

# An exploratory study of the relationship between store image, trust, satisfaction and loyalty in a franchise setting

J. Beneke, E. Adams, O. Demetriou &  
R. Solomons

## ABSTRACT

This study aims to shed insight on how young shoppers, between the ages of 21 and 35, perceive, and relate to, franchise and corporate-owned stores in the supermarket industry. This is achieved by investigating the roles of store image, trust and satisfaction in predicting loyalty to a particular store type. By analysing empirical results, this study shows that compared to corporate-owned stores, consumers have an overall better perception of franchise stores, especially in terms of trust and customer satisfaction. Examining an integrative loyalty framework, the study shows differential effects in how Store Image elements influence customer Loyalty indirectly through satisfaction, and how Trust elements influence customer Loyalty indirectly through Satisfaction.

**Key words:** store image, trust, satisfaction, loyalty, franchise, retail, South Africa

## Introduction

Franchising and franchise arrangements are a popular way of doing business in South Africa. The country has more than 398 franchised systems in place, and the industry employs some 260 000 people (SouthAfrica.Info 2010). Despite the largest franchise sector in South Africa being the fast food sector, there has been major growth in non-food franchised retailers, with the service industries showing the greater prominence. Franchise stores refer to privately owned retail stores that have

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Mr J. Beneke, Mr E. Adams, Mr O. Demetriou and Ms R. Solomons are in the School of Management Studies, Faculty of Commerce, University of Cape Town. E-mail: Justin.Beneke@uct.ac.za

been granted the privilege by a franchisor to operate using that franchisor's name, trading format and business systems. In return, these franchisees pay royalties to the franchisor (International Franchise Association 2011). Corporate-owned stores refer to retail outlets that have common ownership and control, centralised buying and merchandising operations, and similar lines of merchandise (Morland, Wing, Roux & Poole 2002). Anecdotal evidence suggests that franchise stores appear to have an advantage in terms of customer acquisition, service and retention and are consequently able to develop a more loyal customer base (Orth & Green 2009). However, there has been little research to probe whether the consumer perspective in fact supports this argument (Biberman 2001; Stone 2000), especially in the South African retailing sector. The authors have therefore chosen to replicate the approach taken by Orth and Green (2009) to uncover perceptions of franchise stores and how these differ from corporate-owned stores.

## Research statement

The supermarket industry has been characterised by increasing competition, an enhanced opportunity to analyse markets and greater customer expectations (Gomez, McLaughlin & Wittink 2004). While there are a variety of goods and services offered simultaneously from supermarkets, differences in the shopping experience of customers between retail outlets is often as significant to the customer as differences in the physical characteristics of the goods offered (Gomez et al. 2004). Taking this into account, consumer perceptions regarding franchise stores and the implications of these perceptions on store loyalty are a prominent aspect of the customer experience which has received little attention from researchers in South Africa. This study aims to fill this gap by uncovering insights into current consumer perceptions of franchise stores in the South African supermarket sector. This study also aims to investigate how these perceptions extend to relevant concepts such as store image, trust and satisfaction among South African franchise supermarket shoppers.

## Literature review

### Store image

Different retail stores carry different images in the marketplace, and this image is influenced by the various elements of the retail marketing mix (Jinfeng & Zhilong 2009). Store image refers to the way in which a store is perceived by shoppers, and defined in shoppers' minds (Cornelius, Natter & Faure 2010). Furthermore, it can

be described as the conceptualisation that a person associates with shopping at a particular store (Hartman & Spiro 2005). Store image is thus a key construct in this study, and is conceptualised as a function of a number of attributes, specifically service levels, price perceptions and the variety of merchandise on offer.

Service is a key attribute in determining store image. Service orientation is the provision of extra information, choices or benefits, in addition to the physical goods offered in order to enhance the retail experience (Homburg, Hoyer & Fassnacht 2002). Furthermore, the personalisation of service, which is more apparent in franchise stores, means that sales associates and customers have a more meaningful and mutually satisfying relationship (Hu & Jasper 2007). In addition, the desire for human interaction may drive some shoppers to franchise stores in which they find salespeople friendly and communicative (Pan & Zinkhan 2006). Taking this into account, we hypothesise the following:

**H1a:** *Compared to corporate-owned stores, consumers perceive franchise stores to provide better service.*

Price consciousness signals consumers' responses to the monetary sacrifice involved in purchasing a product or service (Wong & Dean 2009). Consumers have been shown to exhibit higher levels of satisfaction if they perceive a particular store to offer better prices (Jinfeng & Zhilong 2009). In contrast to corporate-owned stores, franchised stores typically carry shelf prices anywhere between 5% and 20% more expensive than their counterparts (Humphrey 2007). This is partially due to the inability of franchise stores to achieve economies of scale. Taking this into account, we hypothesise the following:

**H1b:** *Compared to corporate-owned stores, consumers perceive franchise stores to have higher prices.*

Consumers' beliefs about product variety relate to the extent to which they have access to a range of products, including the availability of national brands (Teller & Reuterrer 2008). Consumers are typically attracted to retailers with a greater selection of products under one roof (Teller & Reuterrer 2008). Corporate stores are generally larger in size than franchise stores and as a result are assumed to offer a greater variety of products. A greater variety not only helps the retailer attract more consumers, but can also stimulate them to make more purchases while they are in the store (Martinez-Ruiz, Jiménez-Zarco & Izquierdo-Yusta 2010). Taking this into account, we hypothesise the following:

**H1c:** *Compared to corporate-owned stores, consumers perceive franchise stores to offer smaller selections.*

## Trust

Trust is an important coordination mechanism as well as a precondition for improved performance and competitive success in complex business environments (Free 2008) and can ultimately contribute to loyalty-building relationships (Guenzi, Johnson & Castaldo 2009). Consumer trust in retailers has been shown to develop around two distinct facets, namely Front Line Employees (FLEs) and Management Policies and Practices (MPPs) (Orth & Green 2009; Sirdeshmukh, Singh & Sabol 2002). FLE evaluations are based on observed behaviours that are demonstrated during the service encounter, while judgments about MPP are based on the policies and practices governing the exchange (Orth & Green 2009; Sirdeshmukh et al. 2002). By making this distinction, perceptions regarding franchise stores as opposed to corporate-owned stores are more likely to be revealed, given the inherently closer ties between management and frontline employees in franchise stores (Ganesan 1994). Furthermore, trustworthiness is a necessary and sufficient condition for trust to exist (Anderson & Narus 1990). Trustworthiness is defined “to include FLE behaviours and MPPs that indicate a motivation to safeguard consumer interest” (Sirdeshmukh et al. 2002: 17). A multidimensional conceptualisation of trustworthiness is hypothesised by examining observable behaviours and practices relevant to both FLE and MPP trustworthiness (Ganesan 1994; Guenzi et al. 2009).

Operational competence has a clear bearing in determining how consumers choose service providers and influences commitment to long-term relationships (Leeman & Reynolds 2008). Operational competence is conceptualised as the competent execution of visible behaviours of FLEs and MPPs (Sirdeshmukh et al. 2002). Following on from the above, operational benevolence relates to the manner in which this operational competence is instilled in the firm’s operating philosophy and becomes truly genuine (Sirdeshmukh et al. 2002). Research shows that a consumer’s perception of operational benevolence is more visible in the FLEs and MPPs of franchise stores (Petzinger 1999), as FLEs are trained to give more honest advice and treat customers with more respect (De Wulf, Odekerken-Schröder & Iacobucci 2001). Taking this into account, we hypothesise the following:

**H2a.** *Compared to corporate-owned stores, consumers perceive franchise stores to have greater operational benevolence.*

All customer problems, even those for which the retailer cannot be held responsible, represent significant opportunities for such firms to demonstrate their commitment to customer service, as well as to build consumer trust (Alhabeeb 2005). Research shows that franchise stores have more informal customer service policies and trust their employees to do what is best for the customer (Lyman 1991). The concern for customer problems is one of the main factors of success for these stores (Hoover &

Hoover 1999). Given that problem-solving behaviours require more flexible MPPs, franchise stores are expected to have an advantage, as corporate-owned stores tend to have more rigid policies and procedures, preventing them from adopting flexible solutions to solving customer problems. Taking this into account, we hypothesise the following:

**H2b.** *Compared to corporate-owned stores, consumers perceive franchise stores to have a greater problem-solving orientation.*

The effects that trustworthiness has on trust have been identified in previous studies, with operational competence, operational benevolence and problem-solving orientation each positively influencing trust (Sirdeshmukh et al. 2002). The higher hypothesised levels of operational benevolence and problem-solving orientation within franchise stores are therefore expected to have a positive impact on customer trust (Biberman 2001). Moreover, research indicates that customers perceive franchise stores as being more trustworthy than corporate-owned stores (Stone 2000). Taking this into account, we hypothesise the following:

**H2c.** *Compared to corporate-owned stores, consumer trust is higher for franchise stores.*

## Satisfaction

The importance of customer satisfaction research is proportional to its increased managerial importance (Oh & Parks 1997, in Slevitch & Oh 2010). Customers' overall satisfaction can be defined as a cumulative, global evaluation of the organisation derived from customers' experience with an organisation (Homburg, Koschate & Hoyer 2005). This evaluation is viewed as the result of a cumulative effort over the course of a relationship with a retailer, rather than satisfaction specific to a particular transaction (Sivadas & Baker-Prewitt 2000). Store satisfaction thus represents a consumer's overall evaluation of the experience with a specific type of store, that is, a franchise or corporate-owned store.

Research indicates that store image and trust are among the most frequently accredited antecedents of satisfaction (Anderson & Sullivan 1993; De Wulf et al. 2001). Store image has been found to significantly influence customer satisfaction, especially in the case of retailers such as supermarkets (Eskildsen, Kristensen, Juhl & Ostergaard 2004). For the grocery sector, the store image elements of service, variety, and price/value have been linked most often with satisfaction (Chang & Tu 2005). However, given our prior assumption that consumers perceive franchise stores to be better in terms of service, but worse in variety and price, we have refrained from hypothesising satisfaction differences based on store image elements alone.

The second antecedent, trust, has substantial support in the literature for its positive influence on satisfaction (Bauer, Grether & Leach 2002; Kennedy, Ferrell & Le Clair 2001). Research indicates that three facets – namely, operational competence, operational benevolence and problem-solving orientation – exert a significant positive effect on trust (Singh & Sirdeshmukh 2000; Sirdeshmukh et al. 2002). If franchise stores rate higher on operational benevolence and problem-solving orientation, we may also assume that these differences translate into higher levels of trust which, in turn, result in higher levels of satisfaction (Flavian, Guinalfú & Gurrea 2006; Kristensen, Juhl & Ostergaard 2001). Taking this into account, we hypothesise the following:

**H3.** *Compared to corporate-owned stores, customer satisfaction is higher for franchise stores.*

## Loyalty

Loyalty is a central construct in relationships (Dwyer, Schurr & Oh 1987; Morgan & Hunt 1994; Sirdeshmukh et al. 2002). Consumer store loyalty is indicated by an intention to perform a diverse set of behaviours that signal a motivation to maintain a relationship with the retailer, including allocating a higher share of wallet to the store, engaging in positive word-of-mouth and repeat purchasing (Sirohi, McLaughlin & Wittink 1998; Zeithaml, Berry & Parasuraman 1996). Consumer patronage behaviour can be enhanced by a liberal understanding of the many relationships and factors that influence shoppers' attitudes favourably (Pan & Zinkhan 2006, in Helgesen, Havold & Nettet 2009; Ravald & Gronroos 1996). Trust (Ball, Coelho & Machas 2004), store image (Bloemer & De Ruyter 1998) and customer satisfaction (Fornell 1992) have all been linked with the loyalty construct as either direct or indirect antecedents.

The role of trust as an antecedent to loyalty is supported by the empirical findings of Eriksson and Vaghult (2000) and Sirdeshmukh et al. (2002), who support the view that trust is directly linked to loyalty. In this study, it was previously hypothesised that higher consumer trust existed in franchise stores' FLEs and MPPs. This, in addition to the positive influence of trust on loyalty, suggests that higher trust for franchise stores leads to a higher degree of customer loyalty.

With regards to store image, a previous study found that the following elements of store image related directly to loyalty: grocery store price/value, convenience, product quality, store atmosphere and service (Huddleston, Whipple & Van Auken 2004). Furthermore, the literature indicates that these various levels of store image will have a direct, positive effect on loyalty (Johnson, Gustafsson, Andreassen, Lervik & Cha 2001; Helgesen & Nettet 2007). However, despite the widespread support for

these positive relationships, it is felt that given our assumption of the distribution of positive store elements between franchise stores (namely, service quality) and corporate-owned stores (namely, variety and price), the evidence for specific elements of store image cannot fully justify consumers' loyalty towards franchise stores when considered in isolation. The actual process of store image-building and its link to satisfaction need to be considered.

