Does customer satisfaction lead to improved brand equity? An empirical examination of two categories of retail brands

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Abstract
Purpose – The objective of the present research is to examine the relationship between consumers’ satisfaction with a retailer and the equity they associate with the retail brand.

Design/methodology/approach – Retail brand equity is conceptualized as a four-dimensional construct comprising: retailer awareness, retailer associations, retailer perceived quality, and retailer loyalty. Then the associative network memory model is applied from cognitive psychology to the specific context of the relationships between customer satisfaction and consumer-based retailer equity. A survey was undertaken using a convenience sample of shopping mall consumers in an Australian state capital city. The questionnaire used to collect data included an experimental design such that two categories of retailers were included in the study: department stores and specialty stores, with three retailers representing each category. The relationship between consumer-based retailer equity and customer satisfaction was examined using multivariate analysis of variance.

Findings – Results indicate that retail brand equity varies with customer satisfaction. For department stores, each consumer-based retailer equity dimension varied according to customer satisfaction with the retailer. However, for specialty stores, only three of the consumer-based retailer equity dimensions, namely retailer awareness, retailer associations and retailer perceived quality, varied according to customer satisfaction level with the retailer.

Originality/value – The principal contribution of the present research is that it demonstrates empirically a positive relationship between customer satisfaction and an intangible asset such as retailer equity.

Keywords Consumer behaviour, Customer satisfaction, Brands, Department stores, Customer loyalty, Australia

Paper type Research paper

An executive summary for managers and executive readers can be found at the end of this article.

Introduction and background

The notion that brands add value to products has been called brand equity. Based on the premise that branding and brand management principles can be applied to retail brands, albeit with certain variation (Ailawadi and Keller, 2004, p. 340), the concept of retailer equity, whereby the name of a retailer bestows value upon it, has recently attracted the attention of both marketing researchers (e.g. Arnett et al., 2003) and practitioners (e.g. Kramer, 1999; Thompson, 1998). Likewise, brand equity has been referred to as consumer-based brand equity (e.g. Pappu et al., 2005; Yoo and Donthu, 2001), from a consumer or marketing perspective, we refer to the equity consumers associate with a retail brand as consumer-based retailer equity. The objective of the present research is to examine the relationship between customer satisfaction and consumer-based retailer equity.

Building brand equity is an important strategic issue for retailers, generating multiple benefits such as the ability to leverage one’s name by launching private label brands and increase revenue and profitability by insulating them from competitors (Ailawadi and Keller, 2004). In recent years, retailers have been facing a challenging marketing environment in the form of more demanding consumers, intensified competition and slow-growth markets (Bloomer and Odekerken-Schroder, 2002; Sirohi et al., 1998). Retail sales now represent a declining share of consumer expenditures in several Western economies because of factors such as ageing populations, changing consumption patterns and saturation in demand (Webb, 2000, p. 503). As a result, building brand equity has become increasingly important for retailers in order to maintain or improve their economic performance. Indeed, retailers have recognized the power of branding and are increasingly focusing on brand building (Feuer, 2005). For example, the US clothing retailer Abercrombie & Fitch adopted this strategy successfully in the late 1990s to improve sales and profitability (Nannery, 2000). Despite this increased focus on retail branding, however, the
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Conceptual model and hypotheses

Customer satisfaction

Satisfaction has been conceptualized in different ways in the marketing literature. Some researchers have argued that satisfaction is a transaction-specific measure (e.g. Cronin and Taylor, 1992, p. 56). Other researchers view satisfaction as an overall evaluation based on the total purchase consumption and experience (e.g. Anderson et al., 1994). In general, satisfaction has been conceptualized in terms of whether the product/service meets consumer needs and expectations (Zeithaml and Bitner, 2000). In this paper, we conceptualize the satisfaction associated with a retailer (customer satisfaction) as a cumulative experience, based on an overall evaluation[1]. This is consistent with Oliver (1997, p. 28), who defined satisfaction as “the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with a prior feelings about the consumer experience”.

Consumer-based retailer equity and its dimensions

The present research conceptualizes retail brand equity from a consumer perspective. Consumer-based retailer equity is defined in the present research similar to Aaker (1991, p. 15) as “the value consumers associate with a retailer, as reflected in the dimensions of: retailer awareness, retailer associations, retailer perceived quality and retailer loyalty”. These consumer-based retailer equity dimensions mirror the four brand equity dimensions (e.g. brand awareness, brand associations, perceived quality and brand loyalty) proposed by Aaker (1991, 1996). Both Aaker (1991) and Keller (1993) have conceptualized brand equity based on consumers’ memory-based associations.

We define retailer awareness as “the consumer's ability to recognize or recall a retailer”, mirroring Aaker’s (1991, p. 61) definition of brand awareness as “the ability of a potential buyer to recognize or recall that a brand is a member of a certain product category”.

