Comments: Gonzalez-Benito and Martos-Partal, “Role of Retailer Positioning and Product Category on the Relationship Between Store Brand Consumption and Store Loyalty”

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Summary of Contribution

- Role of PL development in facilitating store loyalty is interesting and important
  - Loyalty can be confused with price- (variety-) consciousness
- PL purchases tend to occur at large format retailers and involve multi-product purchases
  - Economies of one-stop shopping and low prices jointly attract customers → multiple PLs desirable by retailers
  - Issue: Do PLs increase "retailer differentiation"? Is there some concept of "store loyalty" that projects across all categories?
- If PLs have non-monotonic effect on store loyalty this can have important strategic implications

Background on Study Period

- Rich Dataset: The period June 2007 – June 2008 is an interesting period for retail food markets
  - Unprecedented commodity price inflation (particularly food commodities), with prices spiking in June 2008
  - Increased returns to consumer search, particularly among price sensitive shoppers → store switching (search) likely
- Evidence that U.S. retailers narrowed product lines and raised prices (Richards and Hamilton, 2011)
  - Sales revenue can have non-monotonic relationship with retailer differentiation when mediated through changes in product variety (Hamilton and Richards, 2009)

Why Non-Monotonic?

- Empirical regularity in the paper is an ‘‘inverted U-shape’’ between store loyalty and PLs
  - *Store loyalty* = Household spending share at store *i*
  - *PL purchases* = Household spending share on PLs
- Motivation: 2 types of customers
  - Type 1 (loyal) → quality-driven customers
  - Type 2 (non-loyal) → price-driven customers
- More is needed on why this produces a non-monotonic relationship (for *all* retailers)?
  - Redistribution of types across stores not enough…

Conceptual Issues

- Non-monotonic patterns always interesting
  - Generally, some mechanism must be triggered to change the outcome at the turning point
- Is non-monotonic relationship in individual utility functions, or an aggregate phenomenon?
  - Household panel capable of addressing this issue
  - In aggregate, type-2 customers tend to agglomerate at low-priced retailers (PLs → store switching?)
  - What we see in the data is more puzzling: non-monotonic pattern at *all* retailers (harder to explain)

Comments / Suggestions

- Fully exploit the panel data
  - Household-specific information can differentiate between individual and aggregate behavior
- Aggregate story more compelling if model corrects for customer store choice
  - A *nested* logit can accommodate store choice, controlling for "customer sorting" effects
  - "market-level" approach exploits data better than separate regressions for each retailer
    - Errors across models likely correlated → SUR approach