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## Abstract

This chapter will explain the concept of retail branding and the advantages of establishing and strengthening a retail brand. The chapter also discusses different retail brand architectures, approaches to measuring brand equity, the concept of brand positioning and principles of successful retail brand management.

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## 9.1 Emergence of Strategic Retail Marketing

Even though retailing has long had the opportunity to be marketing-oriented because retailers are in closer contact with customers than are manufacturers, mass retailing has been slow to take advantage. Buying decisions, operational concerns and short-term objectives have been given higher priority than strategic marketing concepts (Mulhern 1997, p. 104). The result has been a frequent lack of clear differentiation between competitors.

However, this has changed in recent decades. Thanks mostly to changing industry conditions and increased management capabilities in retail companies, there has been a change in attitudes towards strategic marketing. Retailers have begun to recognise the relevance of establishing a clear-cut and differentiated profile, and retail brands are being systematically established and managed (Morschett 2012).

## 9.2 Retailers as Brands

While in the past the term “**brand**” mainly applied to manufacturer brands (such as *Pampers*, *Nike* or *Gillette*), the brand concept can be applied to all kinds of “products”, including retailers.

Some authors define a brand as a name or formal sign. According to the *American Marketing Association*, a brand can be defined as a “name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” ([www.ama.org](http://www.ama.org)). However, separating the brand name from the product or service alters the nature of the brand. Taking the *IKEA* logo and linking it to a grocery supermarket might retain part of the brand strength, but the character of the brand would change with the underlying product. Other definitions therefore use the combination of brand name (or brand logo, brand sign) and branded product to define a brand: “A brand is therefore a product, but one that adds other dimensions that differentiate it in some way from other products designed to satisfy the same need” (Keller et al. 2012, p. 5).

### Stores as Branded “Products”

**Retail branding** is a strategy based on the brand concept that transfers it to a retail company. A retailer’s “products” are its stores, which can be marketed in a similar way to a branded good. A **retail brand** is then a group of the retailer’s outlets, which carry a unique name, symbol, logo or combination thereof. While all retailers are brands to a certain extent, some retail brands are strong, while many are not. Customer recognition and appreciation are the essential elements of a strong retail brand (Morschett 2002, p. 108). Retail branding is a comprehensive and integrated marketing management concept, focussing on building long-term customer loyalty and customer preference.

The term retail brand has to be distinguished from the term store brand (see Chap. 12). While retail brand refers to the brand on the level of stores (e. g. *Currys*, *Lidl*, *FNAC*) (Interbrand 2014; Das 2014; Morschett 2002), the term **store brand** refers to the product level, and is used synonymously with private label. While often, the retail brand is also used to label store brands, this is not a universal characteristic (Wileman and Jary 1997, p. 17, 134).

Retail brands are enormously complex, due to retailers’ service attributes and the multiplicity of brand attributes and consumer-retailer interactions. While manufacturers usually only offer a few products under one brand and the industrial production process is completed through quality control, customer experience with a retail brand is often shaped by several hundred outlets, each with different locations and store designs, thousands of products and dozens of employees, who are also influenced by their moods and emotions. It is therefore difficult to convey a uniform performance and brand message (Wileman and Jary 1997, pp. 40–42).

**Employer branding** is a more recent branding trend which must be distinguished from retail branding. It refers to a corporate strategy that uses the branding concept to build an image of the company as an attractive place to work. Thus, the objective is to position the company as an attractive employer and differentiate it from the competition in the labour market (Sehgal and Malati 2013, p. 51). Given that retailing generally has reputational

problems with highly qualified labour, more and more retail companies have started investing in this type of branding. The term “retail branding”, however, refers to branding targeted at consumers, not employees.

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### 9.3 Advantages of a Retail Brand

Establishing a strong brand can provide considerable advantages (Keller et al. 2012, pp. 8–11; Morschett 2012, pp. 442–443; Morschett 2002, pp. 31–41) and be key to long-term performance (Aaker 1996, p. vii):

- An existing retail brand strengthens **brand awareness** and **differentiation** from the competition because it can serve as an anchor for associations with the brand.
- An established brand enhances the **efficiency of marketing measures**. In an age of increasing consumer information overload, established and well-known brands receive more attention than unknown brands. For example, advertising for strong retail brands is more likely to be noticed and recognised by consumers, resulting in a higher efficiency of marketing budgets.
- From a consumer perspective, strong retail brands **simplify the purchasing process** because there is already some knowledge about the retailer, and buyers do not have to search for additional information about assortments, prices, service and so on.
- Strong retail brands also reduce **perceived purchasing risk**. Buying products from well-known and trusted retail brands is a risk-averse purchasing strategy.
- Consequently, strong retail brands may lower consumers’ **price sensitivity**. A well-defined brand profile can establish a preference position that allows a retailer to minimise price competition.
- Strong brands exert **halo effects**. An overall positive general attitude towards a brand affects the perception of all brand-specific attributes. The positive impact of these perceptions on the general attitude can produce a virtuous cycle.
- As well as providing functional benefits, strong brands can also serve as **symbolic devices**. They represent different values, traits and characteristics. Shopping at a certain retailer might, therefore, allow consumers to project a certain self-image onto themselves and others. Research into so-called **self-congruity** has frequently demonstrated this mechanism (Sirgy et al. 2000; Zentes et al. 2008).
- If a retail company operates in different market segments, **differentiated marketing** with different retail brands facilitates approaching each market segment with a targeted approach. Cannibalisation is easier to avoid and each retail brand can develop its own image without contradictory image transfers.
- Conversely, a strong brand can be used as a **platform for expansion**. This occurs when retailers open new outlets, which are loaded with a certain image from the outset. Franchising concepts, in which the retail brand is transferred to independent shop owners, clearly illustrate this advantage.

- A strong retail brand can also facilitate extension into new product ranges. This type of **brand extension** occurs when retailers use their image in one merchandise category to expand into others.

### Measuring Brand Equity

These advantages are particularly enjoyed by strong retail brands. However, measuring brand equity is not easy, and there is no generally agreed concept. Nonetheless, there are broadly two types of measurement approach, which also differ in their definition of brand equity (Lassar et al. 1995, p. 12):

- Financially-oriented, monetary approaches,
- consumer-oriented approaches.