Retailer associations form another dimension of retailer equity. We define retailer associations as “anything linked to the memory of a retailer”, a definition similar to Aaker’s (1991, p. 109) definition for brand associations. Retailer associations are attributes and benefits linked to the name of the retailer, in the consumer's mind (Keller, 1993).

Perceived retailer quality is defined as “consumer's judgment about a retailer's overall excellence or superiority”. This definition adapted from Zeithaml’s (1988, p. 3) definition of perceived quality emphasizes consumer perceptions over the actual or objective quality of the retailer. Perceived quality is believed to be a type of association warranting elevation to the status of a separate dimension of a retailer’s (or brand’s) equity (see Aaker, 1991).

Finally, retailer loyalty is also conceptualized as one of the dimensions of retailer equity. Loyalty has been defined both behaviorally (e.g. Bloemer and Odekerken-Schroder, 2002; Oliver, 1997; Tranberg and Hansen, 1986) and attitudinally (e.g. Chaudhuri and Holbrook, 2001; Yang and Peterson, 2004; Yoo and Donthu, 2001). Both conceptualizations of loyalty have attracted criticism and some researchers have argued that loyalty should be measured as a combination of both behavioral and attitudinal measures (e.g. Day, 1969; Dick and Basu, 1994). Given that retailer equity has been conceptualized in the present research based on consumer
perceptions, we define retailer loyalty as “the tendency to be loyal to a retailer, as demonstrated by the intention to purchase from the retailer as a primary choice”. This definition was adapted from Yoo and Donthu (2001, p. 3), and is akin to what Javalgi and Moberg (1997) called “latent” loyalty.

**Associative network memory model**

The associative network memory model (Anderson, 1993) provides a powerful basis for elucidating the relationships between customer satisfaction and retailer equity. Researchers have made use of this influential framework from cognitive psychology to explain marketing phenomena. For example, both Aaker (1991) and Keller (1993) have conceptualized brand equity based on consumers’ memory-based associations, whereas Washburn et al. (2004) recently used the associative learning framework to examine the role of brand equity in brand alliances.

According to the associative network memory model, human memory consists of associative networks (Anderson, 1976; Wyer and Srull, 1986). Each associative network is believed to consist of several nodes. Nodes are stored information, which are linked to each other in some way (Keller, 1993). For example, if the department store “Myer” is a node in the consumer memory, then attributes such as “good store atmosphere” or “good customer service” could be other important nodes linked to the node “Myer”. That is, these attributes (“good store atmosphere” and “good employee service”) serve as associations to the retailer, Myer.

This notion of associations, adopted from cognitive psychology, is popular in marketing. Consumers are known to associate product categories with brands (e.g. Farquhar and Herr, 1993) and countries (e.g. Roth and Romeo, 1992). Consumers are also known to associate certain product categories and features with specific retailers. For example, some consumers in Australia are known to associate the supermarket chain Woolworths with fresh produce, whereas others associate some specialty stores, such as Country Road, with high-quality clothing. Consumers’ memory-based associations have both direction and strength. Farquhar and Herr (1993), for example, have argued that brand-product category associations are bi-directional. That is, when the product category “pens” is mentioned, a consumer might recall the brand name “Parker”. Also, when the brand name “Parker” is mentioned the consumer might recall the product category “pens”.

Furthermore, activating one node in memory leads to the activation of other linked nodes (Collins and Loftus, 1975). For example, when a consumer thinks of the retailer David Jones, other linked nodes such as “convenient facilities” or “variety of products” might be activated in the consumer’s mind. The possibility of retrieval/activation of a related node depends on the strength of association between two nodes (Keller, 1993). That is, whether or not these two nodes (“convenient facilities” or “variety of products”) are activated when the retailer David Jones is recalled by the consumer, depends upon the strength of the association between the node “David Jones” and these two nodes in consumer memory. The strength of association between two nodes depends upon the number of times the two nodes have been associated with each other in the past (Fazio, 1986; Till and Shimp, 1998).

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**Relationships between customer satisfaction and retailer equity**

Customer satisfaction and retailer awareness

Retailer awareness is defined in the present research as the consumer’s ability to recognize or recall a retailer (not merely knowing the retailer) when s/he is exposed to the relevant retailer category. Consumers highly satisfied with a retailer may recall the name of the retailer readily, compared to consumers who are less satisfied with the retailer. However, consumers who are strongly dissatisfied with a retailer may in fact exhibit higher retailer awareness levels, quite possibly because of their dissatisfaction. That is, both high satisfaction and dissatisfaction levels can generate strong associations in consumers’ minds towards a retailer. In this study, we focus on customer satisfaction and not on their dissatisfaction. As a result, we envisage a positive relationship between customer satisfaction and retailer awareness.

