.*, 1991, p. 311 call it more or less "favourable" store name; Grewal *et al.*, 1998, p. 335 simply call it "positive" store name) the higher is the perceived quality of that store.

Hypotheses

Our current goal is to test to what extent Erdem and Swait's (1998) framework will hold when transferred to a retail context. That is, we wish to test if their model applies for store names as brand signals. We are testing a limited number of hypotheses that are summarised in the conceptual diagram displayed in Figure1:

H1: The credibility of a store name increases with the level of investment in a store name.

H2: The perceived quality of the store increases with the credibility of the store name signal.
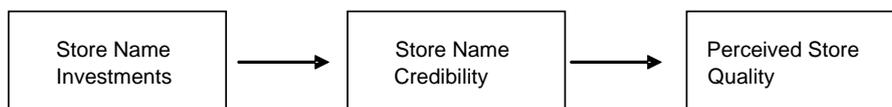

Figure 1: Conceptual Diagram

Methodology

This study measures consumer perceived store name quality of product purchases from specific stores and will be used to assess to what extent perceived store name credibility mediates the effects of store name investments on this utility. A sample of 53 undergraduate students from an Australian University was asked through a self-completion questionnaire to assess the credibility of ten store names referring to four selected product categories: jeans, gym shoes, pocket cameras and wrist watches, which are all relevant categories for students (Erdem and Swait, 1998). We use scales similar to the ones used by Erdem and Swait (1998) but include some additional items to capture retail service quality (see Dabholkar *et al.*, 1996; Garvin, 1988). Consistent with Erdem and Swait (1998) all items were measured on 9 point *agree/disagree* scale, whereas one item (first item belonging to Perceived Store Quality, in Table 1) was measured on 9-pont scale with 1= *low quality* and 9 = *high quality.* Considering the limited number of respondents and the exploratory stage of our research, findings are only presented at an aggregated level across categories.

Results

Individual responses to the scales were aggregated to the item level as in Erdem and Swait's study (1998). Cronbach's alphas were determined (see Table 1) in order to establish the

reliability of the items within the respective latent variables. Our sample seemed too small to attempt SEM hence we chose to use multiple regression analysis. Scales were averaged to form the composite scales (viz store name investments=SNI, store name credibility=SNC and perceived store quality=PSQ).

Table 1: Measurement Items   **n = 53**

Constructs	Item	M	SD	Skewn.	Cronbach's Alfa
Store Name Investments	This store spends a lot of money on ads commercials, promotions, event sponsorships, celebrity endorsements, etc.	6.00	1.32	.82	**.600**
	This store has spent a lot on the community over the years	6.31	1.82	-.44	
Store Name Credibility	As a place that sells … this store delivers what it promises	6.40	1.46	-.97	
	As a place that sells … this store's claims are believable	6.72	1.02	-..29	
	This store has a name you can trust, as a place that sells …	6.26	1.16	-.98	**.702**
Perceived Store Quality	In terms of quality, as a place that sells …, I'd rate this store as ____	6.15	1.14	-.11	
	As a place that sells … the services performed by this store are good	6.40	1.59	-.85	
	As a place that sells … this store is reliable	6.44	1.38	-.59	
	As a place that sells … this store is serviceable: the service is fast and the sales people are courteous and competent	5.97	1.58	-1.22	**.835**

Mediation was tested using the three-step procedure described by Baron and Kenny (1986). The initial conditions to satisfy Baron and Kenny's prerequisites were to establish that store name investments is correlated with store name credibility (.302) and perceived store quality (.461) and that store name credibility is correlated with perceived store quality (.665).

We then used hierarchical multiple regression analysis with forced entry of variables at each step (see Table 2) using both SNI and SNC as predictors of PSQ. However, both models showed significant prediction of SNQ, hence the Goodman version of the Sobel test, as suggested by Baron and Kenny (1986) and Kenny (2003), was calculated to determine whether the effect of SNI was sufficiently suppressed to conclude that mediation occurred.

Table 2: Coefficients(a)   **n = 53**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Part
1	(Constant)	3.588	.729		4.919	.000		
	Store Name Investments	.434	.117	.461	3.708	.001	.461	.461
2	(Constant)	.081	.850		.096	.924		
	Store Name Investments	.269	.097	.286	2.775	.008	.461	.273
	Store Name Credibility	.698	.124	.597	5.618	.000	.665	.552

a Dependent Variable: Perceived Store Quality

The mediation test statistic z was calculated according to the following formula:

$$z = \frac{a*b}{\sqrt{a^2*s_b^2 + b^2*s_a^2 - s_a^2*s_b^2}}$$

where:

a = raw (unstandardized) regression coefficient for the association between the independent variable and mediator.

s_a = standard error of a.

b = raw coefficient for the association between the mediator and the dependent variable

s_b = standard error of b.

Regression coefficients *a* and *b* in the mediating chain and their standard errors were established as shown in Table 3.

Table 3: Regression coefficients and standard errors for two parts of mediating path

Path a [Store Name Investments → Store Name Credibility]
Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.023	.650		7.728	.000
	Store Name Investments	.236	.104	.302	2.260	.028

a Dependent Variable: Store Name Credibility

Path b [Store Name Credibility → Perceived Store Quality]
Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.055	.823		1.281	.206
	Store Name Credibility	.802	.126	.665	6.365	.000

a Dependent Variable: Perceived Store Quality

Therefore the z-value was determined as follows:

$$z = \frac{0.236 * 0.802}{\sqrt{(0.236^2 * 0.126^2) + (0.802^2 * 0.104^2) - (0.104^2 * 0.126^2)}} = 2.15$$

Sobel (1982) suggested that the z ratio is asymptotically normally distributed, which would lead to rejection of the null hypothesis at $\alpha = 0.05$ when the ratio exceeds ± 1.96. In our analysis the test statistic is 2.15; consequently we have evidence confirming our previous hypotheses (see Figure 1) of the mediating pathway from SNI through SNC to PSQ.

Conclusion

This paper has argued that store names can act as brand signals to consumers when they make their purchase decisions. Based on the branding literature, in particular the work by Erdem and Swait (1998), we developed some initial hypotheses concerning the effects of store name investments on store name credibility, which in turns affects perceived store name quality. Preliminary tests of these hypotheses on a small student sample suggested that store name credibility does indeed mediate the relationship between store name investments and store name quality, as derived from the framework of Erdem and Swait. This paper therefore shows that Erdem and Swait's conceptualisation can be applied in a retail context and can be used to explain how a store's perceived quality depends on brand investments, which is one of the most important intrinsic attributes of retailing.

We believe that the suggested extension can be beneficial in determining that the signalling theories, which have been demonstrated to work for product brand names, may be applied to a retail setting and help to better recognise the role of store names as brand signals. A better understanding of the role of store names in the consumer decision process will help retailers to make better decisions about the strategic management of their stores, in particular in how to develop brand equity through their store names and store formats and how to leverage the brand equity that is imbedded in the names of their stores.

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