Research on the Marketing Strategies of Private Label Impacts on Customer Loyalty and Sense of Novelty——A case study of Trader Joe'

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Abstract. More and more grocery stores employed their private label on some products to earn more profit margins, but not all of them have successfully survived under competition from other store brands. This research takes Trader Joe's as a case study to investigate the major factors that private label strategy impacts on customer loyalty and the sense of novelty of customers. Previous research mainly focused on private label strategy with customer satisfaction or loyalty. However, a sense of novelty is rarely explored in previous research on private label strategy. We use review coding of Trader Joe's customer comments on Trustpilot to investigate central aspects determining private labels' impacts on customer loyalty and a sense of novelty. We found that friendly staff, affordable price, and high-quality products mainly enhance customer loyalty. The variety/uniqueness of products and accommodating decoration of store environments contribute to the customer's sense of novelty.

Keywords: Trader Joe's; Private Label; Customer Loyalty; Sense of Novelty; Marketing Strategies.

1. Introduction

1.1 Research Background

Grocery shopping is an inevitable part of people's daily life nowadays. The national median family income for the United States for FY 2021 is $79,900. However, 2020 figures from the Bureau of Labor Statistics showed that the average annual cost of groceries for US households is $4,942, which means the money people spend on grocery shopping is around 6% of their total family income per year. Therefore, attracting new customers and keeping old customers is a salient problem for all grocery stores to gain more profits—Private Labeling - goods that store purchases from a manufacturer but sell under its brand name. Everything about the goods, including their specifications, packaging, and other aspects, is under the retailer's control - it is one of the marketing strategies that grocery stores developed to cut the branding cost of the national brand and the middleman fee to bring products to the retailer's stores. Trader Joe's is one of the most well-known private label chains of grocery stores which was founded in 1967 and rapidly expanded around the US. There are 557 Trader Joe's locations in the United States.

This research will take Trader Joe's as a case study to investigate the main factors that predict whether private label strategy will increase the old customer's loyalty and enforce the sense of novelty in the new targeted customers. And how can this marketing strategy be used to bring large profits for grocery stores?

1.2 Literature Review

According to a recent study, private label goods are more profitable than national brand goods and have profit margins of 35%, compared to national brands' 26%. David indicates that Market-dominant retailers sell private label alternatives to well-known national brands to increase their profits from the vertical structures they jointly own with brand makers [1]. Generally speaking, both the customer and the retailer rarely win. But private labels allow the retailer to get higher profits and the consumer to enjoy lower prices. This may be why many grocery stores currently apply private labels, which may also increase customer loyalty. Martos-Partial pointed out that even though there are more and more stores that utilize private labels to maximize profits. The connection between private labels and consumer loyalty remains fairly ambiguous and can be quite complex despite all the prior studies

on this issue [2]. For instance, private label products have limited categorical diversity compared with national brands. Pepe found that consumers enjoy a wide variety of items [3]. Thus, while private label products may boost retailers' profitability, focusing too much on them might hurt category performance [4]. Customers would love to buy all the products in one grocery store to keep shopping efficient and save more time to spend with families or chill at home. Therefore, the weak category performance may lead to less repurchase rate and minimize the profits to a large extent. Corstjens demonstrates that even when a store brand does not have a margin advantage over a national brand, it may nevertheless be used by retailers to create store distinction, loyalty, and profitability[5]. People don't think of the products they bought from Trader Joe's with their private labels as generic; rather, they think of the brand Trader Joe's, a unique store where certain items are only sold here, and customers can't buy them from other grocery stores. In this way, customer loyalty was built up and consistently rising. Abril demonstrates that private labels often positively influence how quickly consumers accept new items, as seen by the trial purchase level and repurchase rate [6]. The faster acceptance of new items indicates that businesses that use store labels frequently go for customers more concerned with their health, functional value, experiences, or a particular narrative than brand names. Customers at Trader Joe's pay for what they consider novel.

1.3 Research Framework

Most scholars mainly study the private label marketing strategy on customer loyalty. However, there is still a lack of research on the impact of private labels on both sense of novelty and customer loyalty in grocery stores. This paper will use the literature research method, physical survey method, and correlational research method to determine the primary determinants of whether the private label approach will strengthen the sensation of novelty in the newly targeted customers and boost the loyalty of the old customers. And how can this marketing strategy be leveraged to create huge profits for grocery stores? Firstly, through collecting a survey from customers who shop in Trader Joe's to find out if there is a correlation between private labels and both sense of novelty and customer loyalty. Secondly, survey data will be analyzed and reported to determine the research gap. Finally, develop the private label strategy in the right way to improve both the retailers' and customers' profits to a large extent.

2. Method

The ultimate goal of the private label marketing strategy is to reinforce the retailer's margin and also increase the sense of novelty to captivate new customers and sustain the existing customers in grocery stores. Therefore, the correlation between the private label impacts on customer loyalty and a sense of novelty should be researched. In order to achieve this purpose, customers' feedback, self-reported surveys, and internet comments use three methods: literature review, self-reported survey, and correlational research.

2.1 Literature Research Method

The term "literature review," also known as "research review," describes a paper created by thoroughly understanding and analyzing the pertinent literature of an academic problem. And then summarizing, organizing, and commenting on the existing research results and issues of that problem over a set amount of time. In order to forecast future development and research trends or look for new research breakthroughs, a literature review often needs to explain and remark on the existing research situation objectively. The writing processes for a literature review may be broadly categorized into the following: gathering sources, reading and categorizing sources, processing, comparing, reviewing sources, predicting patterns, and presenting problems for additional research. This paper thoroughly examines the development status and prospects of private label products by interpreting a report on Trader Joe's marketing research. It does this by reading journals and papers to understand that there are currently not enough studies on the impacts of private labels on customer loyalty and novelty. It

also does this by reading pertinent books to comprehend the idea and characteristics of private label strategy.

2.2 Self-reported Survey Method

The terms "survey and research method" relate to the research approach that involves investigating and comprehending the objective situation to gather relevant materials and then analyze those materials. In this paper, through the analysis of customers' repurchase rate for private label products and intention to come into the store next time. The correlation will be found through survey data analysis. The more survey questions created and answered by customers, and the more data can be used to generate a correlational model between private models and both customer loyalty and novelty to a large extent.

2.3 Correlational Research Method

Although there may be a correlation between two or more variables, causality and effect are not always implied by this correlation. Correlation between two variables indicates that when one changes, the other does. In this paper, we want to discover if there is a positive or negative correlation between utilizing private labels on both customer loyalty and a sense of novelty. If customer loyalty and novelty increase due to private labels, there is a positive correlation and vice versa.

2.4 Case Study

A case study comprehensively examines one individual, family, or event. To look for patterns and reasons for behavior, practically every element of the subject's life and background is examined in a case study. In this paper, we will take Trader Joe's as an example of a private labeling grocery store to investigate the major factors determining the impacts of private label strategy on customer loyalty and sense of novelty.

3. Result

Jonas & Roosen found that to attract new consumers, retailers sell PLs because they are concerned about "food safety," "retail as a brand," and "customer loyalty." Requests for entrance fees, investment grants, and equipment subsidies are less significant for those who handle organic PLs than those who do not [7]. However, PL producers must adhere to additional requirements set by retailers and are marginally more dependent on a small number of clients. Dunne & Narasmhan indicated that most manufacturers view PLs as "category killers" that drive up consumer price sensitivity and squeeze profitability. In the US, 20% of foodstuffs are offered for sale by merchants [8]. Private Labeling may not be as terrifying to manufacturers as they think since labels currently serve various purposes. Today, some private labels are genuine "premium" products that meet or surpass the quality of name-brand products at a little reduced cost.

There are 98 Trader Joe's reviews on Trustpilot, including 55% excellent, 10% great, and 4% average. Analyzing the 69% positive reviews, data showed that most customers gave positive reviews due to the affordable price, high-quality foods, and friendly employees.

3.1 The major factors determining the impacts of private label strategy on customer loyalty

3.1.1 Affordable Price and High-Quality Foods on customer loyalty

Most comments on Trustpilot mentioned high-quality foods with competitive prices, which can be the most attractive combo for all customers to revisit this grocery store. Private labels do not receive a premium for brand recognition or costly advertising initiatives; they pay the product cost, which can be why private label products have better and more competitive prices than national brand products. Due to less expense on advertising and brand fees, private label companies can put more attention on product quality to increase their customers' repurchase rate. As Rogerson mentioned, high-quality businesses have more consumers since fewer unhappy customers leave, and more people

come in due to word-of-mouth marketing [9]. Private labels combine high-quality foods and lower prices to make them more compatible with national brands.

3.1.2 Good Customer Service

Customer service refers to the assistance grocery stores provide to their clients so they may interact with store brands in a simple and pleasurable way both before and after purchase and utilize goods or services. Customer service is closely related to people's shopping experience, even though most of the time, it just handles the most trivial things between customers. Such as, the return policy of one store can significantly influence a customer's impression of that grocery store. Dresner & Xu indicated that customer service is the key to customer loyalty and satisfaction[10]. Also, many customers mentioned that good and friendly customer service is critical in deciding to visit Trader Joe's again.

3.1.3 Friendly Employees

Most people consider grocery shopping one of the most relaxing ways to release high pressure from family or work. In this way, friendly employees can be a major factor that impacts customer loyalty. The person being served has two needs. One is the material needs, and the other is the spiritual needs. The role of the service attitude is to meet the spiritual or psychological needs of the people being served so that they not only get qualified and satisfied with the "product", but also feel comfortable and satisfied. Even though lots of grocery stores emphasize that "Customer is the king", large proportional employees still have a bad attitude toward their customers. Friendly employees who always smile and have comfortable conversations with customers will largely enforce customers' positive attitude towards the whole grocery store. Kondasani & Panda demonstrated that consumer perception is positively impacted by the relationship between service providers and customers, the standard of the facilities, and interactions with the support personnel [11].

3.2 The major factors determining the impacts of private label strategy on the sense of novelty

3.2.1 Variety and Uniqueness of Products

The uniqueness of products can be a major factor in determining the impacts of private labels. As I mentioned before, one of the greatest advantages of private labels is that everything related to the product or items is under the retailer's control, which means that it covers the product's specifications, packaging, and everything else. Retailers can design and change the packaging or add some decorations to increase the novelty of the products and attract more new customers. This may also enforce customer loyalty because customers can't buy this design from other national brand stores. Customers always want to buy all the groceries they need in one store, which can help them save much more time after busy work. Therefore, the more various products in one grocery store can be a positive predictor of attracting customers and increase the sense of novelty of customers.

3.2.2 Neighborhood Environment

Keeping the grocery shopping environment clean is important to keep customers coming again. However, a clean environment is not novel enough to keep attracting new customers. The interior decoration of the store reflects not only the strength of the store but also the importance that the operator attaches to the store. Comfortable interior decoration is pleasing to customers, but if excessive, it will make consumers feel that the brand is too high-end, thus scaring away many of them. Therefore, the store's interior decoration should be in line with the status of the market. According to the grocery located in various cities, the decoration of the grocery store can be accommodated to attract new customers and keep the existing customers. Singh et al. showed that the goal of store image is to understand better how the shop's atmosphere and architecture affect customer behavior and store performance [12]. Different store layouts can largely be positively related to customer purchase behaviors.

3.3 Case study of Private Label Products (PLs) on Trader Joe's

Trader Joe's is deliberately decorated to create the feeling of a farmer's market, with vegetables and fruits displayed in wooden box-style booths. Moreover, product descriptions and price tags that are creatively hand-painted, and employees wearing fancy Hawaiian T-shirts, with the store manager called "Captain" and other employees as "crew members. Instead of using a loudspeaker to call customers or co-workers, the store staff uses a characteristic ringing bell to deliver messages. The novel decoration attracts many customers quickly due to the sense of novelty that other grocery stores can't provide. "If an item doesn't pull its weight in our stores, it goes away, making room for another innovative new product" quoted from Trader Joe's website. This can also be another reason that Trader Joe's can attract new customers and keep existing ones.

Currently, over 80% of Trader Joe's items are private label, allowing the company to set prices cheaper than those of major brands since it bypasses the intermediary and deals directly with suppliers. Trader Joe's has a community grocery shop vibe. The shops are cute, lively, and small. Although the design features in its stores are not the most costly, they welcome and entice visitors to enter and remain for a while. Trader Joe's also demonstrates that you do not need the most costly or exquisitely built store to draw in the most people. Like other businesses noted for their superior customer service, Trader Joe's staff are given the freedom to take whatever steps are necessary to keep their clients satisfied. One of the most significant brand development factors is the behavior of your staff. Building customer satisfaction and long-term customer loyalty begin with engaged staff eager to go above and beyond.

Review of Trader Joe's on Trustpilot

Positive Comments	
Good Customer Service	12
Affordable Price	26
Variety/Unique products	19
High Quality	25
Clean Environment	6
Friendly Employee	36

Fig. 1 Main Reason of Positive reviews of Trader Joe's on Trustpilot

3.4 Problem identified by Trader Joe's private label strategy on customer loyalty and sense of novelty

Private Labeling may have the reputation of being "generic" or of inferior quality to national brands, which is one of their main disadvantages. People buy national brand products largely because national brands make them feel secure and represent high quality. Therefore, even though private label products have lower prices than national brand products, some customers still prefer to spend more money on national brand products.

Since retailers are not the original manufacturers of the goods, any flaws in the quality of the products will subject them to liability. Customers will file complaints against retailers even when they have no involvement in the case of a quality failure because they see retailers as the manufacturer or owners of the brands. Therefore, if one private label item has some quality issue, customers intend to have a negative impression of the whole store's brands and all the products with that private label.

Unlike unbranded or generic goods, privately branded goods will face stiff competition. And the odds are that your rivals will have bigger bank accounts. When you go up against well-known businesses, the competition will play a big role in setting your prices, and you won't have as much influence over your marketing tactics. It would become essential to adhere to market sentiment. With the growth of fierce price competition between private label grocery stores, most retailers will give up some margins to win more customers, which can negatively impact brands' reputations and profits.

4. Discussion

4.1 Private Label Reputation

Consumer loyalty has been built up over decades by strong national brands. Consumers have used these brands for generations, becoming ingrained in their everyday lives. The top brands in any nation seldom stray from their stance, according to nationwide polls of the market leaders. Since private brands must start from zero, their value proposition must be outrageous to attract any interest. The client will return to the national brand if they cannot deliver on that value promise. Compared with national brand products, which spend large amounts of money on making attractive advertisements and maintaining the brand's impression, private label products show a lower reputation. Chen & Sedeque demonstrated that to encourage consumers to choose private label brands, merchants could emphasize their reputation (the retailer's reputation factor) and good word-of-mouth [13]. Additionally, they must counter criticism of their label brands. Additionally, given that value consciousness was discovered to be a significant driver across the majority of the demographic characteristics investigated here, merchants should work to highlight the quality component of their private label products to consumers.

4.2 Private Label Products' Quality Control

Nies et al. reveal that the quality of private label products benefits consumers' perceptions of stores and their choice of where to buy [14]. Customers emphasize living standards much higher in the present and are willing to spend more money to purchase high-quality products. Therefore, if private products can combine competitive prices with high-quality products can captivate more customers and increase customer loyalty. Delvecchio pointed out that private label businesses must carefully choose the product categories in which they try to compete due to customer associations with their positioning as lower cost to represent lower quality and their generally tiny marketing budgets [15]. Each private label product represents the impression of the whole brand image; thus, companies should increase product quality supervision. Even though most store brands can't control their products' quality, they can focus more on quality tests and customer reviews.

4.3 Price Competition

Affordable price is one of the most competitive factors that private label products can provide to their customers. If all the store brands can supply lower prices than national brands, customers choosing which store to go to can be a huge question for the company to consider. Private label shops may get a temporary competitive advantage by competing simply on price. Still, if they want to succeed in the long run, they must also compete on quality and endeavor to offer value to customers. However, merchants run the danger of making a loss if they base their prices on rivals. Choi & Fredj mentioned that every retailer should strive for more store differentiation than other rival shops and less brand differentiation compared to the national brand. To provide relatively homogenous brands in a well-differentiated store to be more successful and generate better profits[16]. Store brands

should be alert that price is not their only advantage compared with national brands; higher product quality or novel products can also be their superiority.

4.4 Customer Preference Evolvement

A private label brand is completely out of the retailers' hands. It may be challenging if a retailer's private label brand does not adapt to changing consumer tastes. Everyone loses money when the market changes and a company is reluctant to adapt because the client moves elsewhere to meet their wants. Mudambi & Schuff have shown shops the advantages of having customer reviews. The question of what makes customer reviews beneficial to a consumer when making a purchase choice remains largely unexplored [17]. Additionally, client feedback may assist merchants in tailoring their product assortment to precisely match customer preferences. Store brands must carefully collect customer reviews, analyze customers' updated preferences, explore more novel products, and make communication between customers and stores more convenient.

4.5 Summary

Grocery stores have developed their private label products, such as CVS, Amazon, Walgreens, and Whole foods. However, Trader Joe's is the only grocery store occupied by private label products over 80%. Since the firm spends much effort on the packaging and well-written product descriptions, Trader Joe's knockoffs are so nice and well-marketed that they help consumers avoid feeling "cheapened" when purchasing a "store brand" elsewhere.

5. Conclusion

5.1 Findings

Friendly employees, good customer service, affordable prices, and high-quality products are the main factors contributing to Trader Joe's success as a neighborhood grocery store with over 80% private label products. After going through all the customer reviews on TrustPilot, it's not hard to discover that friendly employees are the most important reason that keeps customers coming to Trader Joe's again and again. Trader Joe's immediately removes items customers do not welcome from the store shelf and then arranges novel and unique products to replace them. The new products always attract customers to Trader Joe's, and those products customers can't buy from other grocery stores largely increase the customers' loyalty and sense of novelty. The major factors that grant successful private label strategy in Trader Joe's also put a significant view for other grocery stores who want to employ store brands in the future. Customers love discovering lower prices and higher quality private label products in their grocery shopping experience. Private Labeling can be a win-win tactic for retailers and customers to a large extent in the marketing field.

5.2 Limitations

There are still some limitations of this customer reviews analysis. First, the sample size of the reviews is 98, which is limited and can't be generalized to a large population. Second, some negative reviews of Trader Joe's on TrustPilot are neglected in this research. Third, respondents' age and gender are not shown on review websites which can largely influence the moderator analysis. Fourth, the methods used to analyze the reviews contain content of major factors such as a clean environment and friendly employees. All depend on one researcher's subjective views, which should include two or more researchers to get consistent results from customer reviews. In future research, sample size, age group, participants' age range, and more variables should be controlled to explore a deeply causal relationship between private label strategy on customer loyalty and a sense of novelty.

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