The following definition is typical of the **monetary approach**: “Brand equity can be thought of as the additional cash flow achieved by associating a brand with the underlying product or service” (Biel 1992, p. RC7). For example, using a complex formula to forecast future revenues for the brand and converting them into a current value, the consulting company *Interbrand* estimated that the most valuable European retail brand in 2014 was *H&M*, with a brand equity of about 18.2 billion USD. This was followed by *IKEA* (13.8 billion USD), *Zara* (10.8 billion USD), *Carrefour* (10.3 billion USD) and *Tesco* (9.0 billion USD). In North America, *Walmart* leads the ranking (with an enormous brand value of 131.9 billion USD), followed by *Target* (27.1 billion USD), *The Home Depot* (25.7 billion USD) and *Amazon.com* (23.6 billion USD) (Interbrand 2014).

Although deriving a monetary brand value is important in certain situations (e. g., when selling or licensing the brand), the result of long-term investment in a brand is equity. For brand management, **consumer-oriented brand equity** concepts might be more appropriate and sensitive to changes. Keller (1993, p. 1) provides a typical definition: A brand is said to have positive customer-based brand equity when consumers react more favourably to an element of the brand’s marketing mix than to the same element attributed to a fictitious or unnamed version of the product or service. This type of brand equity or brand strength is developed in the mind of the consumer, and the consumer’s attitude towards the brand, his associations and experiences with the brand and his evaluation of the brand’s quality are the most important factors in measuring brand equity.

Different researchers propose different indicators for measuring consumer-oriented brand strength, which can, individually or in aggregate, be considered when managing a brand and evaluating the success of certain marketing measures (e. g., Aaker 1996, pp. 7–25, 318–333; Lassar et al. 1995; Morschett 2012, pp. 443–446). Indicators of consumer-oriented retail brand equity include:

- Awareness,
- perceived trustworthiness,
- customer satisfaction or loyalty,

- appeal,
- differentiation.

Other indicators suggested in the literature for brand equity are generally inappropriate for retail brands. **Price premiums**, for instance, are sometimes used to evaluate brand value; however, many successful retailers emphasise their low prices (e. g., *Walmart*, *IKEA*, *Aldi*, *H&M*), and trade potential price premiums for higher sales volumes or productivity.

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## 9.4 Brand Architecture

As explained above, the term “retail brand” applies at the level of the store group. However, a retailer’s brand system is more complex. **Brand architecture** refers to the internal structuring of a retailer’s brands and revolves around how many and what kinds of offers are provided under a certain brand (Ailawadi and Keller 2004, p. 338). Within the **brand hierarchy**, a retailer’s brands can be divided into different levels (Keller et al. 2012, pp. 580–596). Retailers have brand names at the level of the retail company as a whole (“corporate brand”), the retail stores, the merchandise (e. g., store brands) and specific retail services (e. g., banking services or loyalty programmes). In addition to individual branding decisions at each level, the interconnections between each level must be considered. Merchandise level branding is discussed in Chap. 12.

As in industrial multi-product companies, retailers with more than one store have to decide whether the stores should carry the same or different brands. Three general branding strategies can be distinguished at the retail brand level (see Table 9.1 for examples):

- An **umbrella brand strategy**, where all of a company’s stores have the same brand, and in most cases the corporate brand is differentiated by a sub-brand (sometimes called an “endorsed brand”).
- A **family brand strategy**, where groups of stores (usually with different retail formats) have different brands, i. e., the brands are strictly separated.
- A **mixed strategy**, which applies an umbrella brand for some store formats and separates others via different brand names.

The main decision here concerns **brand image transfer vs. brand image separation**. Under an **umbrella brand strategy**, the shared brand name leads to substantial image transfer. For example, consumers at least partly transfer their associations with *Tesco* superstores to *Tesco Express* stores. Every store is part of a large brand and must convey the same message to the consumer to keep the image strong and uniform. This is usually the most cost-efficient way to establish a brand image, since all brand advertising and touchpoints are loaded onto the same brand. A **family brand strategy**, in contrast, is usually the result of market segmentation and an unambiguous brand focus with different brand attributes for each store format. *Carrefour* hypermarkets, for example, target a similar

**Table 9.1** Branding Strategies of Different Retail Companies

Brand Strategy	Retail Company	(Selected) Retail Brands of the Company
Umbrella Brand	Tesco	Tesco Extra, Tesco (Superstores), Tesco Metro, Tesco Express
	Système U	Super U, Hyper U, U-Express, coursesU.com
	Toys 'R' Us	Toys 'R' Us, Babies 'R' Us
Family Brands	Kingfisher	B&Q, Castorama, Brico Dépôt, Screwfix, Koçtaş
	SuperValu	Save-a-lot, Cub Foods, Hornbacher's, Shop 'n Save, Shoopers, Farm Fresh
	Metro	Metro Cash & Carry, Real, Kaufhof, Media-Markt, Saturn, Redcoon
	Sears Holding	Sears, Kmart, Land's End
	Inditex	Zara, Pull & Bear, Massimo Dutti, Bershka
Mixed Strategy	Coop (CH)	Coop, Coop pronto, coop@home, Coop bau+hobby, Coop City, Interdiscount, Fust, Microspot, TopTip, Christ
	Migros	M, MM, MMM, m-electronics, Migros LeShop, Denner, Globus, OBI (as franchise partner in Switzerland), Office World
	Carrefour Group	Carrefour, Carrefour Market, Carrefour Express, Carrefour City, Carrefour Contact, Atacadao, Dia
	Groupe Casino	Casino Supermarché, Géant Casino, Casino Shop, Casino Drive, Leader Price, Monoprix, Franprix
	GAP, Inc.	Gap, GapKids, babyGap, GapMaternity, Gap-Body, Banana Republic, Old Navy, Athleta

customer segment to *Carrefour* supermarkets, but probably appeal to a different group of customers than *Carrefour's* discount chain *Dia*. An image transfer is therefore unlikely to benefit either set of stores.

Thus, if a company wants to address different customer segments via different stores with **different positioning**, using a family brand strategy is more appropriate. In addition, separate brands facilitate divestments and changes in portfolio.