Customer satisfaction and retailer associations

Retailers, similar to brands, are known to possess images (Chowdhury et al., 1998; Steenkamp and Wedel, 1991). An image is a set of the associations (organized in a meaningful way) in consumers’ minds (Keller, 1993, p. 109). Just as consumers develop associations between a brand and its attributes and the benefits perceived from the brand (Krishnan, 1996), so too would they have associations towards a retailer based on the attributes of the retailer and the benefits perceived from the retailer. We believe that everything else being equal, satisfaction should impact positively on the strength and favorability of associations towards a retailer in consumers’ minds. For example, consumers who are highly satisfied with the department store Target might associate the attribute “employee service” strongly with this retailer, compared to consumers less satisfied with this retailer. Similarly, highly satisfied consumers might believe more strongly that they would receive better “after sales service” from a retailer compared to less satisfied consumers. That is, consumers are more likely to have favorable and strong associations towards a retailer when they are highly satisfied with that retailer than when they report low satisfaction levels. Hence, we expect that a positive relationship exists between customer satisfaction with the retailer and their retailer associations[2].

Customer satisfaction and retailer-perceived quality

Satisfaction and perceived quality are believed to be highly correlated (Bitner and Hubbert, 1994; Olsen, 2002). Sivadas and Baker-Prewitt (2000) found a positive relationship between service quality and satisfaction, consistent with previous research (e.g. Anderson et al., 1994; Bitner et al., 1994). There are, however, two schools of thought on the causal ordering between perceived quality and satisfaction (Babakus et al., 2004). According to one perspective, perceived quality is an outcome of satisfaction (e.g. Dabholkar et al., 2000), whereas another perspective holds that satisfaction leads to higher perceptions of quality (e.g. Bitner, 1990). In the present study, our main objective was to investigate the retailer equity-customer satisfaction relationship. We believe that satisfied consumers are more likely to hold favorable and strong perceptions of quality, compared to less satisfied consumers. That is, we propose a positive relationship between customer satisfaction and retailer perceived quality. As previously mentioned, perceived quality is a type of retailer association contributing to the retailer’s
brand equity. We believe that satisfaction impacts positively the strength and favorability of the associations related to quality towards a retailer, in consumers’ minds. For example, highly satisfied consumers might associate the attribute “high quality” strongly with a retailer such as Myer, compared to consumers exhibiting low satisfaction levels with Myer. Similarly, highly satisfied consumers might believe more readily that they would receive products of “reliable quality” from a retailer compared to consumers who are less satisfied with the same retailer.

Customer satisfaction and retailer loyalty
The extant research provides mixed evidence of the nature of the relationship between satisfaction and loyalty. Some researchers (e.g. Cronin and Taylor, 1992; Woodside et al., 1989) including those who conceptualized loyalty based upon attitudes or intentions (e.g. Dabholkar et al., 2000; Yang and Peterson, 2004), found evidence of a positive relationship between satisfaction and loyalty. However, other researchers (e.g. Sivadas and Baker-Prewitt, 2000) found no relationship between satisfaction and loyalty. Furthermore, the literature reports instances of a large proportion of satisfied consumers not engaging in repeat purchase (e.g. Henning-Thurau and Klee, 1997). Some researchers have noted weak correlations between satisfaction and loyalty (e.g. Van Looy et al., 1998), whereas others have argued that satisfaction is a necessary, but not sufficient, condition leading to loyalty or repeat purchase (Bloemer and Kasper, 1995). Despite this, there seems to be a predominant belief that satisfied customers are often loyal and that they engage in repeat business (e.g. Cronin and Taylor, 1992; Homburg and Giering, 2001). Given that satisfied consumers are more likely to hold favorable attitudes and loyalty towards a retailer than their less-satisfied counterparts, we envisage a positive relationship between customer satisfaction and retailer loyalty.

One notable feature in the studies that have investigated the satisfaction-loyalty relationship and found mixed results, is that each study had used a different type of product/service. Consumers would have different levels of personal experience and different degrees of confidence regarding the performance of each type of product/service/retailer. Further, consumers’ frequency of purchase/shopping, including the quantity of merchandise purchased as well as amount of money spent on each shopping occasion, could vary depending on the category of retailer. For example, consumers are likely to shop at a department store more often than they would at a clothing store. Further, consumers perceive different levels of risk when buying from different retailers according to the image level of the retailers (e.g. high/low) (Sheinin and Wagner, 2003). Hence, we expect the relationship between customer satisfaction and retailer loyalty to vary depending on the type of retailer.

Overall, then, consumers exhibiting high levels of satisfaction with a retailer are likely to attach more equity to that retailer than less satisfied consumers, leading to our core hypothesis and several sub-hypotheses, stated as follows:

**H1.** In a given retailer category, the equity associated with a retailer varies significantly as a function of consumer satisfaction with the retailer.

**H1a.** Retailer awareness varies significantly as a function of customer satisfaction.

**H1b.** Retailer associations vary significantly as a function of customer satisfaction.

**Method**

We collected data using a cross-sectional mall intercept survey. Systematic sampling was used to collect a total of 601 usable responses from a convenience sample of consumers at a busy shopping mall located in the CBD of an Australian capital city. Trained research assistants employed to collect the data approached every tenth consumer. The questionnaire used to collect data included an experimental design: a between-subjects design was employed to examine the differences in retailer equity across two consumer groups with different satisfaction levels. The model was tested for two categories of retailers, namely specialty stores and department stores. The unit of analysis was the individual consumer. Country Road, Fletcher Jones and Jeans West were the three specialty stores and Myer, Target and David Jones were the three department stores included in the study. All these retailers are present on the mall where the data were collected[3].