Image-building is considered an important tool for both attracting and retaining customers (Helgesen et al. 2009). This implies that image-building and satisfaction-creation are linked processes (Gupta & Pirsch 2008; Helgesen & Nettet 2007; Johnson et al. 2001). The literature also indicates that customers base their perceptions of satisfaction on the performance of a number of elements that determine the overall image of the store (Hartman & Spiro 2005). Research also indicates that satisfaction is likely to increase loyalty, suggesting that satisfaction is a prerequisite for loyalty and customer retention (Bennett & Rundle-Thiele 2004). Thus it is felt that the store image not only has a direct effect on customer loyalty, but it is also mediated by customer satisfaction. This view is supported by Helgesen et al. (2009).

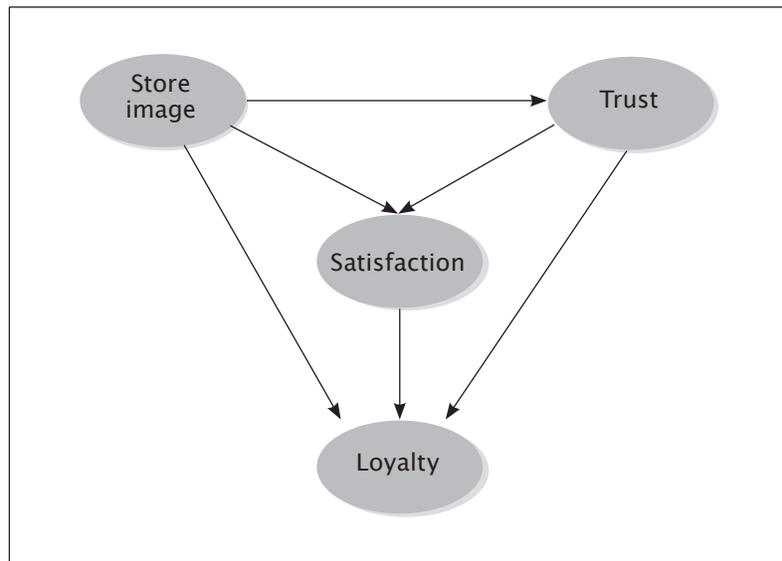
In this study, it was previously hypothesised that higher satisfaction exists in franchised stores' FLEs and MPPs. This suggests that the higher satisfaction with franchised stores leads to higher loyalty to those stores. Taking the aforementioned into account, we hypothesise the following:

**H4.** *Compared to corporate-owned stores, consumer loyalty is higher for franchise stores.*

## Comprehensive relationship model

The comprehensive relationship model shown in Figure 1, based on that proposed by Orth and Green (2009), will be tested in this study. This considers the direct and indirect relationships that are hypothesised to exist between store image, trust, satisfaction and loyalty.

Research indicates that store image has a direct effect on customer satisfaction (Eskildsen et al. 2004). Trust was also found to have a mediating role in the relationship between store image and customer satisfaction (Deng, Lu, Wei & Zhang 2010). Drawing from the literature, we surmise that store image has a direct effect on trust, which in turn mediates the relationship between store image and customer satisfaction:



**Figure 1:** Conceptual model

**H5.** *Store image influences satisfaction directly as well as indirectly through customer trust.*

There also appears to be a positive relationship between consumers' perceptions of store image and customer loyalty (Hu & Jasper 2007). However, the evidence for the effects of store image on loyalty is less defined (Bennett & Rundle-Thiele 2004). In particular, certain elements of store image, such as service quality (Baker Parasuraman, Grewal & Voss 2002), as well as price and merchandise variety (Wong & Dean 2009), were found to have a direct effect on loyalty. Yet, as previously discussed, research indicates that customer satisfaction mediates the relationship between store image and customer loyalty (Gupta & Pirsch 2008; Helgesen et al. 2009). Synthesising the literature, it is surmised that store image has a direct effect on loyalty, as well as an indirect effect on loyalty via satisfaction:

**H6.** *Store image influences loyalty directly as well as indirectly through consumer satisfaction.*

## Methodology

A non-probability convenience sampling technique using the mall intercept method was deployed. Responses from consumers who reside within the greater Cape Town area and who shop at a major supermarket chain (namely Pick n Pay) were solicited.

In order to avoid confusion, respondents were located in an area close to either a Pick n Pay family store or a conventional Pick n Pay store. This ensured that they were safely basing their responses on the franchised version (i.e. the former type) or a corporate-owned store (i.e. the latter). Two different questionnaires, featuring almost identical questions, but with reference to the different store types, were utilised. This, too, served to reinforce to respondents exactly which format was being probed. Partial least squares (PLS) analysis was used for testing the hypothesised relationships, with effects measured at the 5% significance level. Only the franchise respondent subset was used for the PLS analysis.