There has been a strong trend among retail companies over the last decade of focusing on fewer retail brands and using an umbrella brand. For example, *REWE* in Germany used to run supermarkets under the labels *minimal*, *REWE*, *HL* and *Stüssgen*. In a strategic move in 2006, it united all these 3000 supermarkets overnight under the shared retail brand *REWE*. However, given that many retail companies are highly diversified and used to use family brands,

more mixed strategies are often more appropriate. For example, *Carrefour* has renamed its supermarkets worldwide from *Champion* to *Carrefour Market*, and many of its convenience stores around the world are now named *Carrefour Express* or *Carrefour City*. Similarly, French retailer *Casino* has given an umbrella brand to some of its store formats and now calls its hypermarkets *Géant Casino* (formerly only *Géant*), its supermarkets *Casino Supermarché* and its small neighbourhood stores *Casino Shop*. *Macy's Department Stores* in the US comprise many stores that were formerly part of small regional chains and for a long time maintained their names. But in the past decade, *Macy's* has renamed most of these stores as *Macy's*.

### Branding Strategies after Acquisitions

In large retail companies that operate different store formats and different chain store groups, the brand architecture is frequently reviewed. In particular, acquiring additional stores or an entire business usually requires making a strategic decision on whether to maintain the established retail brand of the acquired chain or to convert it to the acquiring company's retail brand. Given the frequency of acquisitions in recent decades, there are many examples of both decisions. For example, *Walmart* kept the name *ASDA* in the UK, but quickly changed the names *Wertkauf* and *Interspar* to *Walmart* after their acquisition in Germany. *Macy's* converted all the *May* department stores into *Macy's* stores and *ASDA* changed the *Netto* stores it acquired in the UK into *ASDA Supermarket*. However, *Migros*, after acquiring the Swiss discounter *Denner*, continues to run the group under the name *Denner*. The French *Boulangier Group*, who bought *Saturn's* 35 stores in France, converted the stores into *Boulangier* markets, but when the Swiss retail group *Coop*, which already operated an electronics retail chain under the retail brand *Interdiscount*, acquired the competitor *Fust*, it continued to operate both formats under a dual brand strategy.

Generally, the branding decision after an acquisition is similar to the decision in other multi-format retail companies: Should there be a strong **image link** between the acquiring company and the acquired retail stores or not? But other factors must also be considered. For example, the acquiring company has to decide on the **intended future positioning** of the acquired chain. If that is not fully congruent with its own retail brand, it might be wise to maintain the acquired retail brand to be able to keep both separate. In addition, the acquired store chain may have accumulated substantial **brand equity** over time. For instance, consumers in the UK liked shopping at *ASDA* and trusted the brand, so customer loyalty to the brand gave it high brand equity. By eliminating the old brand name, *Walmart* would have risked destroying this brand equity and decreasing the value of the acquired stores. Converting stores to the acquiring company's retail brand can lead to negative customer reactions, protests and even boycotts (e. g., if the acquiring company is seen as a foreign intruder). Finally, a company may not have a free decision, since the buying contract with the former owner may not allow it to continue under the old brand name. For example, when *Carrefour* left Thailand, it obviously did not want the new owner *Groupe Casino* using the name *Carrefour*. Therefore, it did not sell the right to use the retail brand name, only the stores themselves.

A similarly delicate question surrounds the branding of online shops within a multi-channel strategy. While a cross-channel or omni-channel strategy usually requires the same

retail brand for the online and store channels, a multi-channel strategy can be designed to separate channels to target different segments and avoid issues like price comparisons between the channels. *MediaMarkt's* online shop *Redcoon* is an example of this strategy.

### **Retail Branding in Retailer Cooperatives**

Retail cooperatives are a type of retail institution with strong market relevance in many countries and sectors. These are cooperations between independent retail companies, often between many single-store operations. Well-known examples of networks of retailers that jointly carry out certain central functions are *Intersport*, the world's leading sporting goods retailer and certain large food retailing groups such as *Leclerc* in France, *REWE* and *EDEKA* in Germany and *Shoptite* in the US. In European electronics retailing, three of the top 10 are retailer cooperatives: *Euronics*, *Expert* and *Electronic Partner*.

Initially, most of these cooperatives were founded to provide a centralised purchasing organisation to provide smaller retailers with shared economies of scale, i. e., better purchasing prices by bundling the volume of many retailers. However, their functions often grew over time and, nowadays, many of these cooperatives provide central marketing and have often established a shared retail brand. The examples given above all link their stores via a shared retail brand, similar to a franchise system. The logo, corporate identity, brand colours and so on are harmonised, allowing the group to conduct marketing, for example in the form of cooperative-wide TV advertising campaigns.

However, the independent status of the individual retailers is sometimes signalled in the retail brand via co-branding. For example, retailers that belong to the *Intersport* group often use their own names along with the group retail brand (e. g., *Intersport Meier*). Electronics stores that belong to the *Electronic Partner* group are usually named in a similar way, e. g., *EP: Müller*. Other groups, such as *REWE*, do not use co-branding; despite having different owners, their stores are all labelled *REWE*.

The advantages of each approach are evident: while using a completely uniform brand for all stores, regardless of ownership, creates an image of a uniform, very large system that is perceived as one large retail company, the co-branding strategy strengthens the dual nature of a retailer cooperative. It emphasises the local ownership of a specific shop and signals to the customer that the store has a strong regional component. This may make it easier to establish local customer loyalty. At the same time, it indicates that the retail store belongs to a large chain, and can thus utilise the synergy effect of national advertising. It may also signal to the customer that the store has the necessary buying power to offer attractive prices.

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## **9.5 Retail Brand Positioning**

Strategic brand management starts with a clear understanding of what the brand should represent and how it should be positioned relative to competitors (Keller et al. 2012, p. 44; Wortzel 1987, p. 47). **Positioning** is the deliberate and proactive process of defining and in-



**Fig. 9.1** Differently positioned retailers in the price-quality space

fluencing consumer perceptions of a marketable object, with a strong focus on the competitive position. A product is thus positioned in the minds of consumers (Arnott 1993, p. 24).

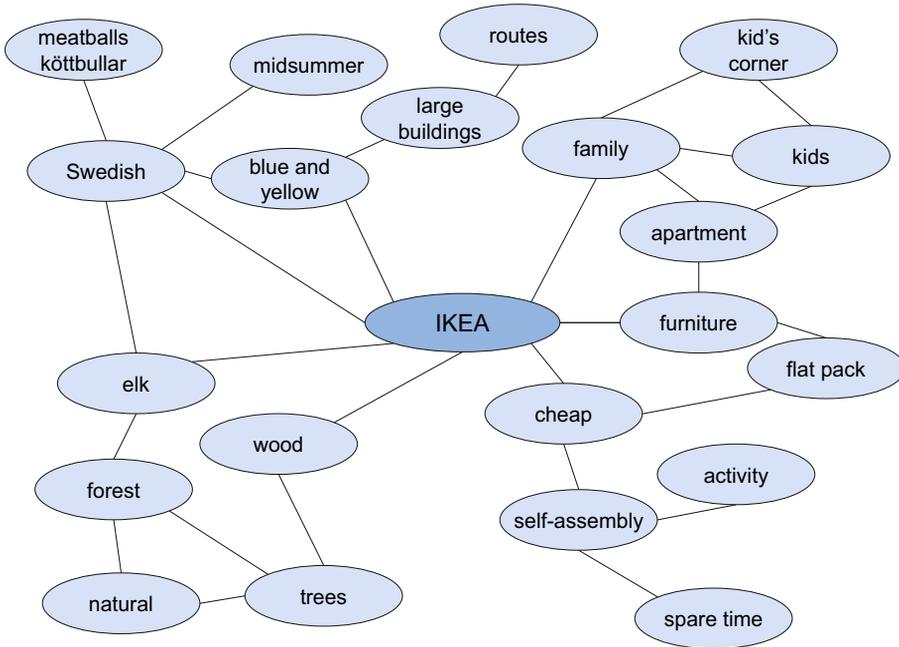
Positioning usually applies certain fixed dimensions along which the retail brand defines its position relative to its competitors. Positioning diagrams represent the location of different brands and the different target groups' ideal points in a two-dimensional space (see Fig. 9.1).

### Market Segmentation

Market segmentation is often necessary for successful brand positioning. Market segmentation refers to the process of using certain attributes to divide a (heterogeneous) market into (more homogeneous) partial markets. **Segmentation criteria** can be demographic, socioeconomic, lifestyle, geographic or many others. Segmentation involves selecting one or several market segments and targeting marketing towards their purchasing behaviour, motives and expectations. However, segmentation is often considered difficult for retailers with particular catchment areas and those who need high customer traffic in their stores, as these require appealing to broad customer groups (Wileman and Jary 1997).

Positioning is often based on the two generic competitive strategies by Porter (1980): cost/price leadership vs. differentiation (similar to Fig. 9.1). While this broad classification can also be applied to retailing, researchers have proposed other frameworks, because retailing reality shows that there are many viable approaches to differentiation. The following are the most frequently proposed positioning dimensions (see, e. g., Wortzel 1987, p. 50; Morschett/Swoboda/Schramm-Klein 2006; Varley 2014, p. 10):

- Quality of merchandise,
- variety of merchandise,
- convenience,



**Fig. 9.2** Consumers' associative network for IKEA (hypothetical example). (Morschett 2012, p. 447)

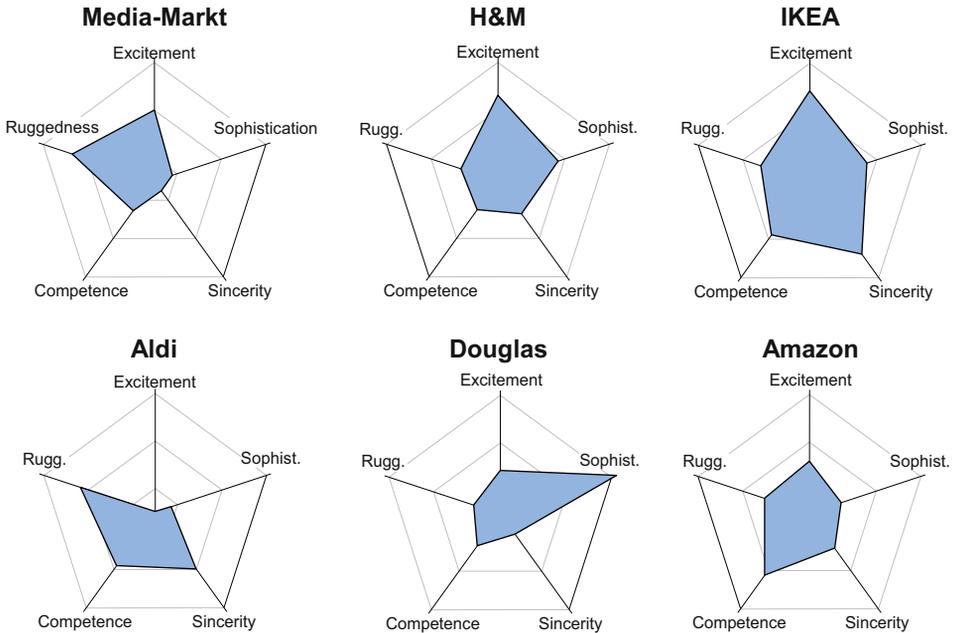
- price,
- customer service,
- location,
- store atmosphere.

Successful positioning can be achieved for any retail activity, and a unique profile along the various dimensions yields a clear position that is the prerequisite of a strong brand. At the same time, retailers' advertising spending has increased strongly over the past few decades and – as an indicator of the increasing relevance of retail branding – in many countries, retail stores are among the most heavily advertised “products” in terms of media spending.

### Retail Brand Image

Retail brand positioning is based on a set of fixed dimensions along which a retailer is perceived to be located. However, the retail brand is broader than the actual positioning. The total **brand knowledge** that a consumer associates with a brand determines the brand strength.

The **associative network model** views memory as a network of nodes that represent stored information and connecting links. Any type of information connected to the brand is stored in the memory network, including verbal, visual, abstract and acoustic information. A **retail brand image can be defined as perceptions about a retailer as reflected by the brand associations stored in consumers' memories.** The strength of the brand



**Fig. 9.3** Perceived brand personality of different retail brands in Germany. (Zentes et al. 2008, p. 178)

can be evaluated by analysing the various relevant associations. The relevant dimensions are: uniqueness, favourability, strength and the certainty with which consumers link the information with the brand (Keller 1993). Retail brand image is complex and connected to an array of other images, both at a higher level and in the form of sub-images. The retail store format image (i. e., category killer image), shopping centre image, location image, price image, merchandise image and other components of the store or its context are all connected to the retail brand image and are part of the consumer's memory network. Fig. 9.2 provides an example of a possible associative network that customers typically have for *IKEA*.

Another way to capture the retail brand image is via the **brand personality** concept introduced by Aaker (1997). She established five dimensions of brand personality:

- Sincerity,
- excitement,
- competence,
- sophistication,
- ruggedness.

Surveys have shown that consumers perceive retail brands along those dimensions, and that these dimensions are useful for highlighting differences in the perceptions between different retail brands (Zentes et al. 2008; Das 2014) (see Fig. 9.3).

## 9.6 Principles of Successful Retail Branding

Every retail marketing instrument affects the overall retail brand, as illustrated by the notion of a comprehensive retail brand image, which is made up of a universe of interconnected associations. To develop a strong and successful brand, the literature emphasises three basic principles (Morschett 2002, pp. 43–47):

- Differentiation from competitors,
- long-term marketing continuity,
- coherence of different marketing components.

As mentioned in the section on positioning, achieving **differentiation** (in consumers' minds) is a central characteristic of a brand (Aaker 1996, p. 329). Clear differentiation from competitors should lead to higher profitability. Only brands that are well distinguished from their competitors can build long-term customer loyalty and avoid store switching.

Establishing a clear brand image is a long-term process. Brands are established through consumer learning processes. Consumers store associations in their memories. Brand associations become weaker over time and they must be reinforced by repeated exposure to the same brand messages. Past investment in brand building is at least partly lost if the brand marketing changes. Thus, **continuity** is important. Also, risk reduction is one of a brand's main functions. Consumers trust a brand because it implies a standardised level of product quality. Some of the world's most successful brands have demonstrated that retaining the same brand message and communication (with slight variations) for years and even decades is one of the key prerequisites of successful branding.

The **retail marketing mix** includes every marketing instrument that a retailer can deploy. The term "mix" indicates that the instruments are not used in isolation, but that they jointly influence the consumer. In order to be successful, all marketing measures must be coordinated to ensure a close **fit** and that they all convey the same brand message.

Because inconsistency makes a brand image fragile, and consumers strive for internal congruity in their knowledge and information ("theory of cognitive dissonance"), creating **coherence** between all the different facets of the retail brand is crucial for success. Given the complexity of the retail environment, ensuring a fit among marketing instruments and brand contact points is challenging. *IKEA*, *Sephora*, *dm-drogerie markt*, *The Body Shop*, *Zara* and others are examples of successful brands that manage to project a uniform image with their store atmospheres, merchandise, pricing, communication and service.

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## 9.7 Conclusion and Outlook

Some of the world's most successful retailers have developed into strong brands without conscious brand management (Wileman and Jary 1997, p. 20). However, while this is true, it is important to note that many successful retailers have developed strong brands

by adopting the principles of branding described above, even if they did so unconsciously. From their founding, *Aldi*, *IKEA*, *The Body Shop*, *Walmart*, *Migros* and others have had clear and distinct profiles. They have pursued their own marketing approaches over several decades and, supported by strong corporate cultures, have been coherent in all their activities. Differentiation, continuity and coherence were often ensured by their founders, who, over the years, developed a clear understanding of what their companies should stand for and followed through on that rigorously.

Brand management is becoming more relevant as retailers expand internationally (e. g., should retailers use the same name in all countries?), as a result of the ongoing wave of mergers and acquisitions in retailing (e. g., should an acquired retail chain be operated under its old retail brand or be adapted to the acquirer's brand?) and with the increase in multi-channel retailing. Store retailers expanding their businesses onto the Internet must especially consider the strategic decision surrounding using the same retail brand across channels or separating the Internet shop from the store outlets. The consequences are crucial and far-reaching.

In recent years, competition and changing consumer behaviour have increased the relevance of retail branding tremendously. Retail branding aims to enhance differentiation and customer loyalty. Retail brand management involves every component of the retail marketing mix and leads to a strategic understanding of the retailer's intended positioning. Developing a retail branding strategy helps ensure the coherence of a retailer's marketing messages and market appearance. Successful companies change over time, but the core brand should remain stable.

### Further Reading

- Aaker (1996): *Building strong brands*. New York: Free Press.
- Wileman and Jary (1997): *Retail power plays: From trading to brand leadership*. New York: Palgrave Macmillan.
- Zentes et al. (2008): Brand personality of retailers – an analysis of its applicability and its effect on store loyalty. *The International Review of Retail, Distribution and Consumer Research*, 18(2), 167–184.

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## 9.8 Case Study: Trader Joe's

### 9.8.1 Profile, History and Status Quo

The *Pronto Markets* chain of convenience stores, the forerunner of *Trader Joe's*<sup>1</sup>, was established in the USA in 1958. The stores were owned by *Rexall* and managed by Joe Coulombe. By 1966, *Pronto Markets* were not performing well due to increasingly strong

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<sup>1</sup> As well as the explicitly cited sources, this case study uses the *Trader Joe's* website.

competition from *7-Eleven* convenience stores, and *Rexall* decided to sell them. In 1967, Joe Coulombe bought the chain, changed the name to *Trader Joe's*, reinvented the business strategy and transformed it into a speciality grocery store.

The store targeted educated consumers who travelled. The assortment included items from all around the world, healthy foods and beverages at low prices (Dobrow 2014). In the 1970s, *Trader Joe's* introduced its customer newsletter (now called *Fearless Flyer*), which remains the company's primary form of advertising. The store increased its selection of wines, private label grocery products, nuts in barrels, etc. In the 1980s, the company grew its store brands, and it expanded from southern California into northern California. In 1979, Coulombe sold the chain to the family trust of the German Theo Albrecht family (who also owns *Aldi Nord*), but he remained the CEO until 1988, when Stanford University graduate (and friend of Coulombe) John Shields took over the management. The chain grew steadily. In the 1990s, the company formalised its mission statement, and in 1996, the company launched its website.

In the 2000s, *Trader Joe's* continued to grow and eliminated GMO (genetically modified organisms) from all its merchandise. *Trader Joe's* introduced the famous Charles Shaw wines at very low prices ("Two Buck Chuck"), which proved a customer favourite and won numerous wine competitions. In 2003, Dan Bane became the new CEO.

*Trader Joe's* has steadily opened stores throughout America, but it is not yet a nationwide chain. The company is still mainly based in California, the Chicago region and some east coast states, with plenty of room for growth throughout the USA. As of 2014, *Trader Joe's* has more than 400 stores and the company is worth an estimated \$11.3 billion (Reuters 2014). *Trader Joe's* outlets are mostly located away from prime locations, allowing the company to keep real estate costs low (Schermerhorn 2012). Many shops are found in suburban neighbourhoods.

### 9.8.2 Retail Brand Positioning

The company sees itself as "a national chain of neighbourhood specialty grocery stores" (Kowitt 2010). Shopping at *Trader Joe's* "represents **adventure**, a foreign food experience, and a place where a time-pressed homemaker can assemble an interesting meal rather quickly" (Berman 2011, p. 185) and for a low cost (Bloomberg 2004). It is also positioned as a healthy food retailer committed to green brands. A study showed 21- to 29-year-olds ranked *Trader Joe's* the number two brand in terms of commitment to green brands (Berman 2011). The company also applies a **feel-good strategy** among consumers; for example, it does not sell fish from overfished and endangered regions (Berman 2011). In a recent product description for organic chia seeds, the retailer states that "[w]e're also pleased to note that the way our supplier handles their seed production – with well-managed crop rotation, and holistic support to the local farmers – guarantees living wages for farmers and their families, and protects the environment. That's a win for the farmers, a win for our supplier, and a win for you (...)". *Trader Joe's* target customers are similar to *Whole Foods* customers in terms of searching for healthy and organic products, but they have different lifestyles and budgets (see the case study on *Whole Foods* in Chap. 12).

When it comes to retail branding, “*Trader Joe's* is no ordinary grocery chain [...] *Trader Joe's* is one of the hottest retailers in the U.S.” (Kowitt 2010). In brief, the positioning of *Trader Joe's* is based on **healthy, innovative** and **unique** grocery products for very **low prices**, an **in-store experience** that fully deserves the name “retail theatre” and dedicated, **enthusiastic employees**. One article describes this positioning as follows: “Imagine a grocery store where everything is incredibly cheap, tastes delicious, and is provided to you by staff that vacillate in kindness somewhere between Santa Claus and Jesus Christ. Then imagine that everyone who shops there is so completely thrilled to have avoided a regular supermarket that they're chipper and polite, regardless of the long lines and packed aisles” (Donovan 2010).

*Trader Joe's* retail brand creates excitement and builds an enormous amount of loyalty, which is the ultimate goal of any retail brand strategy. Where other retailers have loyal customers, *Trader Joe's* has “fans”. Statements like this, from a blog, are not rare: “I love *Trader Joe's*. I mean it. I LOVE *Trader Joe's*. I love their selection, their quality, and I love the quirky people that work there. I just spent ten minutes with their sommelier who had nothing better to do than show me his favorite wines under \$ 10 (will share findings in a future post, I promise!)” (Gabrielson 2011). Another one reads: “If you aren't a fan of *Trader Joe's*, chances are you've never been to one [...] If you're like the rest of the world, *Trader Joe's* likely has a soft spot in your heart and your grocery shopping experience often ends up being the highlight of your day [...] What's not to love? Specialty foods you can't get anywhere else, cool jams and chill vibes, unbeatable bargains [...] and a constant stream of something new and intriguing to try” (Baker 2015).

Kevin Kelley, a consultant who investigated *Trader Joe's* competitors, jokes that the typical shopper is a “Volvo-driving professor who could be CEO of a Fortune 100 company if he could get over his capitalist angst” (Kowitt 2010). *Trader Joe's* customers are very diverse. They range from “[f]oodies, hipsters, and recessionistas alike” (Schermerhorn 2012, p. C-2); from gourmards to starving artists (Bloomberg 2008); they also attract young Hollywood actresses (e. g., Jessica Alba is regularly seen there), which obviously adds to the brand image. Senior citizens do their shopping early in the day, and on weekends and evenings a “well-heeled crowd takes over” (Kowitt 2010).

Today, the company uses a very limited amount of advertising, with the primary method being the *Fearless Flyer* newsletter, published three times a year and distributed directly in stores or via the retailer's website. The flyer is about 12–20 pages long, includes descriptions of products and uses Victorian cartoons (Berman 2011). The flyer aims to be both informative and fun to read to maintain consumer interest in the store.

### 9.8.3 Selected Retail Marketing Mix Instruments at *Trader Joe's*

#### 9.8.3.1 Quality and Price of Merchandise

Retail brand positioning is mostly dictated by the merchandise a retailer offers. Around 80 % of merchandise in *Trader Joe's* stores is **store brand** products (Business Insider 2014) that cannot be found in other stores. The quality is equivalent to that of major national

brands, but the price is much lower (Berman 2011). *Trader Joe's* states that their products contain no artificial flavours, preservatives, synthetic colours, MSG (glutamates), GMO ingredients or artificial trans-fats. All store brands undergo extensive product testing. For example, in the Boston and Monrovia offices, up to 20 people try the products in the development stage. The marketing senior vice-president claims that only 10 % of sampled products are approved (Berman 2011). Customers also recognise the high quality of the merchandise. In a survey conducted by *Market Force Information*, *Trader Joe's* was ranked number 1 among North American grocery retailers for satisfaction and 82 % of consumers gave *Trader Joe's* high scores for private label products and natural and organic selections (Store Brands 2014).

Customers have noticed *Trader Joe's* unique merchandise mix. *Trader Joe's* “stocks its shelves with a winning combination of low-cost, yuppie-friendly staples (cage-free eggs and organic blue agave sweetener) and exotic, affordable luxuries – Belgian butter waffle cookies or Thai lime-and-chilli cashews – that you simply can't find anyplace else” (Kowitt 2010). In addition, the company creates a **mystique** for its products, making them seem unique, with a **particular story**. This appeals to loyal customers (Merrefield 2013). This exclusivity is a very strong part of *Trader Joe's* brand positioning.

In addition, the company allows customers to **taste products** before they buy them (except for alcoholic beverages) by asking a salesperson. The company is very responsive to its consumer's concerns. For example, they withdrew single ingredient products from China such as garlic, frozen organic spinach and ginger after customers voiced concerns about their quality (USA Today 2008).

Like a **discount chain**, **prices** at *Trader Joe's* are substantially lower than in competitor stores. This is mostly achieved via a limited assortment and high stock turnover, a focus on store brands, almost no advertising and the other cost advantages of such a format. The company's sales per square metre are estimated to be double that of their average competitor, with much smaller stores (Merrefield 2013).

Surveys regularly show that a shopping basket at *Trader Joe's* costs substantially less than at a regular supermarket. In addition, *Trader Joe's* has an EDLP policy which facilitates shopping. There are no loyalty cards, coupons, special promotion days, etc. This enhances consumers' trust in the retailer and complements the brand positioning very well.

### 9.8.3.2 Limited Variety of Merchandise but Frequent Launches of New Products

*Trader Joe's* is a role model for stores with limited assortments (The Washington Post 2014) which are still perceived as having a wide selection. The company offers a limited selection of products; for example, it offers only two kinds of pudding or one kind of polenta. In total, the company only carries between **3000–4000 SKUs** (Schermerhorn 2012; Berman 2011), substantially less than competitors. The obvious reason is stock turnover and efficiency, so it is possible to sell high quality products at very low prices (Kowitt 2010). The unique

merchandise comes from all around the world. The company has about 15–20 buyers who have relationships with hundreds of vendors and who continuously search for the new and distinctive items (Berman 2011). Every week, around 10 to 15 new products are introduced into stores, following a strict “one in, one out” policy. Items which do not sell well are taken off the shelves (Schermerhorn 2012); hence shelves are only stocked with best-selling product lines (Berman 2011). Despite the limited assortment, the Market Force study mentioned above found that the consumers’ scored the selection of merchandise highly (Forbes 2013).

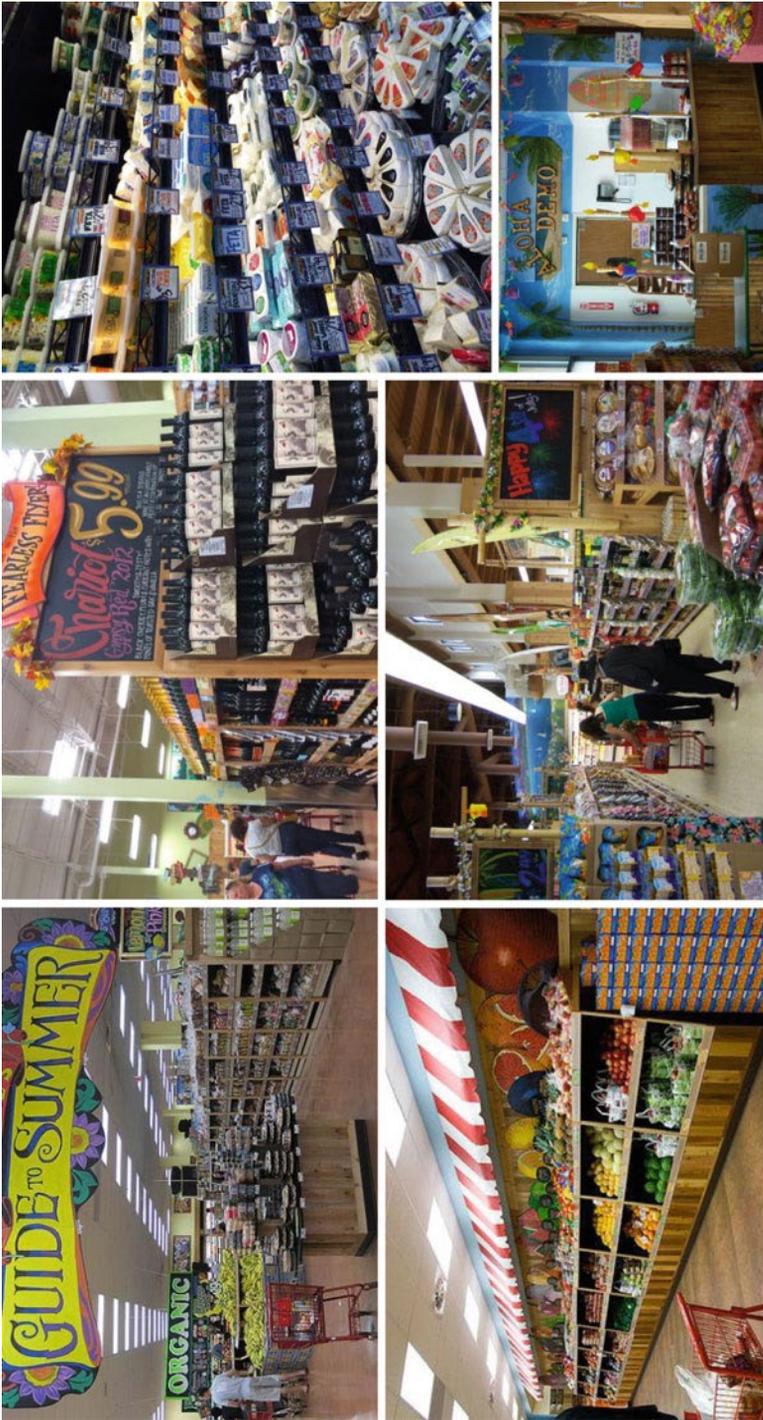
*Trader Joe's* customers get access to a combination of low cost, healthy, exotic affordable luxuries that cannot be found elsewhere (Kowitt 2010). The retailer does not sell well-known brands like Cheerios or Coca-Cola (Berman 2011) or try to compete with supermarkets over items such as meats or fresh produce. In fact, these items are mainly offered in pre-packaged form (Berman 2011). *Trader Joe's* does not carry necessities or baby food, so families cannot complete their full shopping here (Kowitt 2010).

### 9.8.3.3 Store Atmosphere

The store atmosphere is another distinctive feature of *Trader Joe's*. The stores have kept their identity over the years by staying true to the “**spirit of aloha**” (Stern and Ander 2008, p. 98) (see Fig. 9.4). The main idea is that customers will see shopping as less of a chore and more like a treasure hunt (Schermerhorn 2012).

The idea was instigated by the founder Joe Coulombe, who wanted the **shopping experience to resemble a vacation**. Hence, since the early years the employees have dressed in **Hawaiian shirts**, handed out samples of food and drink and used nautical language. Every *Trader Joe's* has a hidden plastic lobster and stuffed turtle toy for children to find. Children who point it out to the cashier are rewarded with a “treasure” (treat) (Culture Map 2012). The stores play upbeat background music and have rustic **hand-painted signs** (Bloomberg 2008). Each store is unique, as the signs are painted by a local chalkboard artist (Stern and Ander 2008, p. 98). The signs vary depending on the location; for example, units close to lakes or rivers might have nautical themes, while downtown stores have urban themes. In New York, *Trader Joe's* has a sampling station called Grand Central Sampling Station (Berman 2011). There are chalkboards around the store with slogans like “You don't have to join a club, carry a card, or clip coupons to get a good deal” (Schermerhorn 2012, p. C-2). This is yet another measure to differentiate the retailer from its competition.

The stores have no loudspeaker or pager system to call employees (e. g., to open an additional cash register); instead, the company uses a simple code with the sound of bells. These bells are another link to the nautical “aloha” theme. One bell means “open another cash register”, two bells means a question needs answering at a cash register and three bells calls a manager. The stores do not have flat-screen TVs or other media at the check-out counters, as the CEO claims customers should be entertained by talking to employees rather than watching TV (Bloomberg 2008).



**Fig. 9.4** Interior design of *Trader Joe's* stores

### 9.8.3.4 Customer Service

Service is another element of *Trader Joe's* brand positioning. Customer surveys show *Trader Joe's* customer service and satisfaction levels consistently exceed expectations (Store Brands 2014). To achieve this, the company relies on conversations between staff and customers (Berman 2011). Friendly and happy employees contribute to customer well-being and a very positive atmosphere.

Store employees refund money for returned products without asking questions. The motto is: "We tried it! We liked it! If you don't, bring it back for a full refund, no questions asked".

### 9.8.4 Employer branding and employee branding

*Trader Joe's* has extremely low turnover rates. The company offers high, competitive salaries with many benefits for both their full- and part-time employees. For example, part-time employees who work over 900 hours per year get health benefits. Moreover, the retailer voluntarily contributes about 15 % of the salary into the retirement plan. In addition, *Trader Joe's* provides paid time off, family and medical leave, short- and long-term disability, life insurance and training programmes, amongst other things. This is regularly discussed in the US media, and *Trader Joe's* is seen as a role model here, in strong contrast to other low-cost retailers like *Walmart*.

Employees are reviewed periodically and measurable benchmarks and goals are set based on these reviews. The evaluation criteria include traits like "is always friendly," "creates a genuine fun shopping experience," "greeted and asks customers if they need assistance while on the floor," "educates self about product features and shares with customers," and "promotes high morale in the store" (Berman 2011), i. e., they are strongly linked to the **store experience** and customer contacts.

Outlet managers are promoted from within the company and receive excellent compensation. The company offers training programmes to its future leaders at *Trader Joe's University*, which creates the sense of loyalty necessary to run the stores (Schermerhorn 2012). The company is perceived as looking after its employees, as evidenced by independent websites where employees review companies as employers. On platforms like *indeed.com*, *Trader Joe's* ranks highly for all relevant criteria: work-life balance; compensation, job security, management and job culture (Indeed 2015).

Employees at *Trader Joe's* are highly engaged (Kowitt 2010). In its job descriptions, the retailer focuses on soft skills, e. g., "ambitious and adventurous, enjoys smiling and has a strong sense of values" (Schermerhorn 2012). Job advertisement also highlight the company's fun culture and the Hawaiian shirts instead of suits. Employees are encouraged to be perky and happy. For example, during the opening of the Chelsea store, customers were greeted with high-fives from the employees and free cookies (Kowitt 2010).

Management promotes a culture of product knowledge amongst employees and encourages them to be honest with customers, e. g., when recommending products. At check-out,

staff ask whether the customer found what they needed, and if not, the employee quickly gets the item for the customer (Berman 2011). Shoppers at *Trader Joe's* can often recall helpful staff members finding or recommending products to them (Schermerhorn 2012).

### 9.8.5 Conclusion

*Trader Joe's* is clearly different from its competitors and has an extremely successful business strategy. By differentiating itself in many aspects of retail marketing and overall strategy, *Trader Joe's* has created a strong retail brand with a very clear and unique positioning. *Trader Joe's* has stayed consistent in its visual merchandising (Berman 2011) since its founding in 1967. The company has outstanding quality merchandise, an interesting assortment of products which is consistently improved and an exciting store atmosphere with a money-back guarantee central to its customer service strategies (Berman 2011), which reduces consumer risk. In addition, *Trader Joe's* has been able to establish a very successful store brand strategy, with products that cannot be found in other stores and a level of quality equivalent to that of major national brands at great value prices (Berman 2011). Recently, *Trader Joe's* has increasingly been a threat to the growth model of *Whole Foods Market* (see the case study in Chap. 12), because *Trader Joe's* manages to combine a lower price positioning with a yuppie appeal.

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#### Questions

1. What do you think would be a typical consumer's associative network for *Trader Joe's*?
2. *Trader Joe's* wants to be viewed as a local specialty grocery store, but the company is constantly growing and opening new locations. Explain the main challenges faced by *Trader Joe's* in maintaining its neighbourhood store image.
3. Analyse the strengths, weaknesses, opportunities and threats (SWOT) for *Trader Joe's* from a retail branding perspective.

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