The questionnaire included two sections. Section one of the questionnaire comprised items measuring various dimensions of consumer-based retailer equity, namely: retailer awareness, retailer associations, retailer perceived quality and retailer loyalty. Researchers (e.g. Yoo and Donthu, 2001) have advocated adapting or extending consumer-based brand equity measurement methods to the measurement of retailer equity. These measures were adapted from the literature (e.g. Aaker, 1991; Dabholkar et al., 1996; Koo, 2003; Yoo and Donthu, 2001; Yoo et al., 2000) and had been empirically tested and employed in earlier studies (e.g. Arnett et al., 2003; Pappu et al., 2005; Washburn and Plank, 2002; Yoo and Donthu, 2002). Each item had the verbal anchors “strongly disagree” and “strongly agree” and used seven-point scales. Respondents were also provided with the option “not able to rate”.

Questions dealing with the demographic information (e.g. respondent age, gender and satisfaction with the retailer) were included in section two of the questionnaire. Researchers have used both attitudinal and behavioral measures to define and assess loyalty (Oliver, 1999; Zeithaml, 2000). In the present study, customer satisfaction was captured through an aggregate (single-item) level of measurement capturing a consumer’s overall or global satisfaction with a product or service, which “may be a more accurate measure of customer satisfaction” (Szymanski and Henard, 2001, p. 20), since consumer repeat-purchase may be “affected by cumulative satisfaction rather than individual episodic satisfaction” (Yi and La, 2004, p. 354). Other researchers have followed this approach and used measures of global satisfaction (e.g. Babakus et al., 2004; Olsen, 2002; Sivadas and Baker-Prewitt, 2000). The single-item measure for customer satisfaction with the retailer was adapted from the literature (e.g. Bitner and Hubbert, 1994) and included a five-point scale anchored from “not at all satisfied” to “very satisfied”.

The questionnaire was pretested using a judgment sample of actual consumers, and was subsequently revised to improve readability and understanding. Two different versions of the questionnaire were then designed for each of the retailer
categories included in the study: one version for each type of retailer. Each respondent in our survey was asked to complete only one version of the questionnaire. All questions in the two versions were similar except for the names of the retailers.

**Results and discussion**

The demographics of the sample were compared to those of the national population. The proportion of female respondents (64.5 percent) in the sample was much higher than that of males (35.5 percent), and well above the national proportion of 50.5 percent (Australian Bureau of Statistics, 2002), reflecting women’s greater predilection for shopping (see Table I). The sample was also skewed towards the younger population, with 74 percent of respondents aged between 18 and 29, as opposed to the national population, where around 16.4 percent of people comprise this age group. Once again, this was deemed to represent the greater likelihood of younger consumers to engage in the sort of shopping available in this particular mall. Hence, while our sample does not reflect key national demographics, we believe the sample represented well the general Australian population of active shoppers, comprising mainly women and young people.

The principal objective of the present research was to examine whether consumer-based equity of a retailer varied according to customer satisfaction with the retailer. Multivariate analysis of variance (MANOVA) was used to investigate differences in consumer-based retailer equity by customer satisfaction. A total of six MANOVAs were conducted, one for each retail brand. Due to the number of significance tests conducted, the level of significance was set at the more stringent 0.01 level.

Customer satisfaction (two levels) was used as the between-subjects factor in each MANOVA. The continuous variable, customer satisfaction, was converted into a dichotomous variable and the sample was split into two groups (high or low), according to consumer satisfaction levels. That is, respondents who reported satisfaction ratings between 4 and 5 comprised the high satisfaction group. The four consumer-based retailer equity variables (retailer awareness, retailer associations, retailer perceived quality, and retailer loyalty) were computed by averaging the scores of the variables loading onto them[4]. All of the assumptions for MANOVA (e.g., absence of multicollinearity, equality of variance-covariance matrices, linearity and normality) were met for the analysis, and in all cases, the cell size was greater than the minimum recommended (see Table II)[5]. Since awareness is an essential requisite for satisfaction to occur, only responses from respondents who were aware of the retailer were included in the analysis. That is, respondents who had never heard of a given retailer were dropped, which led to smaller sample sizes for specialty stores, as shown in Table II[6].

The results of all multivariate hypothesis tests associated with the experimental design are summarized in Table III. Several statistically significant results were obtained.

Table III shows that the multivariate main effect for customer satisfaction was significant for each MANOVA analysis, indicating that the set of consumer-based retailer equity dimensions varied according to customer satisfaction levels with the retailer. Therefore, \( H1 \) was supported. The multivariate main effect for customer satisfaction accounted for between 16.3 percent and 27 percent of the variance in the dependent variables. The individual means for consumer-based retailer equity dimensions for high customer satisfaction group and low customer satisfaction group are shown in Table IV, for both specialty and for department stores. Respondents reporting high satisfaction levels showed significantly higher ratings for all consumer-based retailer equity dimensions, namely, retailer awareness, retailer equity.

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**Table I** Demographic profile of the sample

<table>
<thead>
<tr>
<th>Demographic characteristic</th>
<th>Sample</th>
<th>Australian population (2001 census)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong> ((n = 598))</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>212</td>
<td>35.5</td>
</tr>
<tr>
<td>Female</td>
<td>386</td>
<td>64.5</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>601</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Age ((n = 598))</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-29 years</td>
<td>443</td>
<td>74.1</td>
</tr>
<tr>
<td>30-39 years</td>
<td>71</td>
<td>11.9</td>
</tr>
<tr>
<td>40-49 years</td>
<td>35</td>
<td>5.9</td>
</tr>
<tr>
<td>50-59 years</td>
<td>34</td>
<td>5.7</td>
</tr>
<tr>
<td>60 years or more</td>
<td>15</td>
<td>2.5</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>601</td>
<td>100.0</td>
</tr>
</tbody>
</table>

H1a stated that consumer-based retailer equity would vary according to customer satisfaction levels with the retailer. The major substantive finding from our analysis is that, for the department stores and specialty stores included in the study, consumer-based retailer equity does vary significantly according to customer satisfaction levels with the retailer, at least in the Australian context.

For department stores, each consumer-based retailer equity dimension varied according to customer satisfaction with the retailer. However, for specialty stores, only three of the consumer-based retailer equity dimensions, namely retailer awareness, retailer associations and retailer perceived quality, varied according to customer satisfaction level with the retailer. Retailer loyalty did not vary significantly with

<table>
<thead>
<tr>
<th>Retailer category</th>
<th>Retailer name</th>
<th>Retailer equity dimension</th>
<th>F (df, df_error)</th>
<th>p-value</th>
<th>Partial η²</th>
<th>Mean Low</th>
<th>SD Low</th>
<th>Mean High</th>
<th>SD High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department stores</td>
<td>Myer (n = 304)</td>
<td>Retailer awareness</td>
<td>23.611(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.072</td>
<td>5.04</td>
<td>0.99</td>
<td>5.64</td>
<td>0.96</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer associations</td>
<td>60.281(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.166</td>
<td>4.40</td>
<td>1.23</td>
<td>5.40</td>
<td>0.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer perceived quality</td>
<td>64.551(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.176</td>
<td>4.64</td>
<td>1.11</td>
<td>5.57</td>
<td>0.80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>36.001(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.107</td>
<td>2.91</td>
<td>1.36</td>
<td>4.01</td>
<td>1.44</td>
</tr>
<tr>
<td></td>
<td>Target (n = 304)</td>
<td>Retailer awareness</td>
<td>31.791(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.095</td>
<td>5.12</td>
<td>1.13</td>
<td>5.80</td>
<td>0.89</td>
</tr>
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<td></td>
<td></td>
<td>Retailer associations</td>
<td>35.211(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.104</td>
<td>4.54</td>
<td>1.21</td>
<td>5.29</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer perceived quality</td>
<td>50.001(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.142</td>
<td>4.26</td>
<td>1.25</td>
<td>5.20</td>
<td>0.98</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>25.961(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.079</td>
<td>3.41</td>
<td>1.59</td>
<td>4.37</td>
<td>1.46</td>
</tr>
<tr>
<td></td>
<td>David Jones (n = 267)</td>
<td>Retailer awareness</td>
<td>24.891(1, 265)</td>
<td>&lt;0.001**</td>
<td>0.086</td>
<td>5.12</td>
<td>1.34</td>
<td>5.88</td>
<td>1.07</td>
</tr>
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<td></td>
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<td>Retailer associations</td>
<td>57.751(1, 265)</td>
<td>&lt;0.001**</td>
<td>0.179</td>
<td>4.43</td>
<td>1.17</td>
<td>5.54</td>
<td>1.10</td>
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<td>Retailer perceived quality</td>
<td>63.731(1, 265)</td>
<td>&lt;0.001**</td>
<td>0.194</td>
<td>4.70</td>
<td>1.13</td>
<td>5.78</td>
<td>0.99</td>
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<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>52.491(1, 265)</td>
<td>&lt;0.001**</td>
<td>0.165</td>
<td>2.94</td>
<td>1.49</td>
<td>4.42</td>
<td>1.61</td>
</tr>
<tr>
<td>Specialty stores</td>
<td>Country Road (n = 161)</td>
<td>Retailer awareness</td>
<td>23.991(1, 159)</td>
<td>&lt;0.001**</td>
<td>0.131</td>
<td>4.76</td>
<td>1.13</td>
<td>5.56</td>
<td>0.96</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer associations</td>
<td>26.381(1, 159)</td>
<td>&lt;0.001**</td>
<td>0.142</td>
<td>4.43</td>
<td>1.11</td>
<td>5.24</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer perceived quality</td>
<td>35.791(1, 159)</td>
<td>&lt;0.001**</td>
<td>0.184</td>
<td>4.49</td>
<td>1.17</td>
<td>5.44</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>06.091(1, 159)</td>
<td>0.015</td>
<td>0.037</td>
<td>3.28</td>
<td>1.54</td>
<td>3.86</td>
<td>1.42</td>
</tr>
<tr>
<td></td>
<td>Fletcher Jones (n = 91)</td>
<td>Retailer awareness</td>
<td>13.361(1, 89)</td>
<td>&lt;0.001**</td>
<td>0.131</td>
<td>3.48</td>
<td>1.57</td>
<td>4.68</td>
<td>1.55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer associations</td>
<td>13.211(1, 89)</td>
<td>&lt;0.001**</td>
<td>0.129</td>
<td>3.34</td>
<td>1.54</td>
<td>4.40</td>
<td>1.23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer perceived quality</td>
<td>10.991(1, 89)</td>
<td>0.001*</td>
<td>0.110</td>
<td>3.58</td>
<td>1.49</td>
<td>4.61</td>
<td>1.47</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>2.421(1, 89)</td>
<td>0.123</td>
<td>0.027</td>
<td>2.75</td>
<td>1.57</td>
<td>3.27</td>
<td>1.65</td>
</tr>
<tr>
<td></td>
<td>Jeans West (n = 237)</td>
<td>Retailer awareness</td>
<td>29.421(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.111</td>
<td>4.97</td>
<td>1.30</td>
<td>5.80</td>
<td>1.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer associations</td>
<td>67.841(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.224</td>
<td>4.32</td>
<td>1.23</td>
<td>5.52</td>
<td>0.99</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer perceived quality</td>
<td>75.931(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.244</td>
<td>4.01</td>
<td>1.34</td>
<td>5.36</td>
<td>1.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Retailer loyalty</td>
<td>42.151(1, 235)</td>
<td>&lt;0.001**</td>
<td>0.152</td>
<td>3.00</td>
<td>1.62</td>
<td>4.30</td>
<td>1.41</td>
</tr>
</tbody>
</table>

Notes: SD = standard deviation; *deemed significant at 0.01 level; ** deemed significant at 0.001 level

associations, retailer perceived quality and retailer loyalty, compared to respondents with low satisfaction levels.

Univariate F-tests (see Table IV), conducted as a consequence of the significant multivariate main effect for customer satisfaction, showed that, for department stores, all consumer-based retailer equity dimensions varied according to customer satisfaction level with the retailer. However, in the case of specialty stores, only three consumer-based retailer equity dimensions, namely retailer awareness, retailer associations, and retailer perceived quality varied significantly with customer satisfaction with the retailer. Retailer loyalty did not vary significantly between high customer satisfaction and low customer satisfaction groups for the specialty stores[7]. In other words, only three of the four retailer equity dimensions varied significantly with customer satisfaction, for all the six retailers, supporting H1a, H1b and H1c. H1d, however, was not supported in the case of specialty stores. Hence, our results suggest that the relationship between retailer loyalty and customer satisfaction may be retailer category specific.

Conclusions and implications

H1 stated that consumer-based retailer equity would vary according to consumer satisfaction levels with the retailer.
customer satisfaction for two of the three specialty retailers included in our study. This finding leads us to conclude that the impact of customer satisfaction on retailer loyalty might be retailer-category specific. \( H1a \), \( H1b \) and \( H1c \) were supported whereas \( H1d \) was not.

While it might be intuitive to think that higher satisfaction levels would lead to higher value being associated with the name of a retailer, this issue had never been formally investigated in previous research. Thus, to the best of our knowledge, the present study is the first to demonstrate empirically a positive relationship between customer satisfaction and an intangible asset such as retailer equity.

The relationship between customer satisfaction and the retailer awareness (e.g. ability to recall the retailer) is also a contribution to existing knowledge, since the issue had never been investigated. The positive relationship between customer satisfaction and the consumer-based retailer equity dimension of “retailer associations” is a further contribution to the literature, since the issue of whether satisfaction leads to superior retailer associations or retailer image had also never been investigated previously.

As mentioned previously, some marketing researchers have argued that satisfaction leads to quality (e.g. Dabholkar, 1993), which was in contrast to the belief that quality was an antecedent of satisfaction (e.g. Peyrot et al., 1993; Woodside et al., 1989). Our results indicated that consumers who reported higher satisfaction ratings also had higher perceptions of quality, compared to consumers who reported lower satisfaction ratings. Thus, the results of the present study support a view held in the marketing literature that customer satisfaction is indeed an antecedent of quality (e.g. Henning-Thurau and Klcz, 1997).

As previously mentioned, several researchers (e.g. Bitner, 1990; Rust and Zahorik, 1993; Woodside et al., 1989; Yang and Peterson, 2004) found empirical evidence of a positive relationship between customer satisfaction and loyalty. Other researchers (e.g. Jones and Sasser, 1995; Reichheld, 1993) argued that even satisfied consumers may not be loyal. For example, Sivadas and Baker-Prewitt (2000) found no relationship between satisfaction and loyalty. Our results suggest that the relationship between satisfaction and loyalty could well be retailer category specific. This may explain some of the conflicting findings from previous studies regarding the relationship between satisfaction and loyalty. Previous researchers examining the relationship between satisfaction and loyalty noted conflicting results because of the different product/service categories examined in the respective studies. Even in the present study, there was evident heterogeneity in the relationship between satisfaction and retailer loyalty in the specialty store category. The reason could be that there is something unique about these two stores (Fletcher Jones and Country Road) that tends to decouple customer satisfaction from retailer loyalty.

Further, Homburg and Giering (2001) found that consumer’s personal characteristics such as variety seeking, age and income were important moderators of the relationship between satisfaction and loyalty. The results of the present research would suggest that retailer category may well be a moderator in the relationship between satisfaction and loyalty.

There are several managerial implications from this study. Given the relationship between consumer-based retailer equity and customer satisfaction revealed in our results, the implications for marketing managers are to manage and measure customer satisfaction levels, and monitor how consumer-based retailer equity and its various dimensions are being affected. In addition to affecting a retailer’s economic performance, improved satisfaction could lead to improvements in their intangible assets, including consumer-based retailer equity. Marketing managers need to consider such potential gains when allocating resources for satisfaction measurement in their research budgets. However, marketing managers should also understand that satisfaction affects various dimensions of consumer-based retailer equity differently for different retailer categories. For example, satisfaction with a retailer was shown to influence retailer awareness, retailer associations and retailer perceived quality rather than retailer loyalty for both the selected categories. The impact of satisfaction on retailer loyalty was found to be retailer category-specific. Since we conceptualized retailer equity from a consumer-perspective, marketing managers should be able to capture variations in their firm’s intangible assets with consumer satisfaction, through consumer surveys.

Limitations and future research directions

Some limitations to the study must be considered. First, the study reported here involved only two categories of retail brands. Further testing is therefore required before any generalization of these results can be undertaken, as only six retail brands were included in the data collection process. Given our finding that the relationship between retailer loyalty and customer satisfaction is probably retailer category specific, it would be useful to conduct future studies in other categories of retail brands. Priority in further research in this area should be given to replicating the present study for different categories of retail brands and consumer populations. Future studies may also use different types of retailers such as convenience stores and hypermarkets.

The experimental design included in the present study did not allow us to test for the combined effect of customer satisfaction and retailer category on retailer equity. Future researchers should employ experimental designs that would allow the estimation of interaction effects. Furthermore, customer satisfaction was measured in this research using a single-item measure. Future researchers may want to use multiple measures for measuring customer satisfaction with the retailer.

Our results indicated that consumers’ ability to recall the name of a retailer increased with increased satisfaction levels. Future researchers should examine the relationship between retailer awareness and customer dissatisfaction. Further, retailer image is one of the most widely researched topics in marketing and future researchers might model the relationships between customer satisfaction and retailer image. Brand personality is argued to be a sub-dimension of brand associations and supposed to contribute to brand equity (Aaker, 1996). Hence, it could be argued that store personality, a concept proposed d’Astous and Levesque (2003), is part of the dimension retailer associations and contributes to retailer equity. Is there a relationship between customer satisfaction with a store and store personality? This could be an exciting avenue for future research.

Further, variables such as consumers’ frequency of visits to the retailer and location of the retailer store could also moderate the relationship between customer satisfaction with
the store and the equity consumers associate with the retailer. Future researchers should examine the impact of these variables on the relationship between customer satisfaction and consumer-based retailer equity.

Finally, it should be noted that our study relied on a realistic sample of consumers. Student samples have often been used in previous research, despite criticism that they might be atypical consumers because of their “restricted age range, limited consumption experience, and relatively low income” (Szymanski and Henard, 2001, p. 20). While our Australian sample was far from perfect, our findings are based on responses obtained from a sample of actual (non-student) consumers. Future studies should aim to make similar use of realistic samples including some from other countries when examining the issue of retail equity and/or customer satisfaction.

Notes

1 We define customer satisfaction at the retailer level, not at the individual store level. For example, a retailer such as K-Mart might operate several stores in a given city. We refer to the customer satisfaction associated with the retailer K-Mart, but not to customer satisfaction with one of K-Mart’s stores.

2 Consumers’ country images are known to operate as a halo as well as a summary effect (see Han, 1989). We do not make a distinction regarding how consumers’ retailer images operate (e.g. halo vs summary). We only argue that consumer retailer images are influenced by the level of customer satisfaction.

3 We acknowledge that respondents might be more frequent visitors to these stores given their location in the mall. However, we believe our results would not be affected by this, because in the present study we measure brand equity at the retailer level but not at the individual store level.

4 Details of confirmatory factor analysis used to examine the dimensionality of retailer equity were not included in this paper because of space constraints, but can be provided upon request from the first author.

5 MANOVA requires a minimum cell size of 20 (Hair et al., 1998).

6 To examine if there was any disproportionate impact on the smaller stores (which is the basis of selection bias in samples), we ran several MANOVAs for each store (e.g. Myer/Target/David Jones) in each category (e.g. Department stores/Clothing stores) with different sub-samples randomly selected from the main sample. We observed similar results in all cases.

7 We ran several MANOVAs for each specialty store with different sub-samples randomly selected from the main sample to examine if the conflicting results regarding “customer satisfaction and retailer loyalty” had occurred because of smaller sample sizes in case of specialty stores. The results supported our original findings. In all cases, the relationship between customer satisfaction and retailer loyalty was significant only for one clothing store (Jeans West) but not the other two (Country Road and Fletcher Jones).

References


Anderson, J.R. (1976), Language, Memory and Thought, Lawrence Erlbaum Associates, Hillsdale, NJ.


**Executive summary**

This executive summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.

**Customer satisfaction builds retail brand equity**

An apocryphal story, often told wherever marketers gather, is of a retailer with a small general store in rural Virginia who turns to a friend and says “Every time I see a customer leave without a smile upon their face I think there goes $50,000 walking out the door.” Why $50,000? Well each customer spends around $100 each visit, visits more or less once per week, and remains loyal to the store for around ten years, all adding up to a customer lifetime value figure of around $50,000.

The logic can be argued with of course. If the relationship was in year nine then is it only $5,000 that has been lost? What if that customer was only passing through on a visit? There are many ways in which a nice simple story can be spoilt by the detail, yet the point being made is a strong one – satisfied customers keep coming back, dissatisfied ones don’t. If customers keep coming back they will spend more. The customer lifetime value concept transforms how we view what is important to our business.

Not surprisingly, customer satisfaction research has become something of an industry for service businesses. This Australian study, however, has addressed an under-researched area that has implications for retail brand managers and potentially for all in the service sector. Carried out in a shopping mall in the Australian capital, Canberra, this study has further reinforced the essential role of ensuring customer satisfaction in the building of that crucial intangible asset, brand equity.

**What is retailer brand equity?**

“Brand equity” is a term that is increasingly being used in management vocabulary. It is an unsurprising development given its increasing significance as its importance becomes better understood. However, it is worth taking a few moments to understand what is meant by it, particularly here in this retail context.

Retailer brand equity can be defined as the values consumers associate with retailers on the following dimensions:

- **brand awareness** – the consumer’s ability to recognize or recall a retailer;
- **retailer associations** – anything linked to the consumer’s memory of the retailer;
- **customer satisfaction** – the extent to which customers are happy with the retail experience;
- **customer loyalty** – the extent to which customers are willing to return to the retailer.

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Does customer satisfaction lead to improved brand equity?

Ravi Pappu and Pascale Quester


perceived retailer quality – the consumer’s judgment about a retailer’s overall excellence or superiority; and
retailer loyalty – the tendency to be loyal to a retailer, as demonstrated by the intention to purchase from the retailer as a primary choice.

Breaking it down into these dimensions is useful. It enables it to be better understood, enables it to be measured, and enables brand managers to take action.

Implications for brand managers
This research has produced findings that will reinforce the intuitive thinking of experienced brand managers, but it also reveals some surprises. From a marketing research perspective this survey highlights the ongoing need to invest in customer satisfaction research given its direct correlation to bottom line performance. There are, however, other implications too.

The study used the associative network memory model, originating in cognitive psychology, in order to explore the relationships between customer satisfaction and retail brand equity, examining perceptions of both department stores and specialist retailers:

- consumer-based retailer equity varies significantly according to levels of satisfaction with the retailer;
- potentially, although further work needs to be done, the impact of customer satisfaction on retailer loyalty may be retailer-category specific. In the study there was some evidence that loyalty did not vary significantly with customer satisfaction specialty retailers;

- the study empirically demonstrates the positive relationship between customer satisfaction and the intangible asset of brand equity;
- brand managers need to measure and manage customer satisfaction, together with how brand equity and these identified dimensions are affected; and
- improved customer satisfaction can lead to improved commercial performance, including the intangible of brand equity, but that this may vary with retail category.

So to return to our parable of storekeeping in rural Virginia, the storeowner can now equate each frown with an intangible issue, a decline in brand equity, in addition to the lost dollars. As a general store, the correlation between customer satisfaction and all dimensions of retail brand equity is clear – unhappy customers equates to lack of recognition of the brand, poor associations with the brand, perceptions of poor quality, in addition to the diminishing loyalty highlighted by the story.

Simply put, the cash implications of levels of customer satisfaction can be measured. Using these four dimensions, the impact on brand equity can be measured also.

(A précis of the article “Does customer satisfaction lead to improved brand equity? An empirical examination of two categories of retail brands”. Supplied by Marketing Consultants for Emerald.)