The sample was composed of 254 respondents, including 116 respondents who frequented franchise stores and 138 respondents who frequented corporate-owned stores. All respondents were, at least, proficient in English. The two subsets were almost completely identical in terms of age and race distribution. Approximately one third of respondents were black, one third were white, and the other third consisted of coloured, Indian and Asian individuals. The majority of respondents were between the ages 21 and 30; 47% were aged between 21 and 25 and 17% between 26 and 30. In the case of franchise store respondents, the gender distribution was 55%:45% in favour of females, whereas this bias was heightened further in the case of corporate-owned stores (62%:38%). This spread of respondents achieved the aim of targeting young shoppers, who had typically moved out of home and entered the working world. Furthermore, the researchers were not surprised to find a greater number of females engaging in grocery shopping.

All scales were multi-item in nature and loosely based on those proposed by Orth and Green (2009) and Sirdeshmukh et al. (2002). The reliability and validity thereof are reflected in Tables 1 and 2. Table 1 reflects that all construct reliabilities exceeded 0.80 and demonstrate satisfactory inter-item reliability (i.e. Cronbach alpha > 0.7). In addition, Average Variance Extracted values for each construct were close to or greater than 0.5. All scales met the requirements for convergent validity. As reflected in Table 2, satisfaction and loyalty met the requirements of the Fornell-Larcker criteria for the existence of divergent validity. While store image and trust did not, the latter was not far off the mark. This indicates that the model exhibits only moderate strength in explaining the variance of its indicators with respect to the variances of the other latent variables.

## Results

### Store image

H1a postulated that consumers perceive franchise stores to provide better service than corporate-owned stores. T-test results indicate a significant difference ( $p=0.00$ )

**Table 1:** Indices indicating the reliability of the model

|              | AVE    | Composite reliability | Cronbach alpha |
|--------------|--------|-----------------------|----------------|
| Store image  | 0.417  | 0.8753                | 0.844          |
| Loyalty      | 0.7603 | 0.9268                | 0.8953         |
| Satisfaction | 0.8501 | 0.9445                | 0.9119         |
| Trust        | 0.5774 | 0.97                  | 0.9673         |

**Table 2:** Cross correlation matrix illustrating the Fornell–Larcker criterion

|              | Store image | Loyalty | Satisfaction | Trust  |
|--------------|-------------|---------|--------------|--------|
| Store image  | 0.6458      | 0       | 0            | 0      |
| Loyalty      | 0.5788      | 0.8720  | 0            | 0      |
| Satisfaction | 0.7473      | 0.7175  | 0.9220       | 0      |
| Trust        | 0.8223      | 0.5899  | 0.8137       | 0.7599 |

between the two store types when measuring service, thereby providing support for H1a. H1b postulated that consumers perceive franchise stores to charge higher prices than corporate-owned stores. T-test results report no significant differences ( $p=0.06$ ) between the two store types when measuring price, thereby providing little support for H1b. In addition, H1c postulated that consumers perceive franchise stores to offer less variety than corporate-owned stores. T-test results indicate a significant difference ( $p=0.00$ ) between the two store types when measuring variety, thereby providing support for H1c.

### Trust

H2a postulated that consumers perceive franchise stores to have greater operational benevolence compared to corporate-owned stores. T-test results indicate a significant difference ( $p=0.01$ ) between the two store types when measuring operational

benevolence, thereby providing support for H2a. In addition, H2b postulated that consumers perceive franchise stores to have a greater problem-solving orientation than corporate-owned stores. T-test results indicate a significant difference ( $p=0.00$ ) between the two store types when measuring problem-solving orientation, thereby providing support for H2b.

As predicted, differences in trustworthiness attributes have been found to lead on to trust. H2c postulated that consumer trust is higher for franchised stores than corporate-owned stores. T-test results indicate a significant difference ( $p=0.01$ ) between the two store types when measuring trust, thereby providing support for H2c.

### Satisfaction

H3 postulated that customer satisfaction is higher in franchise stores than in corporate-owned stores. T-test results confirm this finding and indicate that a significant difference ( $p=0.01$ ) between the two store types exists when measuring satisfaction, thereby providing support for H3.

### Loyalty

H4 postulated that consumer loyalty to a franchise store is higher than to corporate-owned stores. However, t-test results report no significant differences ( $p=0.35$ ) between the two store types when measuring loyalty, thereby providing no support for H4.

### Mediation effect

H5 postulated that store image influences satisfaction directly as well as indirectly through customer trust. All relevant statistics required for investigating mediation are reflected in Table 3. Based on these results, positive, direct and statistically significant relationships were found to exist between store image and trust ( $p<0.01$ ), store image and satisfaction ( $p<0.05$ ), as well as trust and satisfaction ( $p<0.01$ ). This furthermore indicates that trust partially mediates the relationship between store image and satisfaction, thereby providing support for H5.

H6 postulated that store image influences loyalty directly as well as indirectly through consumer satisfaction. Based on these results, no direct significant relationship exists between store image and loyalty ( $p=\text{not significant}$ ), but positive, direct and statistically significant relationships exist between store image and

satisfaction ( $p < 0.05$ ) and satisfaction and loyalty ( $p < 0.01$ ). This indicates that satisfaction fully mediates the relationship between store image and loyalty, thereby providing support for the rejection of H6.

The results indicate that no direct statistically significant relationship exists between trust and loyalty ( $p = \text{not significant}$ ), but that there is a positive, direct

**Table 3:** Path coefficients and significance

| Constructs                 | Path coefficient | Sign | T-statistic | Significance |
|----------------------------|------------------|------|-------------|--------------|
| Store Image → Trust        | 0.822            | +    | 25.867      | $p < 0.01$   |
| Store Image → Satisfaction | 0.241            | +    | 2.466       | $p < 0.05$   |
| Store Image → Loyalty      | 0.127            | +    | 1.048       | NS           |
| Trust → Satisfaction       | 0.615            | +    | 6.603       | $P < 0.01$   |
| Trust → Loyalty            | 0.062            | -    | 0.440       | NS           |
| Satisfaction → Loyalty     | 0.673            | +    | 6.124       | $P < 0.01$   |

and statistically significant relationship between trust and satisfaction ( $p < 0.01$ ) and between satisfaction and loyalty ( $p < 0.01$ ). Based on these results, the criteria for full mediation have been met. This indicates that satisfaction fully mediates the relationship between trust and loyalty.

## Conclusions

In this study, the roles of store image, trust and satisfaction were investigated to determine the loyalty of South African shoppers to franchise stores. The hypothesised relationships within this framework are based on a previous study conducted by Orth and Green (2009). Thus, the discussed findings will be compared to the findings of that study.

According to empirical findings, consumers perceive franchise stores to have a better store image than corporate-owned stores. Consistent with previous literature, the average consumer who frequented franchise stores reported higher levels of customer service. However, it was found that the average shopper perceives franchise stores to offer a smaller overall variety of products than corporate-owned stores. In addition, store image was found to have positive direct relationships with both trust and satisfaction. These findings are in line with previous literature (notably Orth & Green 2009) and indicate that higher perceptions of store image lead to a higher degree of consumer trust, and higher levels of satisfaction among grocery shoppers.

This study does, however, reject previous findings that claim that loyalty is directly affected by store image.

Furthermore, consumer trust was found to be greater in franchise stores. The average shopper perceived FLEs and MPPs of franchise stores to display superior levels of operational competence, operational benevolence and problem-solving abilities. In addition, trust was found to have a positive direct relationship with satisfaction, and no direct relationship with loyalty. This is confirmed by previous findings (Orth and Green 2009), and indicates that higher levels of consumer trust thus lead to a higher degree of consumer satisfaction among grocery shoppers.

The average shopper considered shopping at a franchised store to be generally more satisfying than shopping at corporate-owned stores. In line with previous literature, satisfaction was found to have a direct relationship with loyalty. This implies that higher levels of consumer satisfaction thus lead to higher levels of store loyalty. Contrary to the findings of Orth and Green (2009), it was found that satisfaction fully mediates the relationship between trust and loyalty. Moreover, it was found that satisfaction fully mediates the relationship between store image and loyalty. These important findings indicate that customer satisfaction is necessary for a relationship to exist between both store image and loyalty, and between trust and loyalty. Customer satisfaction is thus the key area of focus in determining the loyalty of shoppers to franchise stores, highlighting the importance of a serious commitment to customer care in the retail sector. Finally, this study suggests that franchise stores are in an advantageous position to leverage presumably closer relationships with consumers into a sustainable competitive advantage. By achieving a favourable store image, this is most likely to create a virtuous cycle, as store image has been proved to have a positive impact on trust and satisfaction